Risk Factors Comparison 2024-02-22 to 2023-02-21 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

Risks Related to the Company’ s Business and Operations The Company is subject to various risks which are common to the hotel industry on a national, regional and local market basis that are beyond its control and could adversely affect its business. The success of the Company’ s hotels depends largely on the hotel operators’ ability to adapt to dominant trends and risks in the hotel industry, both nationally and in individual local markets. These risks could adversely affect hotel occupancy and the rates that can be charged for hotel rooms as well as hotel operating expenses. The following is a summary of risks that may affect the hotel industry in general and as a result may affect the Company: • over- building of hotels in the markets in which the Company operates, resulting in an increase in supply of hotel rooms that exceeds increases in demand; • competition from other hotels and lodging alternatives in the markets in which the Company operates; • a downturn in the hospitality industry; • dependence on business and leisure travel; • increases in energy costs and other travel expenses, which may affect travel patterns and reduce business and leisure travel; • reduced business and leisure travel due to geo- political uncertainty, including terrorism **and acts of war** , travel- related health concerns, including ~~COVID- 19 or other~~ widespread outbreaks of infectious or contagious diseases in the U. S., inclement weather conditions, including natural disasters such as hurricanes, earthquakes and wildfires, and government shutdowns, airline strikes **or equipment failures,** or other disruptions; • reduced travel due to adverse national, regional or local economic and market conditions; • seasonality of the hotel industry may cause quarterly fluctuations in operating results; • changes in marketing and distribution for the hospitality industry **,** including the cost and the ability of third- party internet and other travel intermediaries to attract and retain customers; • changes in hotel room demand generators in a local market; • ability of a hotel franchise to fulfill its obligations to franchisees; • brand expansion; • the performance of third- party managers of the Company’ s hotels; • increases in operating costs, including ground lease payments, renovation projects, property and casualty insurance, utilities and real estate and personal property taxes, due to inflation, climate change and other factors that may not be offset by ~~increased~~ **increases in** room rates **or room revenue** ; • inflation ~~due to the possibility of future increases in interest rates~~ which could adversely affect consumer confidence thereby reducing consumer purchasing power and demand for lodging; • labor shortages and other increases in the cost of labor due to low unemployment rates or to government regulations surrounding work rules, ~~government- issued vaccination requirements or prohibitions,~~ wage rates, health care coverage **, immigration policies** and other benefits; • supply chain disruptions and broader inflationary pressures throughout the overall economy and global tensions driving shortages and cost increases for materials and supplies such as food and equipment; • changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with applicable laws and regulations; • claims, litigation and threatened litigation from guests, visitors to ~~our~~ **the Company’ s** hotel properties, contractors, sub- contractors **, government agencies** and others; • business interruptions **, regulatory costs and equipment loss** due to cyber- attacks and other technological events; • requirements for periodic capital reinvestment to repair and upgrade hotels; • limited alternative uses for hotel buildings; and • condemnation or uninsured losses. Any of these factors, among others, may reduce the Company’ s operating results, the value of the properties that the Company owns, and the availability of capital to the Company. Economic conditions in the U. S. and individual markets may adversely affect the Company’ s business operations and financial performance. The performance of the lodging industry has historically been highly cyclical and closely linked to the performance of the general economy both nationally and within local markets in the U. S. The lodging industry is also sensitive to government, business and personal discretionary spending levels. Declines in government and corporate budgets and consumer demand due to adverse general economic conditions, risks affecting or reducing travel patterns, lower consumer confidence or adverse political conditions ~~have lowered and~~ may ~~continue to~~ lower the revenue and profitability of the Company’ s hotels and therefore the net operating profits of its investments. An economic downturn or prolonged economic recession, including lower GDP growth, corporate earnings, consumer confidence, employment rates, income levels and personal wealth, may lead to a significant decline in demand for products and services provided by the lodging industry, lower occupancy levels, significantly reduced room rates, and declines in RevPAR. The Company cannot predict the pace or duration of an economic recession or cycle or the cycles of the lodging industry. In the event conditions in the industry deteriorate or do not continue to see sustained improvement, or there is an extended period of economic weakness, the Company’ s revenue and profitability could be adversely affected. Furthermore, even if the economy in the U. S. improves, the Company cannot provide any assurances that demand for hotels will increase from current levels, nationally or more specifically, where the Company’ s properties are located. In addition, many of the expenses associated with the Company’ s business, including certain personnel costs, interest expense, ground leases, property taxes, insurance and utilities, are relatively fixed. These hotel operating expenses may not decrease when hotel revenues decrease, and some expenses, such as wages **, utilities** and insurance, may also increase due to factors unrelated to hotel operating performance, such as ~~rising~~ inflation rates. During a period of overall economic weakness, if the Company is unable to meaningfully decrease these costs as demand for its hotels decreases, or increase room rates to account for higher than expected costs, the Company’ s business operations and financial performance may be adversely affected. The Company is affected by restrictions in, and compliance with, its franchise and license agreements. The Company’ s wholly- owned taxable REIT subsidiaries (“ TRSs ”) (or subsidiaries thereof) operate substantially all of its hotels pursuant to franchise or license agreements with nationally recognized hotel brands. These franchise and license agreements contain specific standards for, and restrictions and limitations on, the operation and maintenance of the Company’ s hotels in order to maintain uniformity within the franchisor system. The Company may be required to incur costs to comply with these standards and these standards could potentially conflict with the Company' s ability to create specific business plans tailored to each property and to each market. Failure to comply with these brand standards may result in termination of the applicable franchise or license agreement. In addition, as the Company' s franchise and license agreements expire, the Company may not be able to renew them on favorable terms, or at all. If the Company were to lose or was unable to renew a franchise or license agreement, the Company would be required to re-brand the hotel, which could result in a decline in the value of the hotel, the loss of marketing support and participation in guest loyalty programs, and harm to the Company' s relationship with the franchisor, impeding the Company' s ability to operate other hotels under the same brand. Additionally, the franchise and license agreements have provisions that could limit the Company' s ability to sell or finance a hotel which could further affect the Company. Substantially all of the Company' s hotels operate under Marriott or Hilton brands; therefore, the Company is subject to risks associated with concentrating its portfolio in these brand families. Substantially all of the Company' s hotels operate under brands owned by Marriott or Hilton. As a result, the Company' s success is dependent in part on the continued success of Marriott and Hilton and their respective brands. The Company believes that building brand value is critical to increase demand and strengthen customer loyalty. Consequently, if market recognition or the positive perception of any of these brands is reduced or compromised, the goodwill associated with the Marriott or Hilton branded hotels in the Company' s portfolio may be adversely affected. Also, if Marriott or Hilton alter certain policies, including their respective guest loyalty programs, this could reduce the Company' s future revenues. Furthermore, if the Company' s relationship with Marriott or Hilton were to deteriorate or terminate as a result of disputes regarding the Company' s hotels or for other reasons, the franchisors could, under certain circumstances, terminate the Company' s current franchise licenses with them or decline to provide franchise licenses for hotels that the Company may acquire in the future. If any of the foregoing were to occur, it could have a material adverse effect on the Company. Although substantially all of the Company' s hotels operate under the brands noted above, the Company ~~owns and~~ may from time to time acquire independent hotels or hotels affiliated with other brands, and / or may choose to operate hotels independently of a brand if the Company believes that these properties will operate most effectively as independent hotels. However, without the support and recognition of a large established brand, the capability of these independent or less recognized branded hotels to market the hotel, maintain guest loyalty, attract new guests, and operate in a cost- effective manner may be difficult, which could adversely affect the Company' s overall operating results. Competition in the markets where the Company owns hotels may adversely affect the Company' s results of operations. The hotel industry is highly competitive. Each of the Company' s hotels competes for guests primarily with other hotels in its immediate vicinity and secondarily with other hotels in its geographic market. The Company also competes with numerous owners and operators of vacation ownership resorts, as well as alternative lodging companies, including third- party providers of short- term rental properties and serviced apartments that can be rented on a nightly, weekly or monthly basis. An increase in the number of competitive hotels, vacation ownership resorts and alternative lodging arrangements in a particular area could have a material adverse effect on the occupancy, ADR and RevPAR of the Company' s hotels in that area and lower the Company' s revenue and profitability. The Company is dependent on third- party hotel managers to operate its hotels and could be adversely affected if such management companies do not manage the hotels successfully. To maintain its status as a REIT, the Company is not permitted to operate any of its hotels. As a result, the Company has entered into management agreements with third- party managers to operate its hotels. For this reason, the Company' s ability to direct and control how its hotels are operated is less than if the Company were able to manage its hotels directly. Under the terms of the hotel management agreements, the Company' s ability to participate in operating decisions regarding its hotels is limited to certain matters, and it does not have the authority to require any hotel to be operated in a particular manner (for instance, setting room rates). The Company does not supervise any of the hotel managers or their respective personnel on a day- to- day basis. The Company cannot be assured that the hotel managers will manage its hotels in a manner that is consistent with their respective obligations under the applicable management agreement or the Company' s obligations under its hotel franchise agreements. The Company could be materially and adversely affected if any of its third-party managers fail to effectively manage revenues and expenses, provide quality services and amenities, or otherwise fail to manage its hotels in its best interest, and may be financially responsible for the actions and inactions of the managers. In certain situations, based on the terms of the applicable management agreement, the Company or manager may terminate the agreement. In the event that any of the Company' s management agreements are terminated, the Company can provide no assurance that it could identify a replacement manager, that the franchisor will consent to the replacement manager in a timely manner, or at all, or that the replacement manager will manage the hotel successfully. A failure by the Company' s hotel managers to successfully manage its hotels could lead to an increase in its operating expenses, a decrease in its revenues, or both. Furthermore, if one of the Company' s third- party managers is financially unable or unwilling to perform its obligations pursuant to its management agreements with the Company, the Company' s ability to find a replacement manager or managers for those properties could be costly and time- consuming for the Company and disrupt hotel operations which could materially and adversely affect the Company. In addition, at any given time, the Company may become engaged in disputes or litigation with one or more of its third- party managers or franchisors arising from contractual and other disagreements that could make the Company liable to them or result in litigation costs or other expenses. Labor shortages and increased labor costs could cause significant increases to the Company' s operating costs and decreases to the Company' s operating revenues. The Company' s third- party hotel managers are responsible for hiring and maintaining the labor force at each of the Company' s hotels. Although the Company does not directly employ or manage employees at its hotels **,** the Company is still subject to many of the costs and risks generally associated with the hotel labor force. Labor costs can increase due to many factors, including but not limited to, a shortage of hospitality workers, increased dependence on contract workers, increased wages and employee benefit costs **, changes in laws and regulations** , increased labor turnover and increases in a unionized labor force. Significant labor shortages could prohibit the Company from operating its hotels at full capacity which could result in a decrease in operating revenues. An increased exposure to a unionized labor force could lead to labor disputes, causing higher labor costs, either by increases in wages or benefits or by changes in local labor regulations that raise hotel operating costs. The growing use of non- franchisor lodging distribution channels could adversely affect the Company' s business and profitability. Although a majority of rooms sold are sold through the hotel franchisors' distribution channels, many are sold through other channels or intermediaries. Rooms sold through non- franchisors' channels are generally less profitable (after associated fees) than rooms sold through franchisors' channels. Although the Company' s franchisors may have established agreements with many of these alternative channels or intermediaries that limit transaction fees for hotels, there can be no assurance that the Company' s franchisors will be able to renegotiate such agreements upon their expiration with terms as favorable as the provisions that exist today. Moreover, alternative channels or intermediaries may employ aggressive marketing strategies, including expending significant resources for online and television advertising campaigns to drive consumers to their websites. As a result, consumers may develop brand loyalties to the intermediaries' offered brands, websites and reservations systems rather than to those of the Company' s franchisors. If this happens, the Company' s business and profitability may be materially and adversely affected. Renovations and capital improvements at the Company' s existing hotels or new hotel developments may reduce the Company' s profitability. The Company has ongoing needs for hotel renovations and capital improvements, including maintenance requirements and updates to brand standards under all of its hotel franchise and management agreements and certain loan agreements. In addition, from time to time **,** the Company will need to make renovations and capital improvements to comply with applicable laws and regulations, to remain competitive with other hotels and to maintain the economic value of its hotels. As properties increase in age, the frequency and cost of renovations needed to maintain appealing facilities for hotel guests may increase. The Company may also need to make significant capital improvements to hotels that it acquires, or may be involved in the development of new hotels. Construction delays and cost overruns, including increases in the cost of labor, goods and materials and delays and cost increases caused by supply chain disruptions, have increased and may continue to increase renovation or development costs for the Company and have delayed and may in the future delay the acquisition or opening of hotels or the length of time that rooms are out of service. Occupancy and ADR are often affected during periods of renovations and capital improvements at a hotel, especially if the Company encounters delays, or if the improvements require significant disruption at the hotel. The costs of renovations and capital improvements the Company needs or chooses to make at the Company' s existing hotels, or the costs related to the development of new hotels, could reduce the funds available for other purposes and may reduce the Company' s profitability. Certain hotels are subject to ground leases that may affect the Company' s ability to use the hotel or restrict its ability to sell the hotel. As of December 31, ~~2022~~ **2023** , 14 of the Company' s hotels were subject to ground leases. Accordingly, the Company effectively only owns a long- term leasehold interest in these hotels. If the Company is found to be in breach of a ground lease, it could lose the right to use the hotel. In addition, unless the Company can purchase a fee interest in the underlying land or renew the terms of these leases before their expiration, as to which no assurance can be given, the Company will lose its right to operate these properties and its interest in the property, including any investment that it made in the property. The Company' s ability to exercise any extension options relating to its ground leases is subject to the condition that the Company is not in default under the terms of the ground lease at the time that it exercises such options, and the Company can provide no assurances that it will be able to exercise any available options at such time. If the Company were to lose the right to use a hotel due to a breach or non- renewal of a ground lease, it would be unable to derive income from such hotel. Finally, the Company may not be permitted to sell or finance a hotel subject to a ground lease without the consent of the lessor. The Company may not be able to complete hotel dispositions when and as anticipated. The Company continually monitors the profitability, market conditions, and capital requirements of its hotels and attempts to maximize shareholder value by timely disposal of its hotels. Real estate investments are, in general, relatively difficult to sell due to, among other factors, the size of the required investment and the volatility in availability of adequate financing for a potential buyer. This illiquidity will tend to limit the Company' s ability to promptly vary its portfolio in response to changes in economic or other conditions. Additionally, factors specific to an individual property, such as its specific market and operating performance, restrictions in franchise and management agreements, debt secured by the property, a ground lease, or capital expenditure needs may further increase the difficulty in selling a property. Therefore, the Company cannot predict whether it will be able to sell any hotels on acceptable terms, or at all. In addition, provisions of the Code relating to REITs have certain limits on the Company' s ability to sell hotels. Real estate impairment losses may adversely affect the Company' s financial condition and results of operations. As a result of changes in an individual hotel' s operating results or to the Company' s planned hold period for a hotel, the Company may be required to record an impairment loss for a property. The Company analyzes its hotel properties individually for indicators of impairment throughout the year. The Company records an impairment loss on a hotel property if indicators of impairment are present, and the sum of the undiscounted cash flows estimated to be generated by the respective property over its estimated remaining useful life, based on historical and industry data, is less than the property' s carrying amount. Indicators of impairment include, but are not limited to, a property with current or potential losses from operations, when it becomes more likely than not that a property will be sold before the end of its previously estimated useful life or when events, trends, contingencies or changes in circumstances indicate that a triggering event has occurred and an asset' s carrying value may not be recoverable. The Company' s failure to identify and complete accretive acquisitions may adversely affect the profitability of the Company. The Company' s business strategy includes identifying and completing accretive hotel acquisitions. The Company competes with other investors who are engaged in the acquisition of hotels, and these competitors may affect the supply and demand dynamics and, accordingly, increase the price the Company must pay for hotels it seeks to acquire, or these competitors may succeed in acquiring those hotels. Any delay or failure on the Company' s part to identify, negotiate, finance on favorable terms, consummate and integrate such acquisitions could materially impede the Company' s growth. The Company may also incur costs that it cannot recover if it abandons a potential acquisition. Also, if the Company does not reinvest proceeds received from hotel dispositions into new properties in a timely manner, the Company' s profitability could be negatively impacted. The Company' s profitability may also suffer because future acquisitions of hotels may not yield the returns the Company expects and the integration of such acquisitions may disrupt the Company’ s business or may take longer than projected. Furthermore, the Company may be subject to unknown or contingent liabilities related to hotels it acquires. The Company’ s inability to obtain financing on favorable terms or pay amounts due on its financing may adversely affect the Company’ s operating results. Although the Company anticipates maintaining relatively low levels of debt, it may periodically use financing to acquire properties, perform renovations to its properties, or make shareholder distributions or share repurchases in periods of fluctuating income from its properties. The credit markets have historically been volatile and subject to increased regulation, and as a result, the Company may not be able to obtain debt financing to meet its cash requirements, including refinancing any scheduled debt maturities, which may adversely affect its ability to execute its business strategy. If the Company refinances debt, such refinancing may not be in the same amount or on terms as favorable as the terms of the existing debt being refinanced. If the Company is unable to refinance its debt, it may be forced to dispose of hotels or issue equity at inopportune times or on disadvantageous terms, which could result in higher costs of capital. The Company is also subject to risks associated with increases in interest rates with respect to the Company’ s variable- rate debt which could reduce cash from operations and adversely affect its ability to make distributions to shareholders. In addition, the Company has used interest rate swaps to manage its interest rate risks on a portion of its variable- rate debt, and in the future, it may use hedging arrangements, such as interest rate swaps **,** to manage its exposure to interest rate volatility. The Company’ s actual hedging decisions are determined in light of the facts and circumstances existing at the time of the hedge. There is no assurance that the Company’ s hedging strategy will achieve its objectives, and the Company may be subject to costs, such as transaction fees or breakage costs, if it terminates these hedging arrangements. ~~The replacement of LIBOR~~ **Loans under the Company’ s Revolving Credit Facility and term loan agreements may bear interest based on SOFR, but experience** with SOFR ~~may adversely affect~~ **based loans is limited. The Company’ s Revolving Credit Facility and term loan agreements currently bear** interest ~~expense related to outstanding debt~~ **at rates based on the Secured Overnight Financing Rate published by the Federal Reserve Bank of New York (“ SOFR ”) plus prescribed margins** . The **use of SOFR based** ~~Company' s debt agreements related to its unsecured credit facilities require the applicable interest rate~~ **rates** ~~or payment amount~~ **replaced rates based on the London Interbank Offered Rate (“ LIBOR ”), and reflects the cessation of the publication of LIBOR rates previously announced** by **regulators in** ~~reference to SOFR. The composition and characteristics of SOFR differ from those~~ -- **the United Kingdom and the discontinuation of the use** of LIBOR in **the financial markets** ~~material respects: SOFR is a secured rate, LIBOR is an unsecured rate, and while SOFR is an overnight rate, LIBOR represents interbank funding for a specified term~~ . The use of SOFR based rates may result in interest rates and / or payments that are higher or lower than the rates and payments that the Company ~~previously~~ experienced ~~when referenced to~~ **under its prior credit facilities or term loan agreements where interest rates were based on** LIBOR. **Also, the use of** SOFR **based rates** is ~~a~~ relatively new ~~reference rate~~ , ~~has a very limited history~~ and ~~is~~ **there could be unanticipated difficulties or disruptions with the calculation and publication of SOFR** based ~~on short- term repurchase agreements, backed by Treasury securities. Changes in SOFR could be volatile and difficult to predict, and there can be no assurance that SOFR will perform similarly to the way LIBOR would have performed at any time, including as a result of, without limitation, changes in interest and yield~~ rates ~~in the market, bank credit risk, market volatility or global or regional economic, financial, political, regulatory, judicial or other events. As a result, the amount of interest the Company may pay on its credit facilities is difficult to predict. Prior observed patterns, if any, in the behavior of market variables and their relation to SOFR, such as correlations, may change in the future, and there can be no assurance that SOFR will be positive. While some pre- publication historical data for SOFR has been released by the Federal Reserve Bank of New York, production of such historical indicative SOFR data inherently involves assumptions, estimates and approximations. No future performance of SOFR may be inferred from any of the historical actual or historical indicative SOFR data. Hypothetical or historical performance data are not indicative of, and have no bearing on, the potential performance of SOFR. Additionally, there can be no assurance that SOFR will continue to maintain market acceptance or that the method by which the reference rate is calculated will continue in its current form~~ . Compliance with financial and other covenants in the Company’ s existing or future debt agreements may reduce operational flexibility and create default risk. The Company’ s existing indebtedness, whether secured by mortgages on certain properties or unsecured, contains, and indebtedness that the Company may enter into in the future likely will contain, customary covenants that may restrict the Company’ s operations and limit its ability to enter into future indebtedness. In addition, the Company’ s ability to borrow under its unsecured credit facilities is subject to compliance with its financial and other covenants, including, among others, a minimum tangible net worth, maximum debt limits, minimum interest and fixed charge coverage ratios, and restrictions on certain investments. The Company’ s failure to comply with the covenants in its existing or future indebtedness, or its inability to make required principal and interest payments, could cause a default under the applicable debt agreement, which could result in the acceleration of the debt, requiring the Company to repay such debt with capital obtained from other sources, which may not be available to the Company or may only be available on unfavorable terms. If the Company defaults on its secured debt, lenders may take possession of the property or properties securing such debt. As a general policy, the Company seeks to obtain mortgages securing indebtedness which encumber only the particular property to which the indebtedness relates, but recourse on these loans may include all of its assets. If recourse on any loan incurred by the Company to acquire or refinance any particular property includes all of its assets, the equity in other properties could be reduced or eliminated through foreclosure on that loan. If a loan is secured by a mortgage on a single property, the Company could lose that property through foreclosure if it defaults on that loan. If the Company defaults under a loan, it is possible that it could become involved in litigation related to matters concerning the loan, and such litigation could result in significant costs for the Company. Additionally, defaulting under a loan may damage the Company’ s reputation as a borrower and may limit its ability to secure financing in the future. Pandemics and other health crises ~~, including~~ **could negatively impact** the ~~ongoing outbreak of~~ **Company’ s business, financial performance and condition, operating results and cash flows. Pandemics, such as** COVID- 19 ~~, could negatively impact the Company' s business, financial performance and~~

~~condition, operating results and cash flows. Pandemics, including the ongoing COVID- 19 pandemic~~ , as well as both future widespread and localized outbreaks of infectious diseases and other health concerns, and the measures taken to prevent the spread or lessen the impact, could cause a material disruption to the hotel industry or the economy as a whole ~~. While operations at many of the Company’ s properties have returned to 2019 levels, some of the Company' s properties continue to operate at reduced levels as business travel has not fully returned, and the Company has reduced certain services and amenities~~ . COVID- 19 disrupted the industry and dramatically reduced business and impacted leisure travel from March 2020 into 2022, which disrupted the Company ~~'~~**’** s business and had a significant adverse effect, and a similar outbreak could, in the future, significantly adversely impact and disrupt its business, financial performance and condition, operating results and cash flows. Additional factors that may negatively impact the Company ~~'~~**’** s ability to operate successfully as a result of **a** ~~COVID- 19 or another~~ pandemic, include, among others: • sustained negative consumer or business sentiment or ~~continued~~ corporate travel policy restrictions, which could further adversely impact demand for lodging; • ~~continued~~ postponement and cancellation of events, including sporting events, conferences and meetings; • hotel closures and the Company’ s ability to reopen hotels that are temporarily closed in a timely manner, and its ability to attract customers to its hotels when they are able to reopen; • a severe disruption or instability in the global financial markets or deterioration in credit and financing conditions; • ~~continued~~ increased costs and potential difficulty accessing supplies related to personal protective equipment, increased sanitation, social distancing and other mitigation measures at hotels; and • ~~continued~~ increased labor costs to attract employees due to perceived risk of exposure to **an** ~~COVID- 19 or other~~ infectious disease **or virus** , as well as potential for increased workers’ compensation claims if hotel employees are exposed to ~~COVID- 19 through~~ **such diseases or viruses in** the workplace. Moreover, many risk factors set forth in this Annual Report on Form 10- K would be heightened as a result of ~~COVID- 19 or~~ another potential pandemic. The full extent of the impact of a pandemic on the Company ~~'~~**’** s business is largely uncertain and dependent on a number of factors beyond its control, and the Company is not able to estimate with any degree of certainty the effect a pandemic or measures intended to curb its spread could have on the Company ~~'~~**’** s business, results of operations, financial condition, and cash flows. Technology is used in operations, and any material failure, inadequacy, interruption or security failure of that technology from cyber- attacks or other events could harm the Company’ s business. The Company and its hotel managers and franchisors rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personally identifiable information, reservations, billing and operating data. The Company and its hotel managers and franchisors rely on commercially available and internally developed systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential operator and customer information, such as personally identifiable information, including information relating to financial accounts. A number of hotels, hotel management companies, and brands have been subject to successful cyber- attacks, including those seeking guest credit card information. Moreover, the risk of a security breach or disruption, particularly through cyber- attack or cyber intrusion, including by computer hackers, nation- state affiliated actors and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. It is possible that the safety and security measures taken by the Company and its hotel managers and franchisors will not be able to prevent damage to the systems, the systems’ improper functioning, or the improper access or disclosure of personally identifiable information. Security breaches, whether through physical or electronic break- ins, cyber- attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to emails, social engineering or phishing schemes, can create system disruptions, shutdowns, deployment of ransomware, theft of ~~our~~ **the Company’ s** data, or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of information systems could interrupt operations **, interfere with the Company’ s ability to comply with financial reporting requirements** , damage the reputations of the Company, the Company’ s hotel managers or franchisors, and subject the Company to liability claims or regulatory penalties that may not be fully covered by insurance, all of which could have a material adverse effect on the business, financial condition and results of operations of the Company. Potential losses not covered by insurance may adversely affect the Company’ s financial condition. The Company maintains comprehensive insurance coverage for general liability, property, business interruption and other risks with respect to all of its hotels. These policies offer coverage features and insured limits that the Company believes are customary for similar types of properties. There are no assurances that coverage will be available or at reasonable rates in the future. Also, various types of catastrophic losses, like earthquakes, hurricanes and other storms, wildfires, or certain types of terrorism, may not be insurable or may not be economically insurable for all or certain locations. Even when insurable, these policies may have high deductibles and / or high premiums. Additionally, although the Company may be insured for a particular loss, the Company is not insured against the impact a catastrophic event may have on the hospitality industry as a whole. There also can be risks such as certain environmental hazards that may be deemed to fall outside of the coverage. In the event of a substantial loss, the Company’ s insurance coverage may not be sufficient to cover the full current market value or replacement cost of its lost investment. Should an uninsured loss or a loss in excess of insured limits occur, the Company could lose all or a portion of the capital it has invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, the Company might nevertheless remain obligated for any mortgage debt or other financial obligations related to the hotel. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also prevent the Company from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. The Company also may encounter challenges with an insurance provider regarding whether it will pay a particular claim that the Company believes to be covered under the relevant policy. Under those circumstances, the insurance proceeds the Company receives might be inadequate to restore its economic position in the damaged or destroyed hotel. Additionally, as a result of substantial claims, insurance carriers may reduce insured limits and / or increase premiums, if insurance coverage is provided at all, in the future. Any of these or similar events could have a material adverse effect on the Company’ s financial condition and results of operations. The Company faces possible risks associated with the physical effects of, and laws and regulations related to, climate change. The Company is subject to the risks associated with the physical effects of climate change, which could include more frequent or severe storms, droughts, wildfires, hurricanes, flooding, and utility outages, any of which could have a material adverse effect on the Company' s properties, operations and business. To the extent climate change causes changes in weather patterns, the markets in which the Company operates could experience increases in storm intensity and rising sea levels causing damage to the Company' s properties. Over time, these conditions could result in declining hotel demand or the Company' s inability to operate the affected hotels at all. Climate change also may have indirect effects on the Company' s business by increasing the cost of (or making unavailable) property insurance on terms the Company finds acceptable, as well as increasing the cost of renovations, energy and water at its properties. The federal government and some of the states and localities in which the Company operates have enacted certain climate change laws and regulations and / or have begun regulating carbon footprints and greenhouse gas emissions and may enact new laws in the future. Although these laws and regulations have not had any known material adverse effect on the Company to date, they could impact companies with which the Company does business or result in substantial costs to the Company, including compliance costs, construction costs, monitoring and reporting costs **,** and capital expenditures for environmental control facilities and other new equipment. Climate change, and any future laws and regulations, or future interpretations of current laws and regulations, could have a material adverse effect on the Company. The Company could incur significant, material costs related to government regulation and litigation with respect to environmental matters, which could have a material adverse effect on the Company. The Company' s hotels are subject to various U. S. federal, state and local environmental laws that impose liability for contamination. Under these laws, governmental entities have the authority to require the Company, as the current owner of a hotel, to perform or pay for the ~~clean~~ **cleanup** ~~- up~~ of contamination (including hazardous substances, asbestos and asbestos- containing materials, waste, petroleum products or mold) at, on, under or emanating from the hotel and to pay for natural resource damages arising from such contamination. Such laws often impose liability without regard to whether the owner or operator or other responsible party knew of, or caused such contamination, and the liability may be joint and several. Because these laws also impose liability on persons who owned or operated a property at the time it became contaminated, it is possible the Company could incur cleanup costs or other environmental liabilities even after it sells or no longer operates hotels. Contamination at, on, under or emanating from the Company' s hotels also may expose it to liability to private parties for the costs of remediation, personal injury and / or property damage. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs required to address such contamination. If contamination is discovered on the Company' s properties, environmental laws also may impose restrictions on the manner in which the properties may be used or businesses may be operated, and these restrictions may require substantial expenditures. Moreover, environmental contamination can affect the value of a property and, therefore, an owner ~~'~~ **'** s ability to borrow funds using the property as collateral or to sell the property on favorable terms, or at all. Furthermore, if, as part of the remediation of a contaminated property, the Company were to dispose of certain waste products at a waste disposal facility, such as a landfill or an incinerator, the Company may be liable for costs associated with the cleanup of that facility. In addition, the Company' s hotels are subject to various U. S. federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, lead- based paint, mold and mildew, and waste management. Some of the Company' s hotels routinely handle and use hazardous or regulated substances and wastes as part of their operations, which are subject to regulation (e. g., swimming pool chemicals and cleaning supplies). The Company' s hotels incur costs to comply with these environmental, health and safety laws and regulations, and could be subject to fines and penalties for non- compliance with applicable requirements. Liabilities and costs associated with environmental contamination at or emanating from the Company' s hotel properties, defending against claims related to alleged or actual environmental issues, or complying with environmental, health and safety laws and regulations could be material and could materially and adversely affect the Company. The Company can make no assurances that changes in current laws or regulations, or future laws or regulations will not impose additional or new material environmental liabilities or that the current environmental condition of its hotels will not be affected by its operations, the condition of the properties in the vicinity of its hotels, or by third parties unrelated to the Company. The discovery of material environmental liabilities at its properties could subject the Company to unanticipated significant costs, which could significantly reduce or eliminate its profitability. The Company may incur significant costs complying with various regulatory requirements, which could materially and adversely affect the Company. The Company and its hotels are subject to various U. S. federal, state and local regulatory requirements. These requirements are wide- ranging and include among others, state and local fire and life safety requirements, federal laws such as the Americans with Disabilities Act of 1990 and the Accessibility Guidelines promulgated thereunder (" ADA ") and the Sarbanes- Oxley Act of 2002. Liabilities and costs associated with complying with these requirements are and could be material. If the Company fails to comply with these various requirements, it could incur governmental fines or private damage awards. In addition, existing requirements could change, and future requirements might require the Company to make significant unanticipated expenditures, which could have material and adverse effects on the Company. In addition, as a result of these significant regulations, the Company could become subject to regulatory investigations and lawsuits. Regulatory investigations and lawsuits could result in significant costs to respond and costs of fines or settlements, or changes in the Company' s business practices, any of which could have a material adverse effect on the financial condition, results of operations, liquidity and capital resources, and cash flows of the Company. The ability of the Company to access capital markets, including commercial debt markets, could also be negatively impacted by unfavorable, or the possibility of unfavorable, outcomes from adverse regulatory actions or lawsuits **. Heightened focus on corporate responsibility, specifically related to ESG practices, may impose additional costs and expose the Company to new risks. Companies across industries face increasing scrutiny from various stakeholders on how they address a variety of Environmental, Social and Governance (" ESG ") matters. Potential and current employees, hotel brands, hotel**

management companies and vendors may consider these factors when establishing and extending business relationships and hotel guests may consider these factors when choosing a hotel. With this increased focus, public reporting regarding ESG practices is becoming more broadly expected. The Company summarizes its existing ESG programs in its annual Corporate Responsibility Report, which is available on its website. The focus on and activism around ESG and related matters may constrain business operations or cause the Company to incur additional costs. The Company may face reputational damage in the event the Company' s corporate responsibility initiatives do not meet the standards set by various constituencies, including those of third- party providers of corporate responsibility ratings and reports. Furthermore, if competitors outperform the Company in such metrics, potential or current investors may elect to invest with the Company' s competitors, and employees, hotel brands, hotel management companies, vendors and guests may choose not to do business with the Company, which could have a material and adverse impact on the Company' s financial condition, the market price of its common shares and ability to raise capital. Moreover, while the Company makes voluntary disclosures in its Corporate Responsibility Report regarding its ESG practices, certain disclosures are based on hypothetical expectations and assumptions that may differ from actual results. In addition, the SEC is currently evaluating potential new ESG disclosure and other requirements that would impact the Company. As the Company continues to invest and focus on ESG practices that the Company believes are appropriate for its business, the Company could also be criticized by ESG detractors for the scope or nature of its initiatives or goals. The Company could be subjected to negative responses of governmental actors (such as anti- ESG legislation or retaliatory legislative treatment), hotel brands, hotel management companies and hotel guests, that could have a material adverse effect on the Company' s reputation, financial condition and results of operations . Risks Related to the Company' s Organization and Structure The Company' s ownership limitations may restrict or prevent certain acquisitions and transfers of its shares. In order for the Company to maintain its qualification as a REIT under the Code, not more than 50 % in value of its outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year following the Company' s first year (the " 5 / 50 Test "). Additionally, at least 100 persons must beneficially own the Company' s shares during at least 335 days of each taxable year (the " 100 Shareholder Test "). The Company' s amended and restated articles of incorporation (the " Charter "), with certain exceptions, authorizes the Company' s Board of Directors to take the actions that are necessary and desirable to preserve its qualification as a REIT. In addition to the 5 / 50 Test and the 100 Shareholder Test, the Company' s Charter provides that no person or entity may directly or indirectly, beneficially or constructively, own more than 9. 8 % of the aggregate of its outstanding common shares or 9. 8 % of the aggregate of the outstanding preferred shares of any class or series (" share ownership limits "). The Company' s Board of Directors may, in its sole discretion, grant an exemption to the share ownership limits, subject to certain conditions and the receipt by the Board of Directors of certain representations and undertakings. In addition, the Board of Directors may change the share ownership limits. The share ownership limits contained in the Charter key off the ownership at any time by any " person, " which term includes entities, and take into account direct and indirect ownership as determined under various ownership attribution rules in the Code. The share ownership limits might delay or prevent a transaction or a change in the Company' s control that might involve a premium price for the Company' s common shares or otherwise be in the best interests of its shareholders. The Company' s future issuances of preferred shares or debt securities may adversely affect the voting power or ownership interest of the holders of common shares or may limit the ability of a third party to acquire control of the Company. The Company' s Charter allows the Board of Directors to issue up to 30 million " blank check " preferred shares, without action by shareholders. Preferred shares may be issued on terms determined by the Board of Directors, and may have rights, privileges and preferences superior to those of common shares. Without limiting the foregoing, (i) such preferred shares could have liquidation rights that are senior to the liquidation preference applicable to common shares, (ii) such preferred shares could have voting or conversion rights, which could adversely affect the voting power of the holders of common shares, and (iii) the ownership interest of holders of common shares will be diluted following the issuance of any such preferred shares. In addition, the issuance of blank check preferred shares could have the effect of discouraging, delaying or preventing a change of control of the Company. Additionally, the Company may issue debt securities which would have distribution rights that are senior to common shares and liquidation rights that are senior to the liquidation preference applicable to common shares. Common shareholders bear the risk that the Company' s future issuances of preferred shares or debt securities will negatively affect the market price of the Company' s common shares. Provisions of the Company' s third amended and restated bylaws could inhibit changes in control. Provisions in the Company' s third amended and restated bylaws may make it difficult for another company to acquire it and for shareholders to receive any related takeover premium for its common shares. Pursuant to the Company' s third amended and restated bylaws, directors are elected by the plurality of votes cast and entitled to vote in the election of directors. However, the Company' s corporate governance guidelines require that if an incumbent director fails to receive at least a majority of the votes cast, such director will tender his or her resignation from the Board of Directors. The Nominating and Corporate Governance Committee of the Board of Directors will consider, and determine whether to accept, such resignation. Additionally, the third amended and restated bylaws of the Company have various advance notice provisions that require shareholders to meet certain requirements and deadlines for proposals at an annual meeting of shareholders. These provisions may have the effect of delaying, deferring or preventing a transaction or a change in control of the Company that might involve a premium to the price of the Company' s common shares or otherwise be in the shareholders' best interests. The Company' s Executive Chairman has interests that may conflict with the interests of the Company and that may detract from the time devoted to the Company. Glade M. Knight, the Company' s Executive Chairman, is and will be a principal in other real estate investment transactions or programs that may compete with the Company, and he is and may be a principal in other business ventures. Mr. Knight' s management and economic interests in these other transactions or programs may conflict with the interests of the Company. Mr. Knight is not required to devote a fixed amount of time and attention to the Company' s business affairs as opposed to the other companies, which could detract from time devoted to the Company. Tax- Related Risks and Risks Related to the Company' s Status as a REIT Qualifying as a REIT involves highly technical and complex provisions of the Code and failure of the Company to qualify as a REIT would have adverse consequences to the Company and its shareholders. The Company' s qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize the Company' s REIT qualification. Moreover, new legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for the Company to qualify as a REIT. Maintaining the Company' s qualification as a REIT depends on the Company' s satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. The Company' s ability to satisfy the REIT income and asset tests depends upon the Company' s analysis of the characterization and fair market values of the Company' s assets, some of which are not susceptible to a precise determination and for which the Company will not obtain independent appraisals, and upon the Company' s ability to successfully manage the composition of its income and assets on an ongoing basis. In addition, the Company' s ability to satisfy the requirements to maintain its qualification as a REIT depends in part on the actions of third parties over which the Company has no control or only limited influence. If the Company does not qualify as a REIT or if the Company fails to remain qualified as a REIT, the Company will be subject to U. S. federal corporate income tax and potentially state and local taxes, which would reduce the Company' s earnings and the amount of cash available for distribution to its shareholders. If the Company failed to qualify as a REIT in any taxable year and any available relief provisions did not apply, the Company would be subject to U. S. federal and state corporate income tax on its taxable income at the regular corporate rate **(including any applicable corporate minimum tax)** , and dividends paid to its shareholders would not be deductible by the Company in computing its taxable income. Unless the Company was entitled to statutory relief under certain Code provisions, the Company also would be disqualified from taxation as a REIT for the four taxable years following the year in which it failed to qualify as a REIT. Any determination that the Company does not qualify as a REIT would have a material adverse effect on the Company' s results of operations and could materially reduce the market price of its common shares. The Company' s additional tax liability could be substantial and would reduce its net earnings available for investment, debt service or distributions to shareholders. Furthermore, the Company would no longer be required to make any distributions to shareholders as a condition to REIT qualification and all of its distributions to shareholders would be taxable as ordinary C corporation dividends to the extent of its current and accumulated earnings and profits. The Company' s failure to qualify as a REIT also could cause an event of default under loan documents governing its debt. Even if the Company qualifies as a REIT, it may face other tax liabilities that reduce its cash flow. Even if the Company qualifies for taxation as a REIT, it may be subject to certain U. S. federal, state and local taxes, including payroll taxes, taxes on any undistributed income, taxes on income from some activities conducted as a result of a foreclosure, a 100 % excise tax on any transactions with a TRS that are not conducted on an arm' s- length basis, and state or local income, franchise, property and transfer taxes. Moreover, if the Company has net income from the sale of properties that are " dealer " properties (a " prohibited transaction " under the Code), that income will be subject to a 100 % tax. The Company could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain its qualification as a REIT. In addition, the Company' s TRSs will be subject to U. S. federal, state and local corporate income taxes on their net taxable income, if any. Any of these taxes would decrease cash available for other uses, such as the payment of the Company' s debt obligations and distributions to shareholders. REIT distribution requirements could adversely affect the Company' s ability to execute its business plan or cause it to increase debt levels or issue additional equity during unfavorable market conditions. The Company generally must distribute annually at least 90 % of its REIT taxable income, subject to certain adjustments and excluding any net capital gain, in order for U. S. federal corporate income tax not to apply to earnings that it distributes. To the extent that the Company satisfies this distribution requirement but distributes less than 100 % of its taxable income, the Company will be subject to U. S. federal corporate income tax on its undistributed taxable income. In addition, the Company will be subject to a 4 % nondeductible excise tax if the actual amount that the Company pays out to its shareholders in a calendar year is less than a minimum amount specified under U. S. federal tax laws. If there is an adjustment to any of the Company' s taxable income or dividends- paid deductions, the Company could elect to use the deficiency dividend procedure in order to maintain the Company' s REIT status. That deficiency dividend procedure could require the Company to make significant distributions to its shareholders and to pay significant interest to the IRS. From time to time, the Company may generate taxable income greater than its income for financial reporting purposes prepared in accordance with accounting principles generally accepted in the U. S. (" GAAP "). In addition, differences in timing between the recognition of taxable income and the actual receipt of cash may occur. As a result, the Company may find it difficult or impossible to meet distribution requirements in certain circumstances. In particular, where the Company experiences differences in timing between the recognition of taxable income and the actual receipt of cash, the requirement to distribute a substantial portion of its taxable income could cause it to: (1) sell assets in unfavorable market conditions; (2) incur debt or issue additional equity on disadvantageous terms; (3) distribute amounts that would otherwise be invested in future acquisitions or capital expenditures or used for the repayment of debt; or (4) make a taxable distribution of its common shares as part of a distribution in which shareholders may elect to receive the Company' s common shares or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with REIT requirements. These alternatives could increase the Company' s costs or dilute its equity. In addition, because the REIT distribution requirement prevents the Company from retaining earnings, the Company generally will be required to refinance debt at its maturity with additional debt or equity. Thus, compliance with the REIT requirements may hinder the Company' s ability to grow, which could adversely affect the market price of its common shares. The Company may in the future choose to pay dividends in the form of common shares, in which case shareholders may be required to pay income taxes in excess of the cash dividends they receive. The Company may seek in the future to distribute taxable dividends that are payable in cash and common shares, at the election of each shareholder. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of the Company' s current and accumulated earnings and profits for U. S. federal income tax purposes, however, generally a shareholder will receive a taxable income deduction for 20 % of all ordinary dividends received from a REIT. As a result, shareholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U. S. shareholder sells the common shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of common shares at the time of the sale. In addition, in such case, a U. S. shareholder could have a capital loss with respect to the common shares sold that could not be used to offset such dividend income. Furthermore, with respect to certain non- U. S. shareholders, the Company may be required to withhold U. S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common shares. In addition, such a taxable share dividend could be viewed as equivalent to a reduction in the Company' s cash distributions, and that factor, as well as the possibility that a significant number of the Company' s shareholders could determine to sell the common shares in order to pay taxes owed on dividends, may put downward pressure on the market price of the Company' s common shares. If the Company' s leases are not respected as true leases for U. S. federal income tax purposes, the Company would likely fail to qualify as a REIT. To qualify as a REIT, the Company must satisfy two gross income tests, pursuant to which specified percentages of the Company' s gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with the Company' s TRSs, which the Company currently expects will continue to constitute substantially all of the REIT' s gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for U. S. federal income tax purposes and must not be treated as service contracts, joint ventures or some other type of arrangement. The Company believes that the leases have been and will continue to be respected as true leases for U. S. federal income tax purposes. There can be no assurance, however, that the IRS will agree with this characterization. If the leases were not respected as true leases for U. S. federal income tax purposes, the Company may not be able to satisfy either of the two gross income tests applicable to REITs and may lose its REIT status. Additionally, the Company could be subject to a 100 % excise tax for any adjustment to its leases. If any of the hotel management companies that the Company' s TRSs engage do not qualify as " eligible independent contractors, " or if the Company' s hotels are not " qualified lodging facilities, " the Company would likely fail to qualify as a REIT. Rent paid by a lessee that is a " related party tenant " of the Company generally will not be qualifying income for purposes of the two gross income tests applicable to REITs. An exception is provided, however, for leases of " qualified lodging facilities " to a TRS so long as the hotels are managed by an " eligible independent contractor " and certain other requirements are satisfied. The Company intends to continue to take advantage of this exception. A " qualified lodging facility " is a hotel, motel, or other establishment more than one- half of the dwelling units in which are used on a transient basis, including customary amenities and facilities, provided that no wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. Although the Company intends to monitor future acquisitions and improvements of hotels, the REIT provisions of the Code provide only limited guidance for making determinations under the requirements for " qualified lodging facilities, " and there can be no assurance that these requirements will be satisfied in all cases. In addition, the Company' s TRS lessees have engaged hotel management companies that are intended to qualify as " eligible independent contractors. " Among other requirements, in order to qualify as an " eligible independent contractor, " the hotel management company must not own, directly or through its shareholders, more than 35 % of the Company' s outstanding shares, and no person or group of persons can own more than 35 % of the Company' s outstanding shares and the shares (or ownership interest) of the hotel management company (taking into account certain ownership attribution rules). The ownership attribution rules that apply for purposes of these 35 % thresholds are complex, and monitoring actual and constructive ownership of the Company' s shares by the hotel management companies and their owners may not be practical. Accordingly, there can be no assurance that these ownership levels will not be exceeded. In addition, for a hotel management company to qualify as an " eligible independent contractor, " such company or a related person must be actively engaged in the trade or business of operating " qualified lodging facilities " (as defined above) for one or more persons not related to the REIT or its TRSs at each time that such company enters into a hotel management contract with a TRS. As of the date hereof, the Company believes the hotel management companies operate " qualified lodging facilities " for certain persons who are not related to the Company or its TRSs. However, no assurances can be provided that this will continue to be the case or that any other hotel management companies that the Company may engage in the future will in fact comply with this requirement in the future. The Company' s ownership of TRSs is limited, and the Company' s transactions with its TRSs will cause it to be subject to a 100 % penalty tax on certain income or deductions if those transactions are not conducted on arm' s- length terms. A REIT may own up to 100 % of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35 % of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20 % of the value of a REIT' s assets may consist of stock or securities of one or more TRSs. The rules also impose a 100 % excise tax on certain transactions, including the leases, between the TRS and the REIT that are not conducted on an arm' s- length basis. The Company' s TRSs will pay U. S. federal, state and local income taxes on their net taxable income, and their after- tax net income will be available for distribution to the REIT, but is not required to be distributed. The Company has monitored and will continue to monitor the value of its respective investments in its TRSs for the purpose of ensuring compliance with the ownership limitations applicable to TRSs. In addition, the Company will continue to scrutinize all of its transactions with its TRSs to ensure that they are entered into on arm' s- length terms to avoid incurring the 100 % excise tax. There can be no assurance, however, that the Company will be able to comply with the rules regarding TRSs or avoid application of the 100 % excise tax. The most significant transactions between the Company and its

TRSs are the hotel leases from the Company to its TRSs. While the Company believes its leases have customary terms and reflect normal business practices and that the rents paid thereto reflect market terms, there can be no assurance that the IRS will agree. Complying with REIT requirements may force the Company to forgo and / or liquidate otherwise attractive investment opportunities. To qualify as a REIT, the Company must continually satisfy tests concerning, among other things, the sources of its income, the nature and diversification of its assets, the amount it distributes to its shareholders and the ownership of its common shares. In order to meet these tests, the Company may be required to liquidate from its portfolio, or contribute to a TRS, otherwise attractive investments in order to maintain its qualification as a REIT. These actions could have the effect of reducing the Company' s income and amounts available for distribution to its shareholders. In addition, the Company may be required to make distributions to shareholders at disadvantageous times or when the Company does not have funds readily available for distribution, and may be unable to pursue investments that would otherwise be advantageous to it in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder the Company' s ability to make, and, in certain cases, maintain ownership of, certain attractive investments. The Company may be subject to adverse legislative or regulatory tax changes. The IRS, the U. S. Treasury Department and Congress frequently review U. S. federal income tax legislation, regulations and other guidance. At any time, the U. S. federal income tax laws governing REITs or the administrative interpretations of those laws may be amended or modified. The Company cannot predict whether, when or to what extent new U. S. federal tax laws, regulations, interpretations or rulings will be adopted or modified. Changes to the tax laws, including the possibility of major tax legislation, possibly with retroactive application, may adversely affect taxation of the Company or the Company' s shareholders. The Company urges shareholders and prospective shareholders to consult with their tax advisors with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in the Company' s shares. Although REITs generally receive certain tax advantages compared to entities taxed as C corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated as a C corporation for U. S. federal income tax purposes. General Risk Factors The Company may change its distribution policy or may not have funds available to make distributions to shareholders. The Board of Directors will continue to evaluate the Company' s distribution policy in conjunction with the impact of the economy on its operations, actual and projected financial condition and results of operations, capital expenditure requirements and other factors, including those discussed in this Annual Report on Form 10- K. There can be no assurance that the Company will continue to make distributions at any particular time or rate, or at all. Further, there is no assurance that a distribution rate achieved for a particular period will be maintained in the future. For example, distributions may be suspended or distribution rates may be adjusted from time to time to a level determined to be prudent in relation to the Company' s other cash requirements. The Board of Directors evaluates the distribution rate on an ongoing basis and may make changes at any time if it believes the rate is not appropriate based on REIT taxable income, limitations under financing arrangements, or other cash needs. A suspension of distributions or a reduction in the Company' s distribution rate could have a material adverse effect on the market price of the Company' s common shares. Further, while the Company generally seeks to make distributions from its operating cash flows, distributions may be made (although there is no obligation to do so) in certain circumstances, in part, from financing proceeds or other sources. While distributions made from such sources would result in the shareholder receiving cash, the consequences to the shareholders would differ from a distribution made from the Company' s operating cash flows. For example, if debt financing is the source of a distribution, that financing would not be available for other opportunities, would have to be repaid and interest would accrue on the financing. The market price and trading volume of the Company' s common shares may fluctuate widely and could decline substantially in the future. The Company' s common shares are listed on the NYSE under the ticker symbol " APLE. " The market price and trading volume of the Company' s common shares may fluctuate widely, depending on many factors, some of which may be beyond the Company' s control, including: • actual versus anticipated differences in the Company' s operating results, liquidity, or financial condition; • publication of research reports about the Company and the accuracy of information published in these reports, regarding its hotels or the lodging or overall real estate industry; • changes in and / or failure to meet analysts' revenue or earnings estimates; • the reputation of REITs and real estate investments generally, and the attractiveness of REIT equity securities in comparison to other equity securities, including securities issued by other real estate companies, and fixed income instruments; • changes in accounting principles or other laws and regulations that may adversely affect the Company or its industry; • strategic actions by the Company or its competitors, such as acquisitions or dispositions, and announcements by franchisors, operators or REITs and other owners in the hospitality industry; • fluctuations in the stock price and operating results of the Company' s competitors; and • the realization of any of the other risk factors presented in this Annual Report on Form 10- K. Stock markets in general have historically experienced volatility that has often been unrelated to the operating performance of a particular company or industry. Similar broad market fluctuations may adversely affect the trading price and volume of the Company' s common shares. Future offerings or the perception that future offerings could occur may adversely affect the market price of the Company' s common shares and future offerings may be dilutive to existing shareholders. The Company has in the past issued and may in the future issue additional common shares. Proceeds from any issuance may be used to finance hotel acquisitions, fund capital expenditures, pay down outstanding debt, or for other corporate purposes. A large volume of sales of the Company' s common shares could decrease the market price of the Company' s common shares and could impair the Company' s ability to raise additional capital through the sale of equity securities in the future. Also, a perception of the possibility of a substantial sale of common shares could depress the market price of the Company' s common shares and have a negative effect on the Company' s ability to raise capital in the future. In addition, anticipated downward pressure on the price of the Company' s common shares due to actual or anticipated sales of common shares could cause some institutions or individuals to engage in short sales of the common shares, which may itself cause the price of the common shares to decline. Because the Company' s decision to issue equity securities in any future offering will depend on market conditions and other factors beyond its control, the Company cannot predict or estimate the amount, timing or nature of its future offerings. Therefore, the Company’ s shareholders bear the risk of the Company’ s future offerings reducing the market price of its common shares and diluting shareholders ’ equity interests in the Company.