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Chesapeake Lodging Trust
Form 10-Q
July 29, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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 (I.R.S. Employer
incorporation or organization) Identification No.)
1997 Annapolis Exchange Parkway, Suite 410 Annapolis, Maryland 21401
(Address of principal executive offices) (Zip Code)
(410) 972-4140
(Registrant's telephone number, including area code)

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

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

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

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

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

As of July 22, 2016, there were 60,101,531 shares of the registrant's common shares issued and outstanding.

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PART I

Item 1. Financial Statements

CHESAPEAKE LODGING TRUST
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Property and equipment, net	\$1,897,638	\$1,926,944
Intangible assets, net	36,124	36,414
Cash and cash equivalents	55,512	50,544
Restricted cash	44,231	40,361
Accounts receivable, net of allowance for doubtful accounts of \$138 and \$172, respectively	25,307	15,603
Prepaid expenses and other assets	21,024	17,900
Total assets	\$2,079,836	\$2,087,766
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt	\$766,667	\$769,748
Accounts payable and accrued expenses	67,896	62,683
Other liabilities	45,566	45,778
Total liabilities	880,129	878,209
Commitments and contingencies (Note 12)		
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; 60,101,531 shares and 59,659,522 shares issued and outstanding, respectively	601	597
Additional paid-in capital	1,302,443	1,297,877
Cumulative dividends in excess of net income	(102,981)	(88,675)
Accumulated other comprehensive loss	(406)	(292)
Total shareholders' equity	1,199,707	1,209,557
Total liabilities and shareholders' equity	\$2,079,836	\$2,087,766

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
REVENUE				
Rooms	\$126,967	\$122,966	\$230,739	\$204,560
Food and beverage	35,664	33,014	66,219	56,412
Other	6,800	6,165	13,084	10,463
Total revenue	169,431	162,145	310,042	271,435
EXPENSES				
Hotel operating expenses:				
Rooms	27,876	26,144	53,377	47,244
Food and beverage	24,111	23,495	46,877	41,961
Other direct	1,589	1,906	3,147	3,239
Indirect	53,103	51,024	103,683	94,029
Total hotel operating expenses	106,679	102,569	207,084	186,473
Depreciation and amortization	18,610	17,929	37,094	32,856
Air rights contract amortization	130	130	260	260
Corporate general and administrative	4,734	4,498	10,000	9,075
Hotel acquisition costs	—	466	—	835
Total operating expenses	130,153	125,592	254,438	229,499
Operating income	39,278	36,553	55,604	41,936
Interest expense	(7,560)	(8,168)	(15,770)	(15,347)
Gain on sale of hotel	598	—	598	—
Income before income taxes	32,316	28,385	40,432	26,589
Income tax expense	(3,774)	(4,340)	(1,820)	(992)
Net income	28,542	24,045	38,612	25,597
Preferred share dividends	(2,422)	(2,422)	(4,844)	(4,844)
Net income available to common shareholders	\$26,120	\$21,623	\$33,768	\$20,753
Net income available per common share:				
Basic	\$0.44	\$0.37	\$0.57	\$0.36
Diluted	\$0.44	\$0.36	\$0.57	\$0.36

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

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

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$28,542	\$24,045	\$38,612	\$25,597
Other comprehensive income (loss):				
Unrealized losses on cash flow hedge instruments	(116)	(189)	(434)	(936)
Reclassification of unrealized losses on cash flow hedge instruments to interest expense	157	240	320	301
Comprehensive income	\$28,583	\$24,096	\$38,498	\$24,962

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

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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 in Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balances at December 31, 2015	5,000,000	\$ 50	59,659,522	\$ 597	\$1,297,877	\$(88,675)	\$(292)	\$1,209,557
Repurchase of common shares	—	—	(7,854)	—	(194)	—	—	(194)
Issuance of restricted common shares	—	—	448,146	4	(4)	—	—	—
Issuance of unrestricted common shares	—	—	1,717	—	42	—	—	42
Amortization of deferred compensation	—	—	—	—	4,722	—	—	4,722
Declaration of dividends on common shares	—	—	—	—	—	(48,074)	—	(48,074)
Declaration of dividends on preferred shares	—	—	—	—	—	(4,844)	—	(4,844)
Net income	—	—	—	—	—	38,612	—	38,612
Other comprehensive loss	—	—	—	—	—	—	(114)	(114)
Balances at June 30, 2016	5,000,000	\$ 50	60,101,531	\$ 601	\$1,302,443	\$(102,981)	\$(406)	\$1,199,707

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$38,612	\$25,597
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,094	32,856
Air rights contract amortization	260	260
Deferred financing costs amortization	936	939
Gain on sale of hotel	(598)	—
Share-based compensation	4,764	3,743
Other	(442)	(392)
Changes in assets and liabilities:		
Accounts receivable, net	(9,704)	(13,309)
Prepaid expenses and other assets	(3,126)	(6,584)
Accounts payable and accrued expenses	4,407	6,403
Other liabilities	(22)	5,981
Net cash provided by operating activities	72,181	55,494
Cash flows from investing activities:		
Acquisition of hotels, net of cash acquired	—	(255,249)
Disposition of hotel, net of cash sold	2,028	—
Improvements and additions to hotels	(9,217)	(24,361)
Change in restricted cash	(3,870)	4,841
Net cash used in investing activities	(11,059)	(274,769)
Cash flows from financing activities:		
Proceeds from sale of common shares, net of underwriting fees	—	153,962
Payment of offering costs related to sale of common shares	—	(254)
Borrowings under revolving credit facility	130,000	310,000
Repayments under revolving credit facility	(190,000)	(175,000)
Proceeds from issuance of mortgage debt	150,000	—
Principal prepayment on mortgage debt	(88,190)	—
Scheduled principal payments on mortgage debt	(4,877)	(5,103)
Payment of deferred financing costs	(844)	(2,302)
Payment of dividends to common shareholders	(47,205)	(36,906)
Payment of dividends to preferred shareholders	(4,844)	(4,844)
Repurchase of common shares	(194)	(1,690)
Net cash provided by (used in) financing activities	(56,154)	237,863
Net increase in cash	4,968	18,588
Cash and cash equivalents, beginning of period	50,544	29,326
Cash and cash equivalents, end of period	\$55,512	\$47,914
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$15,251	\$14,065
Cash paid for income taxes	\$1,605	\$2,140
Assumption of mortgage debt related to hotel acquisition	\$—	\$125,000

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

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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, 2016, 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 as a result of adopting a new accounting pronouncement relating to debt issuance costs. See "Recent Accounting Pronouncements" for additional information.

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, 2015.

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.

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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, 2016 and 2015.

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, 2016, 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 the 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.

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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 April 2015, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance for the presentation of debt issuance costs in the consolidated balance sheets. Under the new accounting guidance, debt issuance costs are shown as a direct deduction from the related debt liability rather than as an asset in the consolidated balance sheet. The amortization of the costs will continue to be included in interest expense in the consolidated statement of operations. The new accounting guidance is effective for interim and annual periods beginning on or after December 15, 2015 and is to be applied on a retrospective basis. The Trust adopted the new accounting guidance on January 1, 2016. As a result, \$6.5 million of unamortized deferred financing costs, which was previously presented as an asset as of December 31, 2015, is now presented within long-term debt. This reclassification had no effect on previously reported results of operations or retained earnings. The Trust does not believe that the adoption of this guidance has a material impact on the consolidated financial statements.

3. Acquisitions

The Trust has acquired the following hotels since January 1, 2015 (in thousands, except rooms data):

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Hotel	Location	Rooms	Net Assets Acquired	Acquisition Date
Royal Palm South Beach Miami, a Tribute Portfolio Resort ⁽¹⁾	Miami Beach, FL	393	\$153,662	March 9, 2015
Ace Hotel and Theater Downtown Los Angeles	Los Angeles, CA	182	101,687	April 30, 2015
		575	\$255,349	

As part of the acquisition, the Trust assumed a \$125.0 million term loan with a carrying value that approximated its (1) fair value at the date of acquisition. See Note 7, "Long-Term Debt," for additional information related to the term loan.

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The allocation of the purchase prices to the assets acquired and liabilities assumed based on their fair values was as follows (in thousands):

	2015
	Acquisitions
Land and land improvements	\$ 64,462
Buildings	294,498
Furniture, fixtures and equipment	20,518
Cash	100
Accounts receivable, net	1,823
Prepaid expenses and other assets	3,162
Accounts payable and accrued expenses	(4,089)
Other liabilities	(125)
Mortgage loan	(125,000)
Net assets acquired	\$ 255,349

4. 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.

5. Property and Equipment

Property and equipment as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Land and land improvements	\$319,020	\$319,702
Buildings and leasehold improvements	1,630,010	1,628,124
Furniture, fixtures and equipment	193,847	191,092
Construction-in-progress	7,010	3,276
	2,149,887	2,142,194
Less: accumulated depreciation and amortization	(252,249)	(215,250)
Property and equipment, net	\$1,897,638	\$1,926,944

6. Intangible Assets and Liability

Intangible assets and liability as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
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	(3,549)	(3,259)
Intangible assets, net	\$36,124	\$36,414
Intangible liability:		
Unfavorable contract liability ⁽²⁾	\$14,236	\$14,236
Less: accumulated amortization	(1,865)	(1,668)
Intangible liability, net (included within other liabilities)	\$12,371	\$12,568

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(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.

7. Long-Term Debt

Long-term debt as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	Origination	Original Principal Amount	Maturity	Interest Rate	Principal Amortization Period	June 30, 2016	December 31, 2015
Revolving credit facility ⁽¹⁾	July 2010	n/a	March 2019	Floating	n/a	\$ 50,000	\$ 110,000
Term loan:							
Royal Palm South Beach Miami, a Tribute Portfolio Resort ⁽²⁾	March 2015	\$125,000	March 2017	Floating	n/a	125,000	125,000
Other mortgage loans:							
Hyatt Regency Boston ⁽³⁾	June 2011	\$95,000	July 2016	5.01%	30	—	88,601
Courtyard Washington Capitol Hill/Navy Yard ⁽⁴⁾	June 2011	\$37,497	November 2016	5.90%	30	34,099	34,491
Boston Marriott Newton	May 2013	\$60,000	June 2020	3.63%	25	55,425	56,221
Le Meridien San Francisco	July 2013	\$92,500	August 2020	3.50%	25	85,738	86,979
Denver Marriott City Center ⁽⁵⁾	July 2012	\$70,000	August 2022	4.90%	30	65,674	66,285
Hilton Checkers Los Angeles	February 2013	\$32,000	March 2023	4.11%	30	30,185	30,480
W Chicago – City Center	July 2013	\$93,000	August 2023	4.25%	25	86,877	88,008
Hyatt Herald Square New York/Hyatt Place New York Midtown South ⁽⁶⁾	July 2014	\$90,000	July 2024	4.30%	30	90,000	90,000
Hyatt Regency Boston	June 2016	\$150,000	July 2026	4.25%	30	150,000	—
Unamortized premium ⁽⁴⁾						772,998	776,065
Unamortized deferred financing costs						70	176
						(6,401)	(6,493)

Long-term debt \$766,667 \$769,748

The Trust may exercise an option to extend the maturity by one year, subject to certain customary conditions. As of (1) June 30, 2016, the interest rate in effect was 2.01%. See below for additional information related to the revolving credit facility.

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 provides for a new two-year term and, subject to certain customary conditions, an option to extend the maturity by one year. The term loan bears interest equal to (2) 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 pays fixed interest of 0.94% per annum on a notional amount of \$125.0 million and receives floating rate interest equal to one-month LIBOR. The effective date of this interest rate swap is March 9, 2015 and it matures on March 9, 2017.

(3) On April 6, 2016, the Trust prepaid without penalty this mortgage loan.

On June 30, 2011, in connection with the acquisition of the Courtyard Washington Capitol Hill/Navy Yard, the Trust assumed an existing loan agreement with an outstanding principal balance of \$37.5 million. Based on interest rates on similar types of debt instruments at the time of assumption, the Trust recorded the loan at its estimated fair value of \$38.6 million, which included a premium on mortgage loan of \$1.1 million. Amortization of premium on mortgage loan is computed using a method that approximates the effective interest method over the term of the loan agreement and is included in interest expense in the interim consolidated statements of operations. (4)

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- (5) 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.
- (6) The loan requires interest-only payments for the first two years and principal and interest payments thereafter.

Revolving credit facility

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.

The amount that the Trust can borrow under the revolving credit facility is based on the value of the Trust's hotels included in the borrowing base, as defined in the amended credit agreement. As of June 30, 2016, the borrowing base included 11 of the Trust's hotels providing borrowing availability of \$300.0 million under the revolving credit facility, of which \$250.0 million remained available. The amended credit agreement contains more favorable financial covenants, including the leverage ratio and minimum tangible net worth requirement, as compared to those in effect prior to the amendment, and has additional financial covenants typically found in similar unsecured revolving credit facilities, 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, 2016, the Trust was in compliance with all financial covenants under its borrowing arrangements. As of June 30, 2016, the Trust's weighted-average interest rate on its long-term debt was 3.96%. Future scheduled principal payments of debt obligations (assuming no exercise of extension options) as of June 30, 2016 are as follows (in thousands):

Year	Amounts
2016	\$39,883
2017	137,648
2018	13,178
2019	63,732
2020	135,316
Thereafter	383,241
	\$772,998

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8. 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,	
	2016	2015	2016	2015
Numerator:				
Net income available to common shareholders	\$26,120	\$21,623	\$33,768	\$20,753
Less: Dividends declared on unvested time-based awards	(146)	(136)	(289)	(273)
Less: Undistributed earnings allocated to unvested time-based awards	(15)	(7)	—	—
Net income available to common shareholders, excluding amounts attributable to unvested time-based awards	\$25,959	\$21,480	\$33,479	\$20,480
Denominator:				
Weighted-average number of common shares outstanding—basic	58,722,104	58,544,392	58,701,815	56,373,504
Effect of dilutive unvested performance-based awards	141,946	412,091	134,931	410,368
Weighted-average number of common shares outstanding—diluted	58,864,050	58,956,483	58,836,746	56,783,872
Net income available per common share:				
Basic	\$0.44	\$0.37	\$0.57	\$0.36
Diluted	\$0.44	\$0.36	\$0.57	\$0.36

For the three and six months ended June 30, 2016 and 2015, 829,025 unvested performance-based awards and 227,213 unvested performance-based awards, respectively, were excluded from diluted weighted-average common shares outstanding as the awards either had not achieved the specific levels of relative total shareholder return required for vesting at each period end or their effect would have been anti-dilutive.

9. 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.

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, 2016. As of June 30, 2016, \$76.0 million of common shares remained available for issuance under the ATM program.

On March 27, 2015, the Trust completed an underwritten public offering of 4,600,000 common shares at a price of \$33.47 per share, including 600,000 shares sold pursuant to the underwriter's exercise of its option to purchase additional shares. After deducting underwriting fees and offering costs, the Trust generated net proceeds of \$153.7 million.

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, 2016, \$100.0 million remained available for the repurchase of common shares.

For the six months ended June 30, 2016, the Trust issued 1,717 unrestricted common shares and 448,146 restricted common shares to its trustees and employees. For the six months ended June 30, 2016, the Trust repurchased 7,854

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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, 2016, the Trust had 60,101,531 common shares outstanding.

For the six months ended June 30, 2016, the Trust paid or its board of trustees declared the following dividends per common share:

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	Record Date	Payment Date	Dividend Per Common Share
Fourth Quarter 2015	December 31, 2015	January 15, 2016	\$ 0.40
First Quarter 2016	March 31, 2016	April 15, 2016	\$ 0.40
Second Quarter 2016	June 30, 2016	July 15, 2016	\$ 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, 2016, 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, 2016, 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 2015	December 31, 2015	January 15, 2016	\$ 0.484375
First Quarter 2016	March 31, 2016	April 15, 2016	\$ 0.484375
Second Quarter 2016	June 30, 2016	July 15, 2016	\$ 0.484375

The Trust cannot redeem the Series A Cumulative Redeemable Preferred Shares prior to July 17, 2017, except as described below and in certain limited circumstances related to the ownership limitation necessary to preserve the Trust's qualification as a REIT. On and after July 17, 2017, the Trust, at its option, can redeem the Series A Cumulative Redeemable Preferred Shares, in whole or from time to time in part, at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends. The holders of Series A Cumulative Redeemable Preferred Shares have no voting rights, except in certain limited circumstances.

Upon the occurrence of a change of control, as defined in the articles supplementary designating the Series A Cumulative Redeemable Preferred Shares, as a result of which the Trust's common shares and the common securities of the acquiring or surviving entity are not listed or quoted on the New York Stock Exchange, the NYSE MKT or the NASDAQ Stock Market, or any successor exchanges, the Trust may, at its option, redeem the Series A Cumulative Redeemable Preferred Shares in whole or in part within 120 days following the change of control by paying \$25.00 per share, plus any accrued and unpaid dividends through the date of redemption. If the Trust does not exercise its right to redeem the Series A Cumulative Redeemable Preferred Shares upon a change of control, the holders of the Series A Cumulative Redeemable Preferred Shares have the right to convert some or all of their shares into a number of the Trust's common shares based on a defined formula subject to a share cap. The share cap on each Series A Cumulative Redeemable Preferred Share is 2.9189 common shares.

10. 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.

The Trust initially reserved 454,657 common shares for issuance under the Plan at its establishment. In May 2012, the Trust’s common shareholders approved an amendment to the Plan such that the number of shares available for issuance under the Plan was increased by 2,750,000. Shares that are issued under the Plan to any person pursuant to an award are counted against this limit 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

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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, 2016, subject to increases that may result in the case of any future forfeiture or termination of currently outstanding awards, 819,098 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, 2016, the Trust granted 448,146 restricted common shares to certain employees and trustees, of which 162,229 shares were time-based awards and 285,917 shares were performance-based awards (the "2016 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 2016 Performance-Based Awards are eligible to vest at December 31, 2018. Dividends on the 2016 Performance-Based Awards accrue, but are not paid unless the related shares vest. The fair value of the 2016 Performance-Based Awards was \$10.54 per share and was determined using a Monte Carlo simulation with the following assumptions: volatility of 21.04%; an expected term equal to the requisite service period for the awards; and a risk-free interest rate of 1.38%. The actual number of shares under the 2016 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, 2018, relative to the total return generated by the SNL US Hotel REIT Index prepared by SNL Financial LC (the "Index"). The payout schedule for the 2016 Performance-Based Awards is as follows, with linear interpolation for performance between 67% and 100%, and between 100% and 133% of the Index:

Trust TSR as % of Index 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 2016 Performance-Based Awards will vest. If the Trust's TSR is positive for the performance period and the total return of the Index is negative, 100% of the shares subject to vesting under the 2016 Performance-Based Awards will vest.

As of June 30, 2016, there was approximately \$11.8 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 1.8 years.

The following is a summary of the Trust's restricted common share activity for the six months ended June 30, 2016:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Restricted common shares as of December 31, 2015	1,057,270	\$ 17.40
Granted	448,146	\$ 15.58
Vested	(133,213)	\$ 27.58
Forfeited	—	\$ —
Restricted common shares as of June 30, 2016	1,372,203	\$ 15.81

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11. 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.

	Fair Value at June 30, 2016			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap (included within other liabilities)	\$406	\$	—\$ 406	\$ —
	\$406	\$	—\$ 406	\$ —

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, 2016, the carrying value reported in the consolidated balance sheet for the Trust's long-term debt approximated its fair value.

12. 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, 2016, 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.

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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, whether 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, 2015 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.

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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 hotel portfolio generated RevPAR growth of 2.2% during the second quarter of 2016 as compared to the second quarter of 2015, driven by an increase in occupancy of 2.1 percentage points offset by a decrease in ADR of 0.2%.

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Our hotel portfolio underperformed the U.S. industry average RevPAR growth of 3.5%, as reported by STR. During the second quarter, we saw a slowdown in demand from corporate transient customers across our portfolio associated with the generally softening macroeconomic conditions we are seeing in the U.S. and abroad. Our Chicago hotels

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were further negatively impacted as a result of an unfavorable convention calendar for the market as compared to the second quarter of 2015. We did see positive growth trends continue from group customers throughout our portfolio, however, our portfolio's concentration in group business is significantly less than in transient business.

Despite modest revenue growth, our hotel portfolio was able to (1) increase market share (RevPAR Index increased by 0.8 percentage points during the second quarter of 2016) and (2) generate an increase in Adjusted Hotel EBITDA of 4.5% and increase Adjusted Hotel EBITDA Margin by 50 basis points during the second quarter of 2016 as compared to the second quarter of 2015. We continue to aggressively asset manage our hotels and work closely with our hotel operators to mitigate the current environment. We expect the headwinds we saw during the second quarter to persist through the remainder of 2016.

Results of Operations

Comparison of three months ended June 30, 2016 and 2015

Results of operations for the three months ended June 30, 2016 include the operating activity of 22 hotels for the full period, whereas the results of operations for the three months ended June 30, 2015 include the operating activity of 21 hotels for the full period and one hotel for part of the period. We use the term "comparable hotel portfolio" to refer to those hotels owned for the entirety of the two periods being compared and the term "non-comparable hotel portfolio" to refer to those hotels acquired or sold in either of the two periods being compared. The comparable hotel portfolio for the three months ended June 30, 2016 and 2015 includes 21 of the 22 hotels owned as of June 30, 2016.

Revenues—Total revenue for the three months ended June 30, 2016 was \$169.4 million, of which \$161.3 million was contributed by the comparable hotel portfolio and \$8.1 million was contributed by the non-comparable hotel portfolio. Total revenue for the three months ended June 30, 2015 was \$162.1 million, of which \$156.8 million was contributed by the comparable hotel portfolio and \$5.3 million was contributed by the non-comparable hotel portfolio. The increase in total revenue for the comparable hotel portfolio was \$4.5 million. We experienced increases in total revenue from our hotels located in Los Angeles, San Francisco, Denver, Boston, Minneapolis, New Orleans and Miami, which were offset partially by decreases in total revenue from our hotels located in Chicago, Seattle, Washington DC, and New York. The Hyatt Centric Fisherman's Wharf experienced a significant increase in total revenue also due to the fact that the hotel was undergoing a comprehensive renovation during a portion of the three months ended June 30, 2015. We experienced favorable convention calendars during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 in San Francisco and Denver, which led to increased demand from group customers and contributed to the increases in total revenue at the hotels located in those markets, and we experienced an unfavorable convention calendar in Chicago, which led to decreased demand from group customers and primarily drove the decrease in total revenue at the hotels located in that market.

Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the three months ended June 30, 2016 was \$106.7 million, of which \$101.3 million was contributed by the comparable hotel portfolio and \$5.4 million was contributed by the non-comparable hotel portfolio. Hotel operating expenses, excluding depreciation and amortization, for the three months ended June 30, 2015 was \$102.6 million, of which \$98.9 million was contributed by the comparable hotel portfolio and \$3.7 million was contributed by the non-comparable hotel portfolio. The increase in total hotel operating expenses for the comparable hotel portfolio of \$2.4 million was primarily a result of the increase in corresponding total revenue for the comparable hotel portfolio. Specifically driving the increase in total hotel operating expenses were rooms expense and the following indirect hotel operating expenses: general and administrative, sales and marketing, franchise fees, and management fees. Credit card commissions (included within general and administrative), brand marketing fees (included within sales and marketing), franchise fees and management fees are all variable hotel operating expenses calculated as a percentage of revenue and therefore, increased commensurate with the increase in total revenues.

Depreciation and amortization—Depreciation and amortization expense for the three months ended June 30, 2016 and 2015 was \$18.6 million and \$17.9 million, respectively. The increase in depreciation and amortization expense was primarily attributable to the acquisition of the Ace Hotel and Theater Downtown Los Angeles in April 2015.

Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the three months ended June 30, 2016 and 2015 was \$0.1 million.

Corporate general and administrative—Corporate general and administrative expense for the three months ended June 30, 2016 and 2015 was \$4.7 million and \$4.5 million, respectively. Included in corporate general and administrative expense for the three months ended June 30, 2016 and 2015 was \$2.4 million and \$2.0 million, respectively, of non-cash share-based compensation expense. The increase in corporate general and administrative expense is primarily related to an increase in non-cash share-based compensation expense related to restricted common shares granted to employees.

Hotel acquisition costs—Hotel acquisition costs for the three months ended June 30, 2015 was \$0.5 million. There were no hotel acquisitions occurring or hotel acquisition costs incurred during the three months ended June 30, 2016.

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Interest expense—Interest expense for the three months ended June 30, 2016 and 2015 was \$7.6 million and \$8.2 million, respectively. The decrease is primarily related to (1) the decrease in long-term debt outstanding as compared to the three months ended June 30, 2015 and (2) interest rate savings related to the prepayment of the Hyatt Regency Boston mortgage loan in April 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 on April 14, 2016.

Income tax expense—Income tax expense for the three months ended June 30, 2016 and 2015 was \$3.8 million and \$4.3 million, respectively. Income tax expense is directly related to taxable income generated by our TRSs during the period.

Comparison of six months ended June 30, 2016 and 2015

Results of operations for the six months ended June 30, 2016 include the operating activity of 22 hotels for the full period, whereas the results of operations for the six months ended June 30, 2015 include the operating activity of 20 hotels for the full period and two hotels for part of the period. The comparable hotel portfolio for the six months ended June 30, 2016 and 2015 includes 20 of our 22 hotels owned as of June 30, 2016.

Revenues—Total revenue for the six months ended June 30, 2016 was \$310.0 million, of which \$269.2 million was contributed by the comparable hotel portfolio and \$40.8 million was contributed by the non-comparable hotel portfolio. Total revenue for the six months ended June 30, 2015 was \$271.4 million, of which \$252.5 million was contributed by the comparable hotel portfolio and \$18.9 million was contributed by the non-comparable hotel portfolio. The increase in total revenue for the comparable hotel portfolio was \$16.7 million. We experienced increases in total revenue from our hotels located in Los Angeles, San Francisco, Denver, Boston, and New Orleans, which were offset partially by decreases in total revenue from our hotels located in Chicago and Washington DC. The Hyatt Regency Boston, the Le Meridien San Francisco and the Hyatt Centric Fisherman's Wharf experienced significant increases in total revenue due to the fact that the hotels were undergoing comprehensive renovations during a portion of the six months ended June 30, 2015. We experienced a favorable convention calendar during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 in San Francisco, which led to increased demand from group customers and contributed to the increase in total revenue at the hotels located in that market, and we experienced an unfavorable convention calendar in Chicago, which led to decreased demand from group customers and primarily drove the decrease in total revenue at the hotels located in that market.

Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the six months ended June 30, 2016 was \$207.1 million, of which \$183.4 million was contributed by the comparable hotel portfolio and \$23.7 million was contributed by the non-comparable hotel portfolio. Hotel operating expenses, excluding depreciation and amortization, for the six months ended June 30, 2015 was \$186.5 million, of which \$175.1 million was contributed by the comparable hotel portfolio and \$11.4 million was contributed by the non-comparable hotel portfolio. The increase in total hotel operating expenses for the comparable hotel portfolio of \$8.3 million was primarily a result of the increase in corresponding total revenue for the comparable hotel portfolio. Specifically driving the increase in total hotel operating expenses were rooms expense, food and beverage expense and the following indirect hotel operating expenses: general and administrative, sales and marketing, repairs and maintenance, franchise fees, and management fees. Credit card commissions (included within general and administrative), brand marketing fees (included within sales and marketing), franchise fees and management fees are all variable hotel operating expenses calculated as a percentage of revenue and therefore, increased commensurate with the increase in total revenues.

Depreciation and amortization—Depreciation and amortization expense for the six months ended June 30, 2016 and 2015 was \$37.1 million and \$32.9 million, respectively. The increase in depreciation and amortization expense was primarily attributable to the acquisitions of the Royal Palm South Beach Miami, a Tribute Portfolio Resort in March 2015 and the Ace Hotel and Theater Downtown Los Angeles in April 2015.

Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the six months ended June 30, 2016 and 2015 was \$0.3 million.

Corporate general and administrative—Corporate general and administrative expense for the six months ended June 30, 2016 and 2015 was \$10.0 million and \$9.1 million, respectively. Included in corporate general and administrative expense for the six months ended June 30, 2016 and 2015 was \$4.8 million and \$3.7 million, respectively, of non-cash share-based compensation expense. The increase in corporate general and administrative expense is primarily related to an increase in non-cash share-based compensation expense related to restricted common shares granted to employees.

Hotel acquisition costs—Hotel acquisition costs for the six months ended June 30, 2015 was \$0.8 million. There were no hotel acquisitions occurring or hotel acquisition costs incurred during the six months ended June 30, 2016.

Interest expense—Interest expense for the six months ended June 30, 2016 and 2015 was \$15.8 million and \$15.3 million, respectively. The increase is primarily related to the use of debt to partially fund the acquisitions of the Royal Palm South

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Beach Miami, a Tribute Portfolio Resort in March 2015 and the Ace Hotel and Theater Downtown Los Angeles in April 2015, offset by interest rate savings related to the prepayment of the Hyatt Regency Boston mortgage loan in April 2016.

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 on April 14, 2016.

Income tax expense—Income tax expense for the six months ended June 30, 2016 and 2015 was \$1.8 million and \$1.0 million, respectively. Income tax expense is directly related to taxable income generated by our TRSs during the period.

Hotel operating results

We assess the operating performance of our hotels irrespective of the hotel owner during the periods compared. We use the term "pro forma" to refer to metrics that include, or comparisons of metrics that are based on, the operating results of hotels under previous ownership for either a portion of or the entire period. Since two of our hotels owned as of June 30, 2016 were acquired during 2015, the key operating metrics below reflect the pro forma operating results for those hotels for all, or a certain period, of the three and six months ended June 30, 2015. Included in the following table are comparisons of occupancy, ADR, RevPAR, Adjusted Hotel EBITDA, and Adjusted Hotel EBITDA Margin for the hotel portfolio for the three and six months ended June 30, 2016 and 2015 (in thousands, except for ADR and RevPAR):

	Three Months Ended			Six Months Ended June		
	June 30,	2015 ⁽¹⁾	Change	2016	2015 ⁽¹⁾	Change
Occupancy	88.1%	86.0%	210 bps	83.4%	79.1%	430 bps
ADR	\$236.69	\$237.11	(0.2)%	\$227.05	\$227.03	0.0%
RevPAR	\$208.43	\$203.99	2.2%	\$189.39	\$179.52	5.5%
Adjusted Hotel EBITDA	\$62,597	\$59,875	4.5%	\$102,648	\$91,543	12.1%
Adjusted Hotel EBITDA Margin	36.9%	36.4%	50 bps	33.1%	31.4%	170 bps

(1) Includes results of operations for certain hotels prior to our acquisition.

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, pro forma Adjusted Hotel EBITDA, and pro forma Adjusted Hotel EBITDA Margin for the three and six months ended June 30, 2016 and 2015 (in thousands):

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	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2016	2015	2016	2015
Net income	\$28,542	\$24,045	\$38,612	\$25,597
Add: Interest expense	7,560	8,168	15,770	15,347
Income tax expense	3,774	4,340	1,820	992
Depreciation and amortization	18,610	17,929	37,094	32,856
Air rights contract amortization	130	130	260	260
Corporate general and administrative	4,734	4,498	10,000	9,075
Hotel acquisition costs	—	466	—	835
Hotel EBITDA	63,350	59,576	103,556	84,962
Less: Non-cash amortization ⁽¹⁾	(155)	(180)	(310)	(261)
Gain of sale of hotel	(598)	—	(598)	—
Adjusted Hotel EBITDA	62,597	59,396	102,648	84,701
Add: Prior owner Hotel EBITDA ⁽²⁾	—	479	—	6,842
Pro forma Adjusted Hotel EBITDA	\$62,597	\$59,875	\$102,648	\$91,543
Total revenue	\$169,431	\$162,145	\$310,042	\$271,435
Add: Prior owner total revenue ⁽²⁾	—	2,242	—	20,286
Pro forma total revenue	\$169,431	\$164,387	\$310,042	\$291,721
Pro forma Adjusted Hotel EBITDA Margin	36.9	% 36.4	% 33.1	% 31.4

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

(2) Reflects results of operations for certain hotels prior to our acquisition.

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, 2016 and 2015 (in thousands):

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$28,542	\$24,045	\$38,612	\$25,597
Add: Interest expense	7,560	8,168	15,770	15,347
Income tax expense	3,774	4,340	1,820	992
Depreciation and amortization	18,610	17,929	37,094	32,856
Corporate EBITDA	58,486	54,482	93,296	74,792
Add: Hotel acquisition costs	—	466	—	835
Less: Non-cash amortization ⁽¹⁾	(25)	(50)	(50)	(1)

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Gain on sale of hotel	(598)	—	(598)	—
Adjusted Corporate EBITDA	\$57,863	\$54,898	\$92,648	\$75,626

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

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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 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. 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.

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, 2016 and 2015 (in thousands, except per share amounts):

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
Net income	\$28,542	\$28,542
Add: Depreciation and amortization	18,610	18,610
Less: Gain on sale of hotel	(598)	(598)
FFO	46,554	46,554
Less: Preferred share dividends	(2,422)	(2,422)
Dividends declared on unvested time-based awards	(146)	(146)
Undistributed earnings allocated to unvested time-based awards	(15)	(15)
FFO available to common shareholders	43,971	43,971
Add: Hotel acquisition costs	—	—
Less: Non-cash amortization ⁽¹⁾	(25)	(25)
AFFO available to common shareholders	\$43,946	\$43,946
FFO available per common share:		
Basic	\$0.75	\$0.75
Diluted	\$0.75	\$0.75
AFFO available per common share:		
Basic	\$0.75	\$0.75
Diluted	\$0.75	\$0.75

(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),

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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, 2016, net cash flows from operating activities were \$72.2 million; net cash flows used in investing activities were \$11.1 million, including \$9.2 million for improvements and additions to our hotels, offset by proceeds of \$2.0 million from the sale of the separate, five-room villa building and related land parcel at the Hyatt Centric Santa Barbara; and net cash flows used in financing activities were \$56.2 million, including the prepayment of \$88.2 million of mortgage debt, net repayment of \$60.0 million under our revolving credit facility, \$4.9 million in scheduled principal payments on mortgage debt and \$52.0 million in dividend payments to common and preferred shareholders, offset by proceeds of \$150.0 million from the issuance of mortgage debt. As of June 30, 2016, we had cash and cash equivalents of \$55.5 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 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 not to exceed 40% of the aggregate value of all of our hotels as calculated in accordance with our revolving credit facility; as of June 30, 2016, our overall debt level was 32.3% 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 alternate 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. 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 April 6, 2016, we prepaid without penalty our mortgage loan secured by the Hyatt Regency Boston, which had an outstanding principal balance at the time of \$88.2 million, with a borrowing under our revolving credit facility. On June 23, 2016, we obtained a new \$150.0 million mortgage loan secured by the Hyatt Regency Boston. We used the proceeds from the new loan to repay outstanding borrowings under our revolving credit facility.

Our mortgage loan secured by the Courtyard Washington Capitol Hill/Navy Yard matures in November 2016, but is prepayable without penalty on August 1, 2016. We expect to prepay the outstanding principal balance of \$34.0 million on August 1, 2016 with proceeds from a borrowing under our revolving credit facility made on July 29, 2016.

As of the date of this filing, we have approximately \$90.0 million of cash and cash equivalents, including the amount borrowed under our revolving credit facility that we will use to prepay the Courtyard Washington Capitol Hill/Navy Yard mortgage loan on August 1, 2016, as described above, approximately \$44.2 million of restricted cash, and total borrowing availability of \$300.0 million under our revolving credit facility, of which \$205.0 million remained available. See Note 7, "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.

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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, 2016, 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, 2016, 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, 2016.

Contractual Obligations	Payments Due by Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Revolving credit facility, including interest ⁽¹⁾	\$52,812	\$ 1,019	\$ 51,793	\$ —	\$ —
Term loan, including interest ⁽¹⁾	128,270	128,270	—	—	—
Other mortgage loans, including interest	756,165	69,862	71,544	186,215	428,544
Corporate office lease	297	237	60	—	—
Ground leases ⁽²⁾	211,639	4,101	8,201	8,201	191,136
	\$1,149,183	\$203,489	\$ 131,598	\$ 194,416	\$ 619,680

Assumes no additional borrowings and interest payments are based on the interest rate in effect at June 30, 2016.

(1) Also assumes that no extension options are exercised. See the notes to our interim consolidated financial statements for additional information relating to our revolving credit facility and term loan.

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.

(2) 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. 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, 2015.

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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.

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, 2016, 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 by 1.00%, the increase or decrease in interest expense on our debt would increase or decrease future earnings and cash flows by approximately \$0.5 million annually, assuming that the amount outstanding under our revolving credit facility was to remain at \$50.0 million, the balance at June 30, 2016.

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.

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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, 2015.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit Number	Description of Exhibit
10.1	Loan Agreement, dated June 23, 2016, by and between CHSP Boston II LLC, as borrower, and Metropolitan Life Insurance Company, as lender
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

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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: July 29, 2016 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)