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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 001-34572

CHESAPEAKE LODGING TRUST
(Exact name of registrant as specified in its charter)

MARYLAND	27-0372343
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4300 Wilson Boulevard, Suite 625 Arlington, Virginia	22203
(Address of principal executive offices)	(Zip Code)

(571) 349-9450
(Registrant’s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý		Accelerated filer	o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
As of July 28, 2017, there were 60,114,283 shares of the registrant’s common shares issued and outstanding.

Table of Contents

CHESAPEAKE LODGING TRUST
INDEX

		Page
PART I		
Item 1.	Financial Statements	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	26
Item 4.	Controls and Procedures	26
PART II		
Item 1.	Legal Proceedings	27
Item 1A.	Risk Factors	27
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3.	Defaults Upon Senior Securities	27
Item 4.	Mine Safety Disclosures	27
Item 5.	Other Information	27
Item 6.	Exhibits	28

Table of Contents

PART I
Item 1. Financial Statements

CHESAPEAKE LODGING TRUST
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Property and equipment, net	$1,875,055	$1,882,869
Intangible assets, net	35,546	35,835
Cash and cash equivalents	59,940	43,060
Restricted cash	31,227	36,128
Accounts receivable, net of allowance for doubtful accounts of $161 and $157, respectively	25,820	19,966
Prepaid expenses and other assets	21,666	17,516
Total assets	$2,049,254	$2,035,374
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Long-term debt	$770,094	$737,310
Accounts payable and accrued expenses	66,238	64,581
Other liabilities	44,807	44,808
Total liabilities	881,139	846,699
Commitments and contingencies (Note 11)		
Preferred shares, $.01 par value; 100,000,000 shares authorized; Series A Cumulative Redeemable Preferred Shares; 5,000,000 shares issued and outstanding, respectively ($127,422 liquidation preference)	50	50
Common shares, $.01 par value; 400,000,000 shares authorized; 60,114,283 and 59,671,964 shares issued and outstanding, respectively	601	597
Additional paid-in capital	1,307,141	1,304,364
Cumulative dividends in excess of net income	(139,545)	(116,297)
Accumulated other comprehensive loss	(132)	(39)
Total shareholders’ equity	1,168,115	1,188,675
Total liabilities and shareholders’ equity	$2,049,254	$2,035,374

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

Table of Contents

CHESAPEAKE LODGING TRUST
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUE				
Rooms	$122,268	$126,967	$221,169	$230,739
Food and beverage	33,136	35,664	62,448	66,219
Other	7,057	6,800	13,718	13,084
Total revenue	162,461	169,431	297,335	310,042
EXPENSES				
Hotel operating expenses:				
Rooms	27,368	27,876	52,690	53,377
Food and beverage	23,149	24,111	45,388	46,877
Other direct	1,300	1,589	2,656	3,147
Indirect	53,532	53,103	103,347	103,683
Total hotel operating expenses	105,349	106,679	204,081	207,084
Depreciation and amortization	19,096	18,610	37,883	37,094
Air rights contract amortization	130	130	260	260
Corporate general and administrative	4,647	4,734	9,582	10,000
Total operating expenses	129,222	130,153	251,806	254,438
Operating income	33,239	39,278	45,529	55,604
Interest expense	(8,171)	(7,560)	(15,969)	(15,770)
Gain on sale of hotel	—	598	—	598
Income before income taxes	25,068	32,316	29,560	40,432
Income tax benefit (expense)	(3,407)	(3,774)	120	(1,820)
Net income	21,661	28,542	29,680	38,612
Preferred share dividends	(2,422)	(2,422)	(4,844)	(4,844)
Net income available to common shareholders	$19,239	$26,120	$24,836	$33,768
Net income available per common share—basic and diluted	$0.32	$0.44	$0.42	$0.57

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

Table of Contents

CHESAPEAKE LODGING TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$21,661	$28,542	$29,680	$38,612
Other comprehensive income (loss):				
Unrealized losses on cash flow hedge instruments	(507)	(116)	(507)	(434)
Reclassification of unrealized losses on cash flow hedge instruments to interest expense	375	157	414	320
Comprehensive income	$21,529	$28,583	$29,587	$38,498

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

Table of Contents

CHESAPEAKE LODGING TRUST
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Preferred Shares		Common Shares		Additional Paid-In Capital	Cumulative Dividends in Excess of Net Income	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balances at December 31, 2016	5,000,000	$ 50	59,671,964	$ 597	$1,304,364	$(116,297)	$ (39)	$1,188,675
Repurchase of common shares	—	—	(40,504)	—	(1,065)	—	—	(1,065)
Issuance of restricted common shares	—	—	481,068	4	(4)	—	—	—
Issuance of unrestricted common shares	—	—	1,755	—	42	—	—	42
Amortization of deferred compensation	—	—	—	—	3,804	—	—	3,804
Declaration of dividends on common shares	—	—	—	—	—	(48,084)	—	(48,084)
Declaration of dividends on preferred shares	—	—	—	—	—	(4,844)	—	(4,844)
Net income	—	—	—	—	—	29,680	—	29,680
Other comprehensive loss	—	—	—	—	—	—	(93)	(93)
Balances at June 30, 2017	5,000,000	$ 50	60,114,283	$ 601	$1,307,141	$(139,545)	$ (132)	$1,168,115

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

Table of Contents

CHESAPEAKE LODGING TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$29,680	$38,612
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,883	37,094
Air rights contract amortization	260	260
Deferred financing costs amortization	815	936
Gain on sale of hotel	—	(598)
Share-based compensation	3,846	4,764
Other	(310)	(442)
Changes in assets and liabilities:		
Accounts receivable, net	(5,854)	(9,704)
Prepaid expenses and other assets	(4,177)	(3,126)
Accounts payable and accrued expenses	975	4,407
Other liabilities	169	(22)
Net cash provided by operating activities	63,287	72,181
Cash flows from investing activities:		
Disposition of hotel	—	2,028
Improvements and additions to hotels	(28,941)	(9,217)
Change in restricted cash	4,901	(3,870)
Net cash used in investing activities	(24,040)	(11,059)
Cash flows from financing activities:		
Borrowings under revolving credit facility	175,000	130,000
Repayments under revolving credit facility	(235,000)	(190,000)
Proceeds from issuance of unsecured term loan	225,000	—
Proceeds from issuance of mortgage debt	—	150,000
Principal prepayments on mortgage debt	—	(88,190)
Scheduled principal payments on mortgage debt	(131,282)	(4,877)
Payment of deferred financing costs	(1,749)	(844)
Payment of dividends to common shareholders	(48,427)	(47,205)
Payment of dividends to preferred shareholders	(4,844)	(4,844)
Repurchase of common shares	(1,065)	(194)
Net cash used in financing activities	(22,367)	(56,154)
Net increase in cash	16,880	4,968
Cash and cash equivalents, beginning of period	43,060	50,544
Cash and cash equivalents, end of period	$59,940	$55,512
Supplemental disclosure of cash flow information:		
Cash paid for interest	$14,992	$15,251
Cash paid for income taxes	$1,594	$1,605

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

CHESAPEAKE LODGING TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Description of Business

Chesapeake Lodging Trust (the "Trust") is a self-advised real estate investment trust ("REIT") that was organized in the state of Maryland in June 2009. The Trust is focused on investments primarily in upper-upscale hotels in major business and convention markets and, on a selective basis, premium select-service hotels in urban settings or unique locations in the United States of America ("U.S."). The Trust completed its initial public offering ("IPO") in January 2010. The Trust owned no hotels nor had any operations prior to its IPO. As of June 30, 2017, the Trust owned 22 hotels with an aggregate of 6,694 rooms in nine states and the District of Columbia.

Substantially all of the Trust's assets are held by, and all of its operations are conducted through, Chesapeake Lodging, L.P., a Delaware limited partnership, which is wholly owned by the Trust (the "Operating Partnership"). For the Trust to qualify as a REIT, it cannot operate hotels. Therefore, the Operating Partnership leases its hotels to taxable REIT subsidiaries (each, a "TRS"), which are wholly owned subsidiaries of the Operating Partnership and are treated as TRSs for federal income tax purposes. The TRSs then engage hotel management companies to operate the hotels pursuant to management agreements.

2. Summary of Significant Accounting Policies

Basis of Presentation—The interim consolidated financial statements presented herein include all of the accounts of Chesapeake Lodging Trust and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

The information in these interim consolidated financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal, recurring nature unless disclosed otherwise. These interim consolidated financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission ("SEC") and do not include all of the information and disclosures required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Trust's Form 10-K for the year ended December 31, 2016.

Cash and Cash Equivalents—The Trust considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash—Restricted cash includes reserves held in escrow for normal replacements of furniture, fixtures and equipment ("FF&E"), property improvement plans (each, a "PIP"), real estate taxes, and insurance pursuant to certain requirements in the Trust's hotel management, franchise, and loan agreements.

Investments in Hotels—The Trust allocates the purchase prices of hotels acquired based on the fair value of the property, FF&E, and identifiable intangible assets acquired and the fair value of the liabilities assumed. In making estimates of fair value for purposes of allocating the purchase price, the Trust utilizes a number of sources of information that are obtained in connection with the acquisition of a hotel, including valuations performed by independent third parties and cost segregation studies. The Trust also considers information obtained about each hotel as a result of its pre-acquisition due diligence in estimating the fair value of the tangible and intangible assets acquired and liabilities assumed. Hotel acquisition costs, such as transfer taxes, title insurance, environmental and property condition reviews, and legal and accounting fees, are expensed in the period incurred.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, generally 15 to 40 years for buildings and building improvements and three to ten years for FF&E. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets. Replacements and improvements at the hotels are capitalized, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the Trust's

accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

Intangible assets and liabilities are recorded on non-market contracts, including air rights, lease, management, and franchise agreements, assumed as part of the acquisition of certain hotels. Above-market and below-market contract values are based on the present value of the difference between contractual amounts to be paid pursuant to the contracts assumed and the Trust’s estimate of the fair market contract rates for corresponding contracts measured over a period equal to the remaining non-cancelable term of the contracts assumed. No value is allocated to market contracts. Intangible assets and liabilities are amortized using the straight-line method over the remaining non-cancelable term of the related contracts.

Table of Contents

The Trust reviews its hotels for impairment whenever events or changes in circumstances indicate that the carrying values of the hotels may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the hotels due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel's estimated fair market value is recorded and an impairment loss is recognized. No impairment losses have been recognized related to any hotels for the three and six months ended June 30, 2017 and 2016.

The Trust classifies a hotel as held for sale in the period in which it has made the decision to dispose of the hotel, a binding agreement to purchase the hotel has been signed under which the buyer has committed a significant amount of nonrefundable cash, and no significant financing contingencies exist which could cause the transaction not to be completed in a timely manner. If these criteria are met, depreciation and amortization of the hotel will cease and an impairment loss will be recognized if the fair value of the hotel, less the costs to sell, is lower than the carrying amount of the hotel. If the sale represents a strategic shift that has (or will have) a major effect on the Trust's operations and financial results, the Trust will classify the loss, together with the related operating results, as discontinued operations in the consolidated statements of operations and will classify the related assets and liabilities as held for sale in the consolidated balance sheets. As of June 30, 2017, the Trust had no assets held for sale or liabilities related to assets held for sale.

Revenue Recognition—Revenues from operations of the hotels are recognized when goods and services are provided. Revenues consist of room sales, food and beverage sales, and other hotel department revenues, such as parking, marina, theater, telephone, and gift shop sales.

Prepaid Expenses and Other Assets—Prepaid expenses and other assets consist of prepaid real estate taxes, prepaid insurance, deposits on hotel acquisitions and loan applications, deferred franchise costs, inventories, deferred tax assets, and other assets.

Deferred Financing Costs—Deferred financing costs are recorded at cost and consist of loan fees and other costs incurred in issuing debt. Amortization of deferred financing costs is computed using a method that approximates the effective interest method over the term of the related debt and is included in interest expense in the consolidated statements of operations. Unamortized deferred financing costs are included as a direct deduction from long-term debt in the consolidated balance sheets.

Derivative Instruments—From time to time, the Trust is a party to interest rate swaps, which are considered derivative instruments, in order to manage its interest rate exposure. The Trust's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows. The Trust records derivative instruments at fair value as either assets or liabilities and designates them as cash flow hedging instruments at inception. The Trust evaluates the hedge effectiveness of the designated cash flow hedging instruments on a quarterly basis and records the effective portion of the change in the fair value of the cash flow hedging instruments as other comprehensive income (loss). Amounts reported in accumulated other comprehensive income (loss) related to cash flow hedging instruments are reclassified to interest expense as interest payments are made on the variable-rate debt being hedged. The Trust does not enter into derivative instruments for trading or speculative purposes and monitors the financial stability and credit standing of its counterparties.

Fair Value Measurements—The Trust accounts for certain assets and liabilities at fair value. In evaluating the fair value of both financial and non-financial assets and liabilities, GAAP outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and the reporting entity's own assumptions about market data (unobservable inputs). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is defined as a market in which transactions occur with sufficient frequency and volume to provide pricing on an ongoing basis.

Level 2 – Inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active (markets with few transactions), inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curves), and inputs that are derived principally from or corroborated by observable market data correlation or other means.

Level 3 – Unobservable inputs reflect the reporting entity's own assumptions about the pricing of an asset or liability when observable inputs are not available or when there is minimal, if any, market activity for an identical or similar asset or liability at the measurement date.

Income Taxes—The Trust has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code. As a REIT, the Trust generally will not be subject to federal income tax on that portion of its net income that does not relate to any of the Trust's TRSs, and that is currently distributed to its shareholders. Our TRSs, which lease the Trust's hotels from the subsidiaries of the Operating Partnership owning them, are subject to federal and state income taxes.

The Trust accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are provided if based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Share-Based Compensation—From time to time, the Trust grants restricted share awards to employees and trustees. To date, the Trust has granted two types of restricted share awards: (1) awards that vest solely on continued employment or service (time-based awards) and (2) awards that vest based on the Trust achieving specified levels of relative total shareholder return and continued employment (performance-based awards). The Trust measures share-based compensation expense for the restricted share awards based on the fair value of the awards on the date of grant. The fair value of time-based awards is determined based on the closing price of the Trust's common shares on the measurement date, which is generally the date of grant. The fair value of performance-based awards is determined using a Monte Carlo simulation performed by an independent third party. For time-based awards, share-based compensation expense is recognized on a straight-line basis over the life of the entire award. For performance-based awards, share-based compensation expense is recognized over the requisite service period for each award. No share-based compensation expense is recognized for awards for which employees or trustees do not render the requisite service.

Earnings Per Share—Basic earnings per share is computed by dividing net income available to common shareholders, adjusted for dividends declared on and undistributed earnings allocated to unvested time-based awards, by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to common shareholders, adjusted for dividends declared on and undistributed earnings allocated to unvested time-based awards, by the weighted-average number of common shares outstanding, plus potentially dilutive securities, such as unvested performance-based awards, during the period. The Trust's unvested time-based awards are entitled to receive non-forfeitable dividends, if declared. Therefore, unvested time-based awards qualify as participating securities, requiring the allocation of dividends and undistributed earnings under the two-class method to calculate basic earnings per share. The percentage of undistributed earnings allocated to the unvested time-based awards is based on the proportion of the weighted-average unvested time-based awards outstanding during the period to the total of the weighted-average common shares and unvested time-based awards outstanding during the period. No adjustment is made for shares that are anti-dilutive during the period.

Segment Information—The Trust has determined that its business is conducted in one reportable segment, hotel ownership.

Use of Estimates—The preparation of the interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (the "FASB") issued updated accounting guidance for recognition of revenue from contracts with customers. The comprehensive new accounting guidance will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB delayed the effective date of the new accounting guidance to be for interim and annual periods beginning on or after December 15, 2017. The new accounting guidance is to be applied on a retrospective or a modified retrospective basis. The Trust will adopt the new accounting guidance on January 1, 2018, but has not yet determined the method of adoption. While the Trust has not completed its assessment of this updated accounting guidance, it does not expect the updated accounting guidance to materially affect the amount or timing of revenue recognition for room sales, food and beverage sales, or other hotel departmental revenues. Furthermore, the Trust does not expect the updated accounting guidance to significantly impact the recognition of or accounting for disposition of hotels, since the Trust primarily disposes of hotels to third parties in exchange for cash with few contingencies.

3. Disposition

On April 14, 2016, the Trust sold the separate, five-room villa building and related land parcel at the Hyatt Centric Santa Barbara for $2.1 million, including sold working capital. Net proceeds from the sale were $2.0 million, which resulted in the recognition of a gain on sale of $0.6 million. This sale did not represent a strategic shift that had (or will have) a major effect on the Trust's operations and financial results, and therefore, did not qualify to be reported as discontinued operations.

Table of Contents

4. Property and Equipment

Property and equipment as of June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Land and land improvements	$319,081	$319,039
Buildings and leasehold improvements	1,649,048	1,634,432
Furniture, fixtures and equipment	208,663	197,815
Construction-in-progress	25,336	21,399
	2,202,128	2,172,685
Less: accumulated depreciation and amortization	(327,073)	(289,816)
Property and equipment, net	$1,875,055	$1,882,869

5. Intangible Assets and Liability

Intangible assets and liability as of June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Intangible assets:		
Air rights contract[(1)]	$36,105	$36,105
Favorable ground leases[(2)]	3,568	3,568
	39,673	39,673
Less: accumulated amortization	(4,127)	(3,838)
Intangible assets, net	$35,546	$35,835
Intangible liability:		
Unfavorable contract liability[(2)]	$14,236	$14,236
Less: accumulated amortization	(2,258)	(2,061)
Intangible liability, net (included within other liabilities)	$11,978	$12,175

(1) In conjunction with the acquisition of the Hyatt Regency Boston on March 18, 2010, the Trust acquired an air rights contract which expires in September 2079 and that requires no payments through maturity. The Trust recorded the fair value of the air rights contract of $36.1 million as an intangible asset and is amortizing the value over the term of the contract.

(2) In conjunction with the acquisition of the Denver Marriott City Center on October 3, 2011, the Trust assumed three lease agreements for land parcels underlying a portion of the hotel with initial terms ending July 2068, February 2072 and April 2072. The Trust concluded that the terms of two of the three ground leases were below market terms and recorded an aggregate of $4.8 million of favorable ground lease assets at the time. On July 29, 2014, the Trust terminated one of the two ground leases with below market terms in connection with acquiring the associated land parcel. The Trust is amortizing the remaining favorable ground lease asset over the life of the respective lease and including within indirect hotel operating expenses in the interim consolidated statements of operations. Also in conjunction with the acquisition of the Denver Marriott City Center, the Trust assumed a management contract with a non-cancelable term ending December 2047. The Trust concluded that the management agreement terms were above market terms and recorded a $14.2 million unfavorable contract liability, which the Trust is amortizing over the remaining non-cancelable term and including within indirect hotel operating expenses in the interim consolidated statements of operations.

Table of Contents

6. Long-Term Debt

Long-term debt as of June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	Origination	Original Principal Amount	Maturity	Interest Rate	Principal Amortization Period	June 30, 2017	December 31, 2016
Unsecured:							
Revolving credit facility[1]	July 2010	n/a	March 2019	Floating	n/a	$—	$60,000
Term loan[2]	April 2017	$225,000	April 2022	Floating	n/a	225,000	—
Secured:							
Royal Palm South Beach Miami, a Tribute Portfolio Resort[3]	March 2015	$125,000	March 2017	Floating	n/a	—	125,000
Boston Marriott Newton	May 2013	$60,000	June 2020	3.63%	25	53,783	54,614
Le Meridien San Francisco	July 2013	$92,500	August 2020	3.50%	25	83,183	84,476
Denver Marriott City Center[4]	July 2012	$70,000	August 2022	4.90%	30	64,406	65,048
Hilton Checkers Los Angeles	February 2013	$32,000	March 2023	4.11%	30	29,573	29,884
W Chicago – City Center	July 2013	$93,000	August 2023	4.25%	25	84,528	85,720
Hyatt Herald Square New York/Hyatt Place New York Midtown South	July 2014	$90,000	July 2024	4.30%	30	88,679	89,414
Hyatt Regency Boston	June 2016	$150,000	July 2026	4.25%	30	147,471	148,749
						776,623	742,905
Unamortized deferred financing costs						(6,529)	(5,595)
Long-term debt						$770,094	$737,310

(1) The Trust may exercise an option to extend the maturity by one year, subject to certain customary conditions. As of June 30, 2017, the interest rate in effect was 2.78%. See below for additional information related to the revolving credit facility.

(2) The term loan bears interest equal to LIBOR plus 1.45% - 2.20% (the spread over LIBOR based on the Trust's consolidated leverage ratio). Contemporaneous with the closing of the term loan, the Trust entered into an interest rate swap to fix LIBOR at 1.86% for the five-year term (as of June 30, 2017, the effective interest rate on the unsecured term loan was 3.31%). Under the terms of this interest rate swap, the Trust pays fixed interest of 1.86% per annum on a notional amount of $225.0 million and receives floating rate interest equal to one-month LIBOR. The effective date of this interest rate swap was April 21, 2017 and it will mature on April 21, 2022.

(3) On March 9, 2015, in connection with the acquisition of the Royal Palm South Beach Miami, a Tribute Portfolio Resort, the Trust assumed an existing loan agreement with an outstanding principal balance of $125.0 million. The term loan was amended and restated at the time of assumption and provided for a new two-year term. The term loan bore interest equal to one-month LIBOR plus 2.40%. Contemporaneous with the assumption of the term loan, the Trust entered into an interest rate swap to effectively fix the interest rate on the term loan for the new two-year term at 3.34% per annum. Under the terms of this interest rate swap, the Trust paid fixed interest of 0.94% per annum on a notional amount of $125.0 million and received floating rate interest equal to one-month LIBOR. The effective date of this interest rate swap was March 9, 2015 and it matured on March 9, 2017. The Trust repaid the term loan at maturity on March 9, 2017.

(4)

The loan has a term of 30 years, but is callable by the lender after 10 years, and the Trust expects the lender to call the loan at that time. The indicated maturity is based on the date the loan is callable by the lender.

Unsecured revolving credit facility and term loan

On March 4, 2015, the Trust entered into an amended credit agreement to (1) convert its revolving credit facility from a secured to an unsecured revolving credit facility, (2) increase the maximum borrowing availability under the revolving credit facility from $250.0 million to $300.0 million, (3) lower the interest rate to LIBOR plus 1.55% - 2.30% (the spread over LIBOR continues to be based on the Trust's consolidated leverage ratio), and (4) extend the maturity date to March 2019. The amended credit agreement provides for the possibility of further future increases, up to a maximum of $450.0 million, in accordance with the terms of the amended credit agreement. The amended credit agreement also provides for an extension of the maturity date by one year, subject to satisfaction of certain customary conditions.

On April 21, 2017, the Trust obtained a $225.0 million, five-year, unsecured term loan. The term loan provides for the possibility of future increases, up to a maximum amount borrowed of $375.0 million, in accordance with the terms of the term loan agreement. In connection with obtaining the unsecured term loan, the Trust further amended certain provisions of its amended credit agreement to make conforming changes to the term loan agreement.

The amount that the Trust can borrow in the aggregate under the revolving credit facility and the term loan is based on the value of the Trust's hotels included in the borrowing base, as defined in the amended credit agreement and the term loan agreement. As of June 30, 2017, the borrowing base included 13 of the Trust's hotels providing borrowing availability of $300.0

Table of Contents

million under the revolving credit facility, all of which remained available. The amended credit agreement and the term loan agreement contain financial covenants, including a leverage ratio and a minimum tangible net worth requirement, and has additional financial covenants typically found in similar unsecured revolving credit facilities and term loans, including a consolidated secured debt ratio, an unsecured leverage ratio and an unsecured debt service coverage ratio.

Other

Certain of the Trust's mortgage loan agreements contain standard financial covenants relating to coverage ratios and standard provisions that require loan servicers to maintain escrow accounts for certain items, including real estate taxes, insurance premiums, and normal replacements of FF&E.

As of June 30, 2017, the Trust was in compliance with all financial covenants under its borrowing arrangements. As of June 30, 2017, the Trust's weighted-average interest rate on its long-term debt was 3.91%. Future scheduled principal payments of debt obligations (assuming no exercise of extension options) as of June 30, 2017 are as follows (in thousands):

Year	Amounts
2017	$6,155
2018	13,179
2019	13,732
2020	135,316
2021	10,233
Thereafter	598,008
	$776,623

7. Earnings Per Share

The following is a reconciliation of the amounts used in calculating basic and diluted earnings per share (in thousands, except share and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income available to common shareholders	$19,239	$ 26,120	$24,836	$ 33,768
Less: Dividends declared on unvested time-based awards	(123)	(146)	(247)	(289)
Less: Undistributed earnings allocated to unvested time-based awards	—	(15)	—	—
Net income available to common shareholders, excluding amounts attributable to unvested time-based awards	$19,116	$ 25,959	$24,589	$ 33,479
Denominator:				
Weighted-average number of common shares outstanding–basic	59,033,952	58,722,104	59,014,876	58,701,815
Effect of dilutive unvested performance-based awards	—	141,946	—	134,931
Weighted-average number of common shares outstanding–diluted	59,033,952	58,864,050	59,014,876	58,836,746
Net income available per common share—basic and diluted	$0.32	$ 0.44	$0.42	$ 0.57

For the three and six months ended June 30, 2017 and 2016, 761,934 unvested performance-based awards and 829,025 unvested performance-based awards, respectively, were excluded from diluted weighted-average common shares outstanding as the awards had not achieved the specific levels of relative total shareholder return required for vesting at each period end.

8. Shareholders' Equity

Common Shares—The Trust is authorized to issue up to 400,000,000 common shares, $.01 par value per share. Each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders. Holders

of the Trust’s common shares are entitled to receive distributions when authorized by the Trust’s board of trustees out of assets legally available for the payment of distributions.

Table of Contents

On September 6, 2013, the Trust entered into sales agreements with two sales agents, pursuant to which the Trust may issue and sell up to $100.0 million in the aggregate of its common shares through a continuous at-the-market offering or other methods (the "ATM program"). The Trust did not sell any common shares under the ATM program during the six months ended June 30, 2017. As of June 30, 2017, $76.0 million of common shares remained available for issuance under the ATM program.

On September 29, 2015, the Trust's board of trustees authorized a share repurchase program pursuant to which the Trust may acquire up to $100.0 million of its common shares. The repurchase program authorizes the Trust to repurchase its common shares from time to time through open market purchases, negotiated transactions or other means, in accordance with applicable securities laws and other restrictions. The repurchase program expires in September 2018, but may be suspended or discontinued at any time, and does not obligate the Trust to acquire any particular amount of its shares. As of June 30, 2017, $100.0 million remained available for the repurchase of common shares.

For the six months ended June 30, 2017, the Trust issued 1,755 unrestricted common shares and 481,068 restricted common shares to its trustees and employees. For the six months ended June 30, 2017, the Trust repurchased 40,504 common shares from employees to satisfy the minimum statutory tax withholding requirements related to the vesting of their previously granted restricted common shares. As of June 30, 2017, the Trust had 60,114,283 common shares outstanding.

For the six months ended June 30, 2017, the Trust paid or its board of trustees declared the following dividends per common share:

	Record Date	Payment Date	Dividend Per Common Share
Fourth Quarter 2016	December 30, 2016	January 13, 2017	$ 0.40
First Quarter 2017	March 31, 2017	April 14, 2017	$ 0.40
Second Quarter 2017	June 30, 2017	July 14, 2017	$ 0.40

Preferred Shares—The Trust is authorized to issue up to 100,000,000 preferred shares, $.01 par value per share. The Trust's board of trustees is required to set for each class or series of preferred shares the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption. As of June 30, 2017, the Trust had 5,000,000 shares of its 7.75% Series A Cumulative Redeemable Preferred Shares outstanding.

Holders of Series A Cumulative Redeemable Preferred Shares are entitled to receive, when and as authorized by the Trust's board of trustees, out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 7.75% per annum of the $25.00 per share liquidation preference, equivalent to $1.9375 per annum per share. Dividends on the Series A Cumulative Redeemable Preferred Shares are cumulative from the date of original issuance and are payable quarterly in arrears on or about the 15th day of each of January, April, July and October. The Series A Cumulative Redeemable Preferred Shares rank senior to the Trust's common shares with respect to the payment of dividends; the Trust will not declare or pay any dividends, or set aside any funds for the payment of dividends, on its common shares unless the Trust also has declared and either paid or set aside for payment the full cumulative dividends on the Series A Cumulative Redeemable Preferred Shares.

For the six months ended June 30, 2017, the Trust paid or its board of trustees declared the following dividends per preferred share:

	Record Date	Payment Date	Dividend Per Series A Cumulative Redeemable Preferred Share
Fourth Quarter 2016	December 30, 2016	January 13, 2017	$ 0.484375

First Quarter 2017	March 31, 2017	April 14, 2017	$ 0.484375
Second Quarter 2017	June 30, 2017	July 14, 2017	$ 0.484375

9. Equity Plan

In January 2010, the Trust established the Chesapeake Lodging Trust Equity Plan (the “Plan”), which provides for the issuance of equity-based awards, including restricted shares, unrestricted shares, share options, share appreciation rights, and other awards based on the Trust’s common shares. Employees and trustees of the Trust and other persons that provide services to the Trust are eligible to participate in the Plan. The compensation committee of the board of trustees administers the Plan and determines the number of awards to be granted, the vesting period, and the exercise price, if any.

Shares that are issued under the Plan to any person pursuant to an award are counted against the aggregate number of shares available for issuance under the Plan as one share for every one share granted. If any shares covered by an award are not purchased or are forfeited, if an award is settled in cash, or if an award otherwise terminates without delivery of any shares, then the number of common shares counted against the aggregate number of shares available under the Plan with respect to the award will, to the extent of any such forfeiture or termination, again be available for making awards under the Plan. As of

June 30, 2017, subject to increases that may result in the case of any future forfeiture or termination of currently outstanding awards, 656,567 common shares were reserved and available for future issuances under the Plan.
The Trust will make appropriate adjustments to outstanding awards and the number of shares available for issuance under the Plan, including the individual limitations on awards, to reflect share dividends, share splits, spin-offs and other similar events. While the compensation committee can terminate or amend the Plan at any time, no amendment can adversely impair the rights of grantees with respect to outstanding awards. In addition, an amendment will be contingent on approval of the Trust's common shareholders to the extent required by law or if the amendment would materially increase the benefits accruing to participants under the Plan, materially increase the aggregate number of shares that can be issued under the Plan, or materially modify the requirements as to eligibility for participation in the Plan. Unless terminated earlier, the Plan will terminate in January 2020, but will continue to govern unexpired awards.
For the six months ended June 30, 2017, the Trust granted 481,068 restricted common shares to certain employees and trustees, of which 179,403 shares were time-based awards and 301,665 shares were performance-based awards (the "2017 Performance-Based Awards"). The time-based awards are generally eligible to vest at the annual rate of one-third of the number of restricted shares granted commencing on the first anniversary of their issuance. The 2017 Performance-Based Awards are eligible to vest at December 31, 2019. Dividends on the 2017 Performance-Based Awards accrue, but are not paid unless the related shares vest. The fair value of the 2017 Performance-Based Awards was $9.99 per share and was determined using a Monte Carlo simulation with the following assumptions: volatility of 24.16%; an expected term equal to the requisite service period for the awards; and a risk-free interest rate of 1.57%.
The actual number of shares under the 2017 Performance-Based Awards that vest will be based on the Trust's total shareholder return ("TSR"), as defined in the restricted share agreements, measured over a three-year performance period ending December 31, 2019, relative to the total return generated by a market-cap weighted index that includes nine lodging REITs (the "Performance Peer Group"). The payout schedule for the 2017 Performance-Based Awards is as follows, with linear interpolation for performance between 67% and 100%, and between 100% and 133% of the Performance Peer Group:

Trust TSR as % of Performance Peer Group Total Return	Payout (% of Maximum)
<67%	0%
67%	25%
100%	50%
≥133%	100%

If the Trust's TSR is negative for the performance period, no shares under the 2017 Performance-Based Awards will vest. If the Trust's TSR is positive for the performance period and the total return of the Performance Peer Group is negative, 100% of the shares subject to vesting under the 2017 Performance-Based Awards will vest.
As of June 30, 2017, there was approximately $11.0 million of unrecognized share-based compensation expense related to restricted common shares. The unrecognized share-based compensation expense is expected to be recognized over a weighted-average period of 2.0 years.
The following is a summary of the Trust's restricted common share activity for the six months ended June 30, 2017:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Restricted common shares as of December 31, 2016	775,984	$ 18.71
Granted	481,068	$ 15.89
Vested	(186,185)	$ 26.21
Forfeited	—	$ —
Restricted common shares as of June 30, 2017	1,070,867	$ 16.13

10. Fair Value Measurements and Derivative Instrument
The following table sets forth the Trust's financial assets and liabilities measured at fair value by level within the fair value hierarchy (in thousands). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Table of Contents

	Fair Value at June 30, 2017			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap (included within other liabilities)	$132	$ —	$ 132	$ —
	$132	$ —	$ 132	$ —

Derivative instruments are classified within Level 2 of the fair value hierarchy as they are valued using third-party pricing models which contain inputs that are derived from observable market data. Where possible, the values produced by the pricing models are verified to market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measures of volatility, and correlations of such inputs.
The Trust's financial instruments in addition to those disclosed in the table above include cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, and long-term debt. The carrying values reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued expenses approximate fair value. The Trust estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument using estimated market rates of debt instruments with similar maturities and credit profiles. These inputs are classified as Level 3 within the fair value hierarchy. As of June 30, 2017, the carrying value reported in the consolidated balance sheet for the Trust's long-term debt approximated its fair value.

11. Commitments and Contingencies

Management Agreements—The Trust's hotels operate pursuant to management agreements with various third-party management companies. Each management company receives a base management fee generally between 2% and 4% of hotel revenues. The management companies are also eligible to receive an incentive management fee if hotel operating income, as defined in the management agreements, exceeds certain performance thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Trust has received a priority return on its investment in the hotel.
Franchise Agreements—As of June 30, 2017, 12 of the Trust's hotels operated pursuant to franchise agreements with hotel brand companies and 10 hotels operated pursuant to management agreements with hotel brand companies that allowed them to operate under their respective brands. Under the 12 franchise agreements, the Trust generally pays a royalty fee ranging from 3% to 6% of room revenues and up to 3% of food and beverage revenues, plus additional fees for marketing, central reservation systems, and other franchisor costs that amount to between 1% and 5% of room revenues.
Ground Lease Agreements—The Trust leases the land underlying the Hyatt Regency Mission Bay Spa and Marina pursuant to a lease agreement, which has an initial term ending January 2056. Rent due under the lease agreement is the greater of base rent or percentage rent. Base rent is currently $2.3 million per year. Base rent resets every three years over the remaining term of the lease equal to 75% of the average of the actual rent paid over the two years preceding the base rent reset year. The next base rent reset year is 2019. Annual percentage rent is calculated based on various percentages of the hotel's various sources of revenue, including room, food and beverage, and marina rentals, earned during the period.
The Trust also leases the land underlying the JW Marriott San Francisco Union Square pursuant to a lease agreement, which has a term ending January 2083. Rent due under the lease agreement is the greater of base rent or percentage rent. Base rent is currently $1.7 million per year. Base rent resets every five years over the remaining term of the lease based on the level of inflation, as defined in the agreement, over the preceding five years, but in no event resulting in an increase of more than 125% of the base rent in effect immediately prior to the reset year (nor subject to any decrease). The next base rent reset year is 2019. In January 2034, base rent will reset to 10% of the fair market value of the underlying land as determined by a valuation performed by an independent third party, if such reset results in an increase over the base rent in effect immediately prior to the reset year. Annual percentage rent is calculated based on various percentages of the hotel's various sources of revenue, including room and food and beverage, earned during the period.

FF&E Reserves—Pursuant to its management, franchise and loan agreements, the Trust is required to establish a FF&E reserve for each hotel to cover the cost of replacing FF&E. Contributions to the FF&E reserve are based on a percentage of gross revenues at each hotel. The Trust is generally required to contribute between 3% and 5% of gross revenues over the term of the agreements.

Litigation—The Trust is not involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Trust.

Table of Contents

12. Subsequent Event

On July 17, 2017, the Trust redeemed all 5,000,000 shares of its issued and outstanding 7.75% Series A Cumulative Redeemable Preferred Shares at a redemption amount of $25.00 per share, plus accrued and unpaid dividends, with a borrowing under its revolving credit facility.

Table of Contents

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words, such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity,” and similar expressions, whethe negative or affirmative. We cannot guarantee that we actually will achieve these plans, intentions or expectations. All statements regarding our expected financial position, business and financing plans are forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- U.S. economic conditions generally and the real estate market and the lodging industry specifically;
- management and performance of our hotels;
- our plans for renovation of our hotels;
- our financing plans and the terms on which capital is available to us;
- supply and demand for hotel rooms in our current and proposed market areas;
- our ability to acquire additional hotels and the risk that potential acquisitions may not be completed or perform in accordance with expectations;
- legislative/regulatory changes, including changes to laws governing taxation of real estate investment trusts; and
- our competition.

These risks and uncertainties, together with the information contained in our Form 10-K for the year ended December 31, 2016 under the caption “Risk Factors,” should be considered in evaluating any forward-looking statement contained in this report or incorporated by reference herein. All forward-looking statements speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report, except as required by law.

Table of Contents

Overview

The Trust was organized as a self-advised REIT in the state of Maryland in June 2009, with a focus on investments primarily in upper-upscale hotels in major business and convention markets and, on a selective basis, premium select-service hotels in urban settings or unique locations in the U.S. We completed our IPO in January 2010 and own the following 22 hotels as of the date of this filing:

	Hotel	Location	Rooms	Acquisition Date
1	Hyatt Regency Boston	Boston, MA	502	March 18, 2010
2	Hilton Checkers Los Angeles	Los Angeles, CA	193	June 1, 2010
3	Boston Marriott Newton	Newton, MA	430	July 30, 2010
4	Le Meridien San Francisco	San Francisco, CA	360	December 15, 2010
5	Homewood Suites Seattle Convention Center	Seattle, WA	195	May 2, 2011
6	W Chicago – City Center	Chicago, IL	403	May 10, 2011
7	Hotel Indigo San Diego Gaslamp Quarter	San Diego, CA	210	June 17, 2011
8	Courtyard Washington Capitol Hill/Navy Yard	Washington, DC	204	June 30, 2011
9	Hotel Adagio San Francisco, Autograph Collection	San Francisco, CA	171	July 8, 2011
10	Denver Marriott City Center	Denver, CO	613	October 3, 2011
11	Hyatt Herald Square New York	New York, NY	122	December 22, 2011
12	W Chicago – Lakeshore	Chicago, IL	520	August 21, 2012
13	Hyatt Regency Mission Bay Spa and Marina	San Diego, CA	429	September 7, 2012
14	The Hotel Minneapolis, Autograph Collection	Minneapolis, MN	222	October 30, 2012
15	Hyatt Place New York Midtown South	New York, NY	185	March 14, 2013
16	W New Orleans – French Quarter	New Orleans, LA	97	March 28, 2013
17	Le Meridien New Orleans	New Orleans, LA	410	April 25, 2013
18	Hyatt Centric Fisherman's Wharf	San Francisco, CA	316	May 31, 2013
19	Hyatt Centric Santa Barbara	Santa Barbara, CA	200	June 27, 2013
20	JW Marriott San Francisco Union Square	San Francisco, CA	337	October 1, 2014
21	Royal Palm South Beach Miami, a Tribute Portfolio Resort	Miami Beach, FL	393	March 9, 2015
22	Ace Hotel and Theater Downtown Los Angeles	Los Angeles, CA	182	April 30, 2015
			6,694	

Hotel Operating Metrics

We believe that the results of operations of our hotels are best explained by five key performance indicators: occupancy, average daily rate ("ADR"), room revenue per available room ("RevPAR"), Adjusted Hotel EBITDA, and Adjusted Hotel EBITDA Margin. See the "Non-GAAP Financial Measures" section for additional information on Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin.

Occupancy is a major driver of room revenue, as well as other revenue categories, such as food and beverage and parking. Fluctuations in occupancy are accompanied by fluctuations in most categories of variable hotel operating expenses, such as utility costs and certain labor costs, such as housekeeping. ADR helps to drive room revenue as well; however, it does not have a direct effect on other revenue categories. Fluctuations in ADR are accompanied by fluctuations in limited categories of hotel operating expenses, such as management fees and franchise fees, since variable hotel operating expenses generally do not increase or decrease correspondingly. Thus, increases in RevPAR attributable to increases in occupancy typically result in varying levels of increases in Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin, while increases in RevPAR attributable to increases in ADR typically result in greater levels of increases in Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin.

Executive Summary

Our 22-hotel portfolio had a RevPAR decline of 3.7% during the second quarter of 2017 as compared to the second quarter of 2016, driven by a decrease in occupancy of 1.4 percentage points and a decrease in ADR of 2.1%. Our hotel portfolio underperformed the U.S. industry average RevPAR growth of 2.7%, as reported by STR. The underperformance was primarily a result of (1) several of our hotels undergoing guestroom renovations during the second quarter of 2017 which resulted in rooms out of service and thereby led to a decrease in occupancy at those

hotels and (2) continued pricing pressure from corporate transient customers across our portfolio. Given the decline in RevPAR, our hotel portfolio also experienced a decrease in Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin during the second quarter of 2017 as compared to the second quarter of 2016. We continue to aggressively asset manage our hotels, including working closely with our hotel operators to implement cost containment and cost reduction measures in order to mitigate the current challenging environment.

Our renovations of the Denver Marriott City Center and the Hyatt Regency Mission Bay Spa and Marina were completed during the second quarter of 2017 and our renovation of the Boston Marriott Newton was completed in July 2017. We began our renovation of the JW Marriott San Francisco Union Square in April 2017, however, we have since experienced unforeseen delays and now expect the renovation to be completed by the end of 2017. We expect the underperformance of our 22-hotel portfolio relative to the U.S. lodging industry to persist through the remainder of the year as a result of the expected negative impact on lodging demand in San Francisco (where approximately 18% of our hotel rooms are located) resulting from the temporary closure and expansion of the Moscone Center as well the expected negative impact on occupancy at our JW Marriott San Francisco Union Square. Although we expect these headwinds to continue in the near term, we believe they will provide tailwinds for our hotel portfolio for the coming several years as the renovated hotels will be better positioned in their respective markets with their enhanced product offerings and the expanded Moscone Center will enable San Francisco to attract larger city wide events and groups. We remain committed to maximizing cash flows at our hotels by driving optimum results and increasing operational efficiencies. Furthermore, we will continue to invest in our hotel portfolio to maintain its physical quality and positioning as well as pursue value-added projects. We believe our hotel portfolio, which is concentrated in the central business districts of top U.S. lodging markets, remains well positioned for future performance and long-term real estate value appreciation.

Results of Operations

Comparison of the three months ended June 30, 2017 and 2016

Results of operations for the three months ended June 30, 2017 and 2016 include the operating activity of all 22 hotels owned as of June 30, 2017 for the full periods.

Revenues—Total revenue for the three months ended June 30, 2017 and 2016 was $162.5 million and $169.4 million, respectively, a decrease of $7.0 million. Approximately 50% of the decrease was related to the Boston Marriott Newton and the JW Marriott San Francisco Union Square, both of which were undergoing guestroom renovations during the three months ended June 30, 2017. The remainder of the decrease was related to our hotels located in San Francisco, Miami, Chicago, Minneapolis and New Orleans. Demand from customers at our hotels located in San Francisco was negatively impacted by the temporary closure of the Moscone Center and the resultant decrease in citywide events and demand from customers at our Royal Palm South Beach Miami, a Tribute Portfolio Resort continues to be negatively impacted as a result of the Zika virus. The aforementioned decreases in total revenue were offset partially by increases in total revenue from our hotels located in Seattle, Los Angeles, and San Diego.

Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the three months ended June 30, 2017 and 2016 was $105.3 million and $106.7 million, respectively. The decrease in total hotel operating expenses of $1.4 million was primarily a result of the decrease in corresponding total revenue. Specifically driving the decrease in total hotel operating expenses were decreases in rooms expense, food and beverage expense, and the following indirect hotel operating expenses: general and administrative, sales and marketing, franchise fees and base and incentive management fees. Credit card commissions (included within general and administrative), franchise fees, and base management fees are all variable hotel operating expenses calculated as a percentage of revenue, and therefore, decreased commensurately with the decrease in total revenue. Incentive management fees is a variable hotel operating expense directly associated with levels of profitability, and therefore, decreased commensurately with the decrease in profitability associated with the decrease in total revenue. The decreases in the aforementioned expenses were partially offset by increases in the following indirect hotel operating expenses: repairs and maintenance, utilities, and property taxes.

Depreciation and amortization—Depreciation and amortization expense for the three months ended June 30, 2017 and 2016 was $19.1 million and $18.6 million, respectively. The increase in depreciation and amortization expense was primarily attributable to routine capital expenditures made since June 30, 2016.

Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the three months ended June 30, 2017 and 2016 was $0.1 million.

Corporate general and administrative—Corporate general and administrative expense for the three months ended June 30, 2017 and 2016 was $4.6 million and $4.7 million, respectively. Included in corporate general and administrative expense for the three months ended June 30, 2017 and 2016 was $1.9 million and $2.4 million,

respectively, of non-cash share-based compensation expense. The decrease in non-cash share-based compensation expense related to a decrease in the number of annual tranches of restricted common shares previously granted to employees being amortized during the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. The aforementioned decrease in non-cash share-based compensation expense was partially offset by an increase in accrued incentive compensation for employees.

Interest expense—Interest expense for the three months ended June 30, 2017 and 2016 was $8.2 million and $7.6 million, respectively. The increase in interest expense was primarily related to an increase in the weighted-average interest rate during the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. The increase in the weighted-

Table of Contents

average interest rate was a result of several longer-term financings entered into during and subsequent to the three months ended June 30, 2016.

Gain on sale of hotel—Gain on sale of hotel for the three months ended June 30, 2016 was $0.6 million and related to the sale of the separate, five-room villa building and related land parcel at the Hyatt Centric Santa Barbara in April 2016.

Income tax expense—Income tax expense for the three months ended June 30, 2017 and 2016 was $3.4 million and $3.8 million, respectively. Income tax expense is directly related to taxable income generated by our TRSs during the period.

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

Results of operations for the six months ended June 30, 2017 and 2016 include the operating activity of all 22 hotels owned as of June 30, 2017 for the full periods.

Revenues—Total revenue for the six months ended June 30, 2017 and 2016 was $297.3 million and $310.0 million, respectively, a decrease of $12.7 million. Approximately 47% of the decrease was related to the Denver Marriott City Center, the Hyatt Regency Mission Bay Spa and Marina, the Boston Marriott Newton and the JW Marriott San Francisco Union Square, all of which were undergoing guestroom renovations during all or a portion of the six months ended June 30, 2017. The remainder of the decrease was related to our hotels located in San Francisco, Miami, Chicago, Minneapolis and New Orleans. Demand from customers at our hotels located in San Francisco was negatively impacted by the temporary closure of the Moscone Center and the resultant decrease in citywide events and demand from customers at our Royal Palm South Beach Miami, a Tribute Portfolio Resort continues to be negatively impacted as a result of the Zika virus. The aforementioned decreases in total revenue were offset partially by increases in total revenue from our hotels located in Seattle, San Diego, and Washington, DC.

Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the six months ended June 30, 2017 and 2016 was $204.1 million and $207.1 million, respectively. The decrease in total hotel operating expenses of $3.0 million was primarily a result of the decrease in corresponding total revenue. Specifically driving the decrease in total hotel operating expenses were decreases in rooms expense, food and beverage expense, and the following indirect hotel operating expenses: general and administrative, sales and marketing, franchise fees and base and incentive management fees. Credit card commissions (included within general and administrative), franchise fees, and base management fees are all variable hotel operating expenses calculated as a percentage of revenue, and therefore, decreased commensurately with the decrease in total revenue. Incentive management fees is a variable hotel operating expense directly associated with levels of profitability, and therefore, decreased commensurately with the decrease in profitability associated with the decrease in total revenue. The decreases in the aforementioned expenses were partially offset by increases in the following indirect hotel operating expenses: repairs and maintenance, utilities, and property taxes. The increase in property taxes is largely related to a reassessment during the six months ended June 30, 2017 of the real property value of our JW Marriott San Francisco Union Square as a result of our acquisition of the hotel in October 2014.

Depreciation and amortization—Depreciation and amortization expense for the six months ended June 30, 2017 and 2016 was $37.9 million and $37.1 million, respectively. The increase in depreciation and amortization expense was primarily attributable to routine capital expenditures made since June 30, 2016.

Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the six months ended June 30, 2017 and 2016 was $0.3 million.

Corporate general and administrative—Corporate general and administrative expense for the six months ended June 30, 2017 and 2016 was $9.6 million and $10.0 million, respectively. Included in corporate general and administrative expense for the six months ended June 30, 2017 and 2016 was $3.8 million and $4.8 million, respectively, of non-cash share-based compensation expense. The decrease in non-cash share-based compensation expense related to a decrease in the number of annual tranches of restricted common shares previously granted to employees being amortized during the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The aforementioned decrease in non-cash share-based compensation expense was partially offset by an increase in accrued incentive compensation for employees.

Interest expense—Interest expense for the six months ended June 30, 2017 and 2016 was $16.0 million and $15.8 million, respectively.

Gain on sale of hotel—Gain on sale of hotel for the six months ended June 30, 2016 was $0.6 million and related to the sale of the separate, five-room villa building and related land parcel at the Hyatt Centric Santa Barbara in April 2016.

Income tax benefit (expense)—Income tax benefit for the six months ended June 30, 2017 was $0.1 million and income tax expense for the six months ended June 30, 2016 was $1.8 million. Income tax benefit (expense) is directly related to taxable losses (income) generated by our TRSs during the period.

Table of Contents

Hotel operating results

Included in the following table are comparisons of occupancy, ADR, RevPAR, Adjusted Hotel EBITDA, and Adjusted Hotel EBITDA Margin for the 22-hotel portfolio for the three and six months ended June 30, 2017 and 2016 (in thousands, except for ADR and RevPAR):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Occupancy	86.7%	88.1 %	(140) bps	81.6%	83.4 %	(180) bps
ADR	$231.62	$236.69	(2.1)%	$223.73	$227.05	(1.5)%
RevPAR	$200.72	$208.43	(3.7)%	$182.54	$189.39	(3.6)%
Adjusted Hotel EBITDA	$56,957	$62,597	(9.0)%	$92,944	$102,648	(9.5)%
Adjusted Hotel EBITDA Margin	35.1%	36.9 %	(180) bps	31.3%	33.1 %	(180) bps

Non-GAAP Financial Measures

Non-GAAP financial measures are measures of our historical financial performance that are different from measures calculated and presented in accordance with U.S. generally accepted accounting principles. We report the following eight non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: (1) Hotel EBITDA, (2) Adjusted Hotel EBITDA, (3) Adjusted Hotel EBITDA Margin, (4) Corporate EBITDA, (5) Adjusted Corporate EBITDA, (6) Funds from operations (FFO), (7) FFO available to common shareholders, and (8) Adjusted FFO (AFFO) available to common shareholders.

Hotel EBITDA—Hotel EBITDA is defined as net income before interest, income taxes, depreciation and amortization, air rights amortization, corporate general and administrative, and hotel acquisition costs. The Trust believes that Hotel EBITDA provides investors a useful financial measure to evaluate the Trust's hotel operating performance, excluding the impact of the Trust's capital structure (primarily interest), the Trust's asset base (primarily depreciation and amortization), and the Trust's corporate-level expenses (corporate general and administrative and hotel acquisition costs).

Adjusted Hotel EBITDA—We further adjust Hotel EBITDA for certain additional recurring and non-recurring items. Specifically, we adjust for non-cash amortization of intangible assets and liabilities, including ground lease assets and unfavorable contract liabilities, deferred franchise costs, and deferred key money, all of which are recurring items, and gains (losses) from sales of real estate, which is a non-recurring item. We believe that Adjusted Hotel EBITDA provides investors with another useful financial measure to evaluate our hotel operating performance, excluding the effect of these non-cash items.

Adjusted Hotel EBITDA Margin—Adjusted Hotel EBITDA Margin is defined as Adjusted Hotel EBITDA as a percentage of total revenues. We believe that Adjusted Hotel EBITDA Margin provides investors another useful measure to evaluate our hotel operating performance.

The following table reconciles net income to Hotel EBITDA, Adjusted Hotel EBITDA, and Adjusted Hotel EBITDA Margin for the 22-hotel portfolio for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$21,661	$28,542	$29,680	$38,612
Add: Interest expense	8,171	7,560	15,969	15,770
Income tax expense (benefit)	3,407	3,774	(120)	1,820
Depreciation and amortization	19,096	18,610	37,883	37,094
Air rights contract amortization	130	130	260	260
Corporate general and administrative	4,647	4,734	9,582	10,000
Hotel EBITDA	57,112	63,350	93,254	103,556
Less: Non-cash amortization[(1)]	(155)	(155)	(310)	(310)
Gain of sale of hotel	—	(598)	—	(598)

Adjusted Hotel EBITDA	56,957	62,597	92,944	102,648
Total revenue	$162,461	$169,431	$297,335	$310,042
Adjusted Hotel EBITDA Margin	35.1 %	36.9 %	31.3 %	33.1 %

(1) Reflects non-cash amortization of ground lease asset, deferred franchise costs, deferred key money, and unfavorable contract liability.

22

Table of Contents

Corporate EBITDA—Corporate EBITDA is defined as net income before interest, income taxes, and depreciation and amortization. We believe that Corporate EBITDA provides investors a useful financial measure to evaluate our operating performance, excluding the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization).

Adjusted Corporate EBITDA—We further adjust Corporate EBITDA for certain additional recurring and non-recurring items. Specifically, we adjust for hotel acquisition costs and non-cash amortization of intangible assets and liabilities, including air rights contracts, ground lease assets and unfavorable contract liabilities, deferred franchise costs, and deferred key money, all of which are recurring items, and gains (losses) from sales of real estate, which is a non-recurring item. We believe that Adjusted Corporate EBITDA provides investors with another financial measure of our operating performance that provides for greater comparability of our core operating results between periods.

The following table reconciles net income to Corporate EBITDA and Adjusted Corporate EBITDA for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$21,661	$28,542	$29,680	$38,612
Add: Interest expense	8,171	7,560	15,969	15,770
Income tax expense (benefit)	3,407	3,774	(120)	1,820
Depreciation and amortization	19,096	18,610	37,883	37,094
Corporate EBITDA	52,335	58,486	83,412	93,296
Less: Non-cash amortization[1]	(25)	(25)	(50)	(50)
Gain on sale of hotel	—	(598)	—	(598)
Adjusted Corporate EBITDA	$52,310	$57,863	$83,362	$92,648

(1) Reflects non-cash amortization of ground lease asset, deferred franchise costs, deferred key money, unfavorable contract liability, and air rights contract.

FFO—We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (“NAREIT”), which defines FFO as net income (calculated in accordance with GAAP), excluding depreciation and amortization, impairment charges of depreciable real estate, gains (losses) from sales of real estate, the cumulative effect of changes in accounting principles, and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most industry investors consider presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. By excluding the effect of depreciation and amortization and gains (losses) from sales of real estate, both of which are based on historical cost accounting and which may be of lesser significance in evaluating current performance, we believe that FFO provides investors a useful financial measure to evaluate our operating performance.

FFO available to common shareholders—We reduce FFO for preferred share dividends, write-off of issuance costs of redeemed preferred shares, and dividends declared on and earnings allocated to unvested time-based awards (consistent with adjustments required by GAAP in reporting net income available to common shareholders and related per share amounts). FFO available to common shareholders provides investors another financial measure to evaluate our operating performance after taking into account the interests of holders of our preferred shares and unvested time-based awards.

AFFO available to common shareholders—We further adjust FFO available to common shareholders for certain additional recurring and non-recurring items that are not in NAREIT’s definition of FFO. Specifically, we adjust for hotel acquisition costs and non-cash amortization of intangible assets and liabilities, including air rights contracts, ground lease assets and unfavorable contract liabilities, deferred franchise costs, and deferred key money, all of which are recurring items, and the write-off of issuance costs of redeemed preferred shares, which is a non-recurring item. We believe that AFFO available to common shareholders provides investors with another financial measure of our operating performance that provides for greater comparability of our core operating results between periods.

Table of Contents

The following table reconciles net income to FFO, FFO available to common shareholders, and AFFO available to common shareholders for the three and six months ended June 30, 2017 and 2016 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$21,661	$28,542	$29,680	$38,612
Add: Depreciation and amortization	19,096	18,610	37,883	37,094
Less: Gain on sale of hotel	—	(598)	—	(598)
FFO	40,757	46,554	67,563	75,108
Less: Preferred share dividends	(2,422)	(2,422)	(4,844)	(4,844)
Dividends declared on unvested time-based awards	(123)	(146)	(247)	(289)
Undistributed earnings allocated to unvested time-based awards	—	(15)	—	—
FFO available to common shareholders	38,212	43,971	62,472	69,975
Less: Non-cash amortization[1]	(25)	(25)	(50)	(50)
AFFO available to common shareholders	$38,187	$43,946	$62,422	$69,925
FFO available per common share—basic and diluted	$0.65	$0.75	$1.06	$1.19
AFFO available per common share—basic and diluted	$0.65	$0.75	$1.06	$1.19

(1) Reflects non-cash amortization of ground lease asset, deferred franchise costs, deferred key money, unfavorable contract liability, and air rights contract.

None of Hotel EBITDA, Adjusted Hotel EBITDA, Corporate EBITDA, Adjusted Corporate EBITDA, FFO, FFO available to common shareholders, or AFFO available to common shareholders represent cash generated from operating activities as determined by GAAP, nor shall any of these measures be considered as an alternative to GAAP net income (loss), as an indication of our financial performance, or to GAAP cash flow from operating activities, as a measure of liquidity. In addition, Hotel EBITDA, Adjusted Hotel EBITDA, Corporate EBITDA, Adjusted Corporate EBITDA, FFO, FFO available to common shareholders, and AFFO available to common shareholders are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Sources and Uses of Cash

For the six months ended June 30, 2017, net cash flows from operating activities were $63.3 million; net cash flows used in investing activities were $24.0 million, including $28.9 million for improvements and additions to our hotels, offset by a decrease in restricted cash of $4.9 million; and net cash flows used in financing activities were $22.4 million, including $131.3 million in scheduled principal payments on mortgage debt, net repayment of $60.0 million under our revolving credit facility, and $53.3 million in dividend payments to common and preferred shareholders, offset by proceeds of $225.0 million from the issuance of an unsecured term loan. As of June 30, 2017, we had cash and cash equivalents of $59.9 million.

Liquidity and Capital Resources

We expect our primary source of cash to meet operating requirements, including payment of dividends in accordance with the REIT requirements of the U.S. federal income tax laws, payment of interest on any borrowings and funding of any capital expenditures, will be from our hotels' results of operations and existing cash and cash equivalent balances. We currently expect that our operating cash flows will be sufficient to fund our continuing operations. We also expect to use existing restricted cash balances and borrowings under our revolving credit facility to partially fund any capital expenditures. We intend to incur indebtedness to supplement our investment capital and to maintain flexibility to respond to industry conditions and opportunities. We are targeting an overall debt level of approximately 40% of the aggregate value of all of our hotels, as calculated in accordance with our revolving credit facility; as of June 30, 2017, our overall debt level was 34.6% under this calculation.

We expect to meet long-term liquidity requirements, such as new hotel acquisitions and scheduled debt maturities, through additional secured and unsecured borrowings and the issuance of equity securities. Our ability to raise funds through the issuance of equity securities depends on, among other things, general market conditions for hotel companies and REITs and market perceptions about us. We will continue to analyze alternative sources of capital in an effort to minimize our capital costs and maximize our financial flexibility.

We expect to continue declaring distributions to shareholders, as required to maintain our REIT status, although no assurances can be made that we will continue to generate sufficient income to distribute similar aggregate amounts in the future.

Table of Contents

The per share amounts of future distributions will depend on the number of our common and preferred shares outstanding from time to time and will be determined by our board of trustees following its periodic review of our financial performance and capital requirements, and the terms of our existing borrowing arrangements.
On July 17, 2017, we redeemed all 5,000,000 shares of our issued and outstanding 7.75% Series A Cumulative Redeemable Preferred Shares at a redemption amount of $25.00 per share, plus accrued and unpaid dividends, with a borrowing under our revolving credit facility.
As of the date of this filing, we have approximately $38 million of cash and cash equivalents, approximately $31 million of restricted cash, and total borrowing availability of $300.0 million under our revolving credit facility, of which $175.0 million remained available. See Note 6, “Long-Term Debt,” to our interim consolidated financial statements for additional information relating to our revolving credit facility and other long-term debt.

Capital Expenditures
We maintain each hotel in good repair and condition and in conformity with applicable laws and regulations and in accordance with the franchisor’s standards and the agreed-upon requirements in our management and loan agreements. The cost of all such routine improvements and alterations will be paid out of property improvement reserves, which will be funded by a portion of each hotel’s gross revenues. Routine capital expenditures will be administered by the management companies. However, we will have approval rights over the capital expenditures as part of the annual budget process.
From time to time, certain of our hotels may be undergoing renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, meeting space, and/or restaurants, in order to better compete with other hotels in our markets. As of June 30, 2017, none of our hotels were undergoing comprehensive renovations. In addition, often after we acquire a hotel, we are required to complete a PIP in order to bring the hotel up to the respective franchisor’s standards. If permitted by the terms of the management agreement, funding for a renovation will first come from the FF&E reserve. To the extent that the FF&E reserve is not adequate to cover the cost of the renovation, we will fund the remaining portion of the renovation with cash and cash equivalents or available borrowings under our revolving credit facility.

Contractual Obligations
The following table sets forth our contractual obligations as of June 30, 2017, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands). There were no other material off-balance sheet arrangements at June 30, 2017.

	Payments Due by Period				
Contractual Obligations	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Revolving credit facility, including interest[1]	$—	$ —	$ —	$ —	$ —
Term loan, including interest[1]	261,993	7,560	15,141	239,292	—
Secured loans, including interest	685,565	35,772	119,288	128,521	401,984
Corporate office leases	1,540	321	593	626	—
Ground leases[2]	207,539	4,101	8,201	8,207	187,030
	$1,156,637	$ 47,754	$ 143,223	$ 376,646	$ 589,014

(1) Assumes no additional borrowings and interest payments are based on the interest rate in effect at June 30, 2017. Also assumes that no extension options, if any, are exercised. See Note 6, “Long-Term Debt,” to our interim consolidated financial statements for additional information relating to our revolving credit facility and term loan.

(2) The ground leases for the Hyatt Regency Mission Bay Spa and Marina and the JW Marriott San Francisco Union Square provide for the greater of base or percentage rent, subject to potential increases over the term of the leases. Amounts assume only base rent for all periods presented and do not assume any adjustments for potential increases.

Inflation

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates.

Seasonality

Demand in the lodging industry is affected by recurring seasonal patterns. For non-resort properties, demand is generally lower in the winter months due to decreased travel and higher in the spring and summer months during the peak travel season.

Table of Contents

For resort properties, demand is generally higher in the winter months. We expect that our operations will generally reflect non-resort seasonality patterns. Accordingly, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters. These general trends are, however, expected to be greatly influenced by overall economic cycles.

Critical Accounting Policies

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

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies," to our interim consolidated financial statements for additional information relating to recent accounting pronouncements, if any.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We earn interest income primarily from cash and cash equivalent balances. Based on our cash and cash equivalents as of June 30, 2017, if interest rates increase or decrease by 1.00%, our interest income will increase or decrease by approximately $0.6 million annually.

Amounts borrowed under our revolving credit facility currently bear interest at variable rates based on LIBOR plus 1.55% - 2.30% (the spread over LIBOR based on our consolidated leverage ratio). If prevailing LIBOR on any outstanding borrowings under our revolving credit facility were to increase or decrease, our interest expense on those outstanding borrowings would increase or decrease future earnings and cash flows. As of June 30, 2017, we had no outstanding borrowings under our revolving credit facility.

Item 4. Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Trust have evaluated the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act, and have concluded that as of the end of the period covered by this report, the Trust's disclosure controls and procedures were effective at a reasonable assurance level.

There was no change in the Trust's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during the Trust's most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting.

Table of Contents

PART II

Item 1. Legal Proceedings

We are not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed under the caption "Risk Factors" in the Trust's Form 10-K for the year ended December 31, 2016.

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

Issuer Purchases of Equity Securities

The following table provides information about our purchase of our common shares during the three months ended June 30, 2017 (in thousands, except share and per share data):

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[2]
April 1, 2017 – April 30, 2017	538	$ 23.69	—	$ 100,000
May 1, 2017 – May 31, 2017	—	$ —	—	$ 100,000
June 1, 2017 – June 30, 2017	—	$ —	—	$ 100,000
	538	$ 23.69	—	

(1) We provide employees, who have been issued restricted common shares, the option of selling shares to us to satisfy the minimum statutory tax withholding requirements on the date their shares vest. The common shares repurchased during the three months ended June 30, 2017 related to such repurchases.

(2) On September 29, 2015, our board of trustees authorized a share repurchase program pursuant to which we may acquire up to $100.0 million of our common shares. The repurchase program expires in September 2018, but may be suspended or discontinued at any time, and does not obligate us to acquire any particular amount of our shares. As of June 30, 2017, we have not repurchased any common shares under the share repurchase program.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

The following exhibits are filed as part of this Form 10-Q:

Exhibit Number	Description of Exhibit
3.1	Articles of Amendment to Articles of Amendment and Restatement of Declaration of Trust (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 22, 2017)
10.1	First Amendment to Fourth Amended and Restated Credit Agreement, dated April 21, 2017, by and among Chesapeake Lodging, L.P., as borrower, the financial institutions party thereto and their assignees under Section 13.6, as lenders, and Wells Fargo Bank, N.A., as administrative agent
10.2	Term Loan Agreement, dated April 21, 2017, by and among Chesapeake Lodging, L.P., as borrower, the financial institutions party thereto and their assignees under Section 13.6, as lenders, and Wells Fargo Bank, N.A., as administrative agent
31.1	Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Executive Vice President and Chief Financial Officer
32.1	Section 1350 Certification of President and Chief Executive Officer
32.2	Section 1350 Certification of Executive Vice President and Chief Financial Officer
101.INS XBRL	Instance Document
101.SCH XBRL	Taxonomy Extension Schema Document
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document
101.LAB XBRL	Taxonomy Extension Label Linkbase Document
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURES

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, thereunto duly authorized.

CHESAPEAKE LODGING TRUST

Date:	August 2, 2017	By:	/S/ DOUGLAS W. VICARI Douglas W. Vicari Executive Vice President and Chief Financial Officer (Principal Financial Officer)
			/S/ GRAHAM J. WOOTTEN Graham J. Wootten Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)