Chesapeake Lodging Trust
Form 10-Q
July 27, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 001-34572

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
As of July 20, 2018, there were 60,396,063 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, 2018 (unaudited)	December 31, 2017
ASSETS		
Property and equipment, net	$1,746,751	$1,823,217
Intangible assets, net	34,967	35,256
Cash and cash equivalents	40,604	44,314
Restricted cash	28,844	30,602
Accounts receivable, net of allowance for doubtful accounts of $103 and $116, respectively	33,300	20,769
Prepaid expenses and other assets	27,805	21,202
Assets held for sale	57,577	—
Total assets	$1,969,848	$1,975,360
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt	$832,285	$829,552
Accounts payable and accrued expenses	67,238	65,783
Other liabilities	31,331	31,597
Liabilities related to assets held for sale	1,138	—
Total liabilities	931,992	926,932
Commitments and contingencies (Note 12)		
Preferred shares, $.01 par value; 100,000,000 shares authorized; no shares issued and outstanding, respectively	—	—
Common shares, $.01 par value; 400,000,000 shares authorized; 60,396,063 and 59,941,088 shares issued and outstanding, respectively	604	599
Additional paid-in capital	1,192,883	1,190,250
Cumulative dividends in excess of net income	(162,685)	(144,734)
Accumulated other comprehensive income	7,054	2,313
Total shareholders' equity	1,037,856	1,048,428
Total liabilities and shareholders' equity	$1,969,848	$1,975,360

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUE				
Rooms	$125,517	$122,268	$226,130	$221,169
Food and beverage	30,561	33,136	58,194	62,448
Other	7,207	7,057	13,986	13,718
Total revenue	163,285	162,461	298,310	297,335
EXPENSES				
Hotel operating expenses:				
Rooms	27,472	27,368	52,758	52,690
Food and beverage	21,790	23,149	42,849	45,388
Other direct	1,204	1,300	2,352	2,656
Indirect	53,544	53,532	103,337	103,347
Total hotel operating expenses	104,010	105,349	201,296	204,081
Depreciation and amortization	19,105	19,096	38,313	37,883
Air rights contract amortization	130	130	260	260
Corporate general and administrative	4,725	4,647	10,103	9,582
Total operating expenses	127,970	129,222	249,972	251,806
Operating income	35,315	33,239	48,338	45,529
Interest income	38	—	38	—
Interest expense	(8,914)	(8,171)	(17,758)	(15,969)
Income before income taxes	26,439	25,068	30,618	29,560
Income tax benefit (expense)	(2,629)	(3,407)	(259)	120
Net income	23,810	21,661	30,359	29,680
Preferred share dividends	—	(2,422)	—	(4,844)
Net income available to common shareholders	$23,810	$19,239	$30,359	$24,836
Net income available per common share:				
Basic	$0.40	$0.32	$0.51	$0.42
Diluted	$0.40	$0.32	$0.50	$0.42

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 Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$23,810	$21,661	$30,359	$29,680
Other comprehensive income (loss):				
Unrealized gains (losses) on cash flow hedge instruments	1,291	(507)	4,625	(507)
Reclassification of unrealized losses (gains) on cash flow hedge instruments to interest expense	(32)	375	116	414
Comprehensive income	$25,069	$21,529	$35,100	$29,587

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)

	Common Shares		Additional Paid-In Capital	Cumulative Dividends in Excess of Net Income	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balances at December 31, 2017	59,941,088	$ 599	$1,190,250	$(144,734)	$ 2,313	$1,048,428
Repurchase of common shares	(42,137)	—	(1,146)	—	—	(1,146)
Issuance of restricted common shares	495,579	5	(5)	—	—	—
Issuance of unrestricted common shares	1,533	—	45	—	—	45
Amortization of deferred compensation	—	—	3,739	—	—	3,739
Declaration of dividends on common shares	—	—	—	(48,310)	—	(48,310)
Net income	—	—	—	30,359	—	30,359
Other comprehensive income	—	—	—	—	4,741	4,741
Balances at June 30, 2018	60,396,063	$ 604	$1,192,883	$(162,685)	$ 7,054	$1,037,856

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

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

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$30,359	$29,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,313	37,883
Air rights contract amortization	260	260
Deferred financing costs amortization	834	815
Share-based compensation	3,784	3,846
Other	(150)	(310)
Changes in assets and liabilities:		
Accounts receivable, net	(13,293)	(5,854)
Prepaid expenses and other assets	(2,236)	(4,177)
Accounts payable and accrued expenses	2,423	975
Other liabilities	(96)	169
Net cash provided by operating activities	60,198	63,287
Cash flows from investing activities:		
Improvements and additions to hotels	(18,906)	(28,941)
Net cash used in investing activities	(18,906)	(28,941)
Cash flows from financing activities:		
Borrowings under revolving credit facility	40,000	175,000
Repayments under revolving credit facility	(30,000)	(235,000)
Proceeds from issuance of unsecured term loan	—	225,000
Scheduled principal payments on mortgage debt	(6,545)	(131,282)
Payment of deferred financing costs	(1,556)	(1,749)
Payment of dividends to common shareholders	(47,513)	(48,427)
Payment of dividends to preferred shareholders	—	(4,844)
Repurchase of common shares	(1,146)	(1,065)
Net cash used in financing activities	(46,760)	(22,367)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(5,468)	11,979
Cash, cash equivalents, and restricted cash, beginning of period	74,916	79,188
Cash, cash equivalents, and restricted cash, end of period	$69,448	$91,167
Supplemental disclosure of cash flow information:		
Cash paid for interest	$16,888	$14,992
Cash paid for income taxes	$745	$1,594

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. 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."). As of June 30, 2018, the Trust owned 21 hotels with an aggregate of 6,479 rooms in eight states and the District of Columbia.

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

2. Summary of Significant Accounting Policies

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

The information in these interim consolidated financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal, recurring nature unless disclosed otherwise. These interim consolidated financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission ("SEC") and do not include all of the information and disclosures required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Trust's Form 10-K for the year ended December 31, 2017.

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 property 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 if the acquisition of the hotel is determined to be an acquisition of a business; if the acquisition of the hotel is determined to be an acquisition of an asset, hotel acquisition costs are capitalized.

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, 2018 and 2017.

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, 2018, the Trust classified the Hyatt Centric Santa Barbara as held for sale (see Note 3, "Dispositions," for additional information). As of December 31, 2017, the Trust had no assets held for sale or liabilities related to assets held for sale.

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

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

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

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

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

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

Level 2 – Inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active (markets with few transactions), inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curves), and inputs that are derived principally from or corroborated by observable market data correlation or other means.
Level 3 – Unobservable inputs reflect the reporting entity's own assumptions about the pricing of an asset or liability when observable inputs are not available or when there is minimal, if any, market activity for an identical or similar asset or liability at the measurement date.
Income Taxes—The Trust has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code. As a REIT, the Trust generally will not be subject to federal income tax on that portion of its net income that does not

relate to any of the Trust's TRSs, and that is currently distributed to its shareholders. The Trust's TRSs, which lease the Trust's hotels from the subsidiaries of the Operating Partnership owning them, are subject to federal and state income taxes.

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

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

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

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

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

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (the "FASB") issued updated accounting guidance for recognition of revenue from contracts with customers. The comprehensive new accounting guidance supersedes previous revenue recognition guidance and requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB delayed the effective date of the new accounting guidance to be for interim and annual periods beginning on or after December 15, 2017. The Trust adopted the new accounting guidance on January 1, 2018 on a modified retrospective basis. Based on the Trust's completed assessment of this updated accounting guidance, it does not materially affect the amount or timing of revenue recognition for room sales, food and beverage sales, or other hotel departmental revenues because of the short-term, day to day nature of those revenues and the Trust did not recognize any cumulative-effect adjustment as a

result of adopting this new accounting guidance. Furthermore, the Trust does not expect the updated accounting guidance to materially impact the recognition of or accounting for disposition of hotels, since the Trust primarily disposes of hotels to third parties in exchange for cash with few contingencies.

In November 2016, the FASB issued updated accounting guidance which requires the consolidated statements of cash flows to explain the change during the period in the total of cash, cash equivalents and restricted cash. Therefore, restricted cash should be included within cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the consolidated statements of cash flows. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2017 and is to be applied on a retrospective basis. The Trust adopted the new accounting guidance on January 1, 2018. The adoption of this guidance changed the presentation of restricted cash in the consolidated statements of cash flows; however, the Trust does not believe that the adoption of this guidance has a material impact on the consolidated financial statements.

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In January 2017, the FASB issued updated accounting guidance to clarify the definition of a business. The new accounting guidance adds further guidance that assists entities in evaluating whether a transaction should be accounted for as an acquisition of (or disposal of) an asset or a business. Under the new accounting guidance, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the integrated set of assets and activities is not a business. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2017 (early adoption is permitted) and is to be applied prospectively. The Trust adopted the new accounting guidance on January 1, 2018. The adoption of this guidance would result in the capitalization of hotel acquisition costs to the extent the Trust completes a future acquisition that is determined to be an acquisition of an asset rather than a business, which may have a material impact on its results of operations.

In February 2016, the FASB issued updated accounting guidance which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new accounting guidance requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on whether or
not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases. This new accounting guidance is effective for annual periods beginning after December 15, 2018 (early adoption is permitted) and is to be applied on a modified retrospective approach. The Trust is in the process of creating an inventory of its leases and analyzing its current ground lease agreements. The Trust expects to record assets and liabilities on its consolidated balance sheets associated with the ground lease agreements under the new accounting guidance; however, the Trust is still evaluating the impact that this guidance will have on its consolidated financial statements.

3. Dispositions

On November 8, 2017, the Trust sold the 222-room The Hotel Minneapolis, Autograph Collection for $46.3 million, including sold working capital. Net proceeds from the sale were $46.0 million, which resulted in the recognition of a gain on sale of $6.1 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.

On May 8, 2018, the Trust entered into a definitive agreement to sell the 200-room Hyatt Centric Santa Barbara for a sale price of $90.0 million, subject to customary working capital pro-rations at closing. As of June 30, 2018, the Trust classified the Hyatt Centric Santa Barbara as held for sale in the consolidated balance sheet. On July 26, 2018, the Trust closed on the sale of the Hyatt Centric Santa Barbara (see Note 13, “Subsequent Event,” for additional information). The 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. The $57.6 million of assets held for sale as of June 30, 2018 consisted of $56.5 million of property and equipment and $1.1 million of accounts receivable, prepaid expenses, and other assets and the $1.1 million of liabilities related to assets held for sale consisted of accounts payable and accrued expenses.

4. Property and Equipment

Property and equipment as of June 30, 2018 and December 31, 2017 consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Land and land improvements	$286,644	$316,815
Buildings and leasehold improvements	1,611,160	1,628,945
Furniture, fixtures and equipment	226,519	228,492
Construction-in-progress	10,315	6,640
	2,134,638	2,180,892

Less: accumulated depreciation and amortization	(387,887)	(357,675)
Property and equipment, net	$1,746,751	$1,823,217

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5. Intangible Assets

Intangible assets as of June 30, 2018 and December 31, 2017 consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Air rights contract[1]	$36,105	$36,105
Favorable ground lease[2]	3,568	3,568
	39,673	39,673
Less: accumulated amortization	(4,706)	(4,417)
Intangible assets, net	$34,967	$35,256

(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 Hilton Denver City Center on October 3, 2011, the Trust assumed a lease agreement for a land parcel underlying a portion of the hotel with an initial term ending February 2072 that it concluded had below market terms. The Trust recorded a favorable ground lease asset of $3.6 million associated with this lease agreement at the time. The Trust is amortizing the favorable ground lease asset over the life of the lease and including the amortization within indirect hotel operating expenses in the interim consolidated statements of operations.

6. Long-Term Debt

Long-term debt as of June 30, 2018 and December 31, 2017 consisted of the following (in thousands):

	Origination	Original Principal Amount	Maturity	Interest Rate	Principal Amortization Period	June 30, 2018	December 31, 2017
Unsecured:							
Revolving credit facility[1]	July 2010	n/a	May 2022	Floating	n/a	$75,000	$65,000
Term loan[2]	April 2017	$225,000	April 2022	Floating	n/a	225,000	225,000
Secured:							
Boston Marriott Newton	May 2013	$60,000	June 2020	3.63%	25	52,078	52,941
Le Meridien San Francisco	July 2013	$92,500	August 2020	3.50%	25	80,535	81,875
Hilton Denver City Center[3]	July 2012	$70,000	August 2022	4.90%	30	63,074	63,748
Hilton Checkers Los Angeles	February 2013	$32,000	March 2023	4.11%	30	28,936	29,260
W Chicago – City Center	July 2013	$93,000	August 2023	4.25%	25	82,076	83,320
Hyatt Herald Square New York/Hyatt Place New York Midtown South	July 2014	$90,000	July 2024	4.30%	30	87,171	87,938
Hyatt Regency Boston	June 2016	$150,000	July 2026	4.25%	30	144,833	146,166
						838,703	835,248
Unamortized deferred financing costs						(6,418)	(5,696)
Long-term debt						$832,285	$829,552

(1) The Trust may exercise an option to extend the maturity by one year, subject to certain customary conditions. As of June 30, 2018, the interest rate in effect was 3.69%. See below for additional information related to the revolving credit facility.

(2) The term loan bears interest equal to LIBOR plus 1.45% - 2.20% (the spread over LIBOR based on the Trust's consolidated leverage ratio). Contemporaneous with the closing of the term loan, the Trust entered into an interest rate swap to fix LIBOR at 1.86% for the five-year term (as of June 30, 2018, the effective interest rate on the term loan was 3.41%). Under the terms of this interest rate swap, the Trust pays fixed interest of 1.86% per annum on a notional amount of $225.0 million and receives floating rate interest equal to one-month LIBOR. The effective date of this interest rate swap was April 21, 2017 and it will mature on April 21, 2022.

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

Unsecured revolving credit facility and term loan

On May 31, 2018, the Trust entered into an amended and restated credit agreement with a syndicate of banks to (1) extend the maturity date to May 2022 and (2) lower the interest rate to LIBOR plus 1.45% - 2.20% (the spread over LIBOR continues to be based on the Trust's consolidated leverage ratio) for its revolving credit facility. 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.

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On April 21, 2017, the Trust obtained a $225.0 million, five-year, unsecured term loan from a syndicate of banks. The term loan provides for the possibility of future increases, up to a maximum amount borrowed of $375.0 million, in accordance with the terms of the term loan agreement.

The amount that the Trust can borrow in the aggregate under the revolving credit facility and the term loan is based on the value of the Trust's hotels included in the borrowing base, as defined in the amended credit agreement and the term loan agreement. As of June 30, 2018, the borrowing base included 12 of the Trust's hotels providing borrowing availability of $300.0 million under the revolving credit facility, of which $225.0 million remained available. The amended credit agreement and the term loan agreement contain financial covenants, including a leverage ratio and a minimum tangible net worth requirement, and additional financial covenants typically found in similar unsecured revolving credit facilities and term loans, including a consolidated secured debt ratio, an unsecured leverage ratio and an unsecured debt service coverage ratio.

Other

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

As of June 30, 2018, the Trust was in compliance with all financial covenants under its borrowing arrangements. As of June 30, 2018, the Trust's weighted-average interest rate on its long-term debt was 3.91%. Future scheduled principal payments of debt obligations (assuming no exercise of extension options) as of June 30, 2018 are as follows (in thousands):

Year	Amounts
2018	$6,415
2019	13,731
2020	135,316
2021	10,233
2022	366,635
Thereafter	306,373
	$838,703

7. Indirect Expenses

Indirect hotel operating expenses for the three and six months ended June 30, 2018 and 2017 consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Administrative and general	$13,125	$13,060	$25,412	$25,838
Advertising and sales	11,504	10,973	21,785	21,326
Repairs and maintenance	5,287	5,289	10,631	10,537
Utilities	3,629	3,931	7,277	7,674
Franchise fees	2,748	2,682	5,037	4,865
Management fees	5,864	6,296	10,483	10,727
Property and other taxes	8,474	8,349	16,701	16,549
Insurance, leases and other	2,913	2,952	6,011	5,831
Indirect hotel operating expenses	$53,544	$53,532	$103,337	$103,347

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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,	
	2018	2017	2018	2017
Numerator:				
Net income available to common shareholders	$23,810	$ 19,239	$30,359	$ 24,836
Less: Dividends declared on unvested time-based awards	(119)	(123)	(240)	(247)
Less: Undistributed earnings allocated to unvested time-based awards	—	—	—	—
Net income available to common shareholders, excluding amounts attributable to unvested time-based awards	$23,691	$ 19,116	$30,119	$ 24,589
Denominator:				
Weighted-average number of common shares outstanding–basic	59,133,648	59,033,952	59,126,894	59,014,876
Effect of dilutive unvested performance-based awards	659,415	—	633,871	—
Weighted-average number of common shares outstanding–diluted	59,793,063	59,033,952	59,760,765	59,014,876
Net income available per common share:				
Basic	$0.40	$ 0.32	$0.51	$ 0.42
Diluted	$0.40	$ 0.32	$0.50	$ 0.42

For the three and six months ended June 30, 2018 and 2017, 107,559 unvested performance-based awards and 761,934 unvested performance-based awards, respectively, were excluded from diluted weighted-average common shares outstanding as the awards had not achieved the specific levels of relative total shareholder return required for vesting at each period end.

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 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, 2018, $100.0 million remained available for the repurchase of common shares.

For the six months ended June 30, 2018, the Trust issued 1,533 unrestricted common shares and 495,579 restricted common shares to its trustees and employees. For the six months ended June 30, 2018, the Trust repurchased 42,137 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, 2018, the Trust had 60,396,063 common shares outstanding.

For the six months ended June 30, 2018, the Trust paid or its board of trustees declared the following dividends per common share:

	Record Date	Payment Date	Dividend Per Common Share
Fourth Quarter 2017	December 29, 2017	January 12, 2018	$ 0.40

First Quarter 2018	March 29, 2018	April 13, 2018	$ 0.40
Second Quarter 2018	June 29, 2018	July 13, 2018	$ 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. No preferred shares were outstanding as of June 30, 2018.

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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.

In June 2018, the Trust’s common shareholders approved an amendment to the Plan to, among other things, increase the number of shares available for issuance under the Plan by 1,250,000 shares and extend the term of the Plan to June 2028. Shares that are issued under the Plan to any person pursuant to an award are counted against the aggregate number of shares available for issuance under the Plan as one share for every one share granted. If any shares covered by an award are not purchased or are forfeited, if an award is settled in cash, or if an award otherwise terminates without delivery of any shares, then the number of common shares counted against the aggregate number of shares available under the Plan with respect to the award will, to the extent of any such forfeiture or termination, again be available for making awards under the Plan. As of June 30, 2018, subject to increases that may result in the case of any future forfeiture or termination of currently outstanding awards, 1,582,235 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 June 2028, but will continue to govern unexpired awards.

For the six months ended June 30, 2018, the Trust granted 495,579 restricted common shares to certain employees and trustees, of which 133,726 shares were time-based awards and 361,853 shares were performance-based awards (the “2018 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 2018 Performance-Based Awards are eligible to vest at December 31, 2020. Dividends on the 2018 Performance-Based Awards accrue, but are not paid unless the related shares vest. The fair value of the 2018 Performance-Based Awards was $10.82 per share and was determined using a Monte Carlo simulation with the following assumptions: volatility of 24.09%; an expected term equal to the requisite service period for the awards; and a risk-free interest rate of 2.00%. The actual number of shares under the 2018 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, 2020, relative to the total return generated by a market-cap weighted index that includes eight lodging REITs (the "Performance Peer Group"). The payout schedule for the 2018 Performance-Based Awards is as follows, with linear interpolation for performance between 67% and 100%, and between 100% and 133% of the Performance Peer Group:

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

If the Trust’s TSR is negative for the performance period, no shares under the 2018 Performance-Based Awards will vest. If the Trust’s TSR is positive for the performance period and the total return of the Performance Peer Group is negative, 100% of the shares subject to vesting under the 2018 Performance-Based Awards will vest.

As of June 30, 2018, there was approximately $11.3 million of unrecognized share-based compensation expense related to restricted common shares. The unrecognized share-based compensation expense is expected to be

recognized over a weighted-average period of 2.0 years.

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The following is a summary of the Trust's restricted common share activity for the six months ended June 30, 2018:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Restricted common shares as of December 31, 2017	895,515	$ 15.93
Granted	495,579	$ 15.45
Vested	(143,782)	$ 27.97
Forfeited	—	$ —
Restricted common shares as of June 30, 2018	1,247,312	$ 14.35

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, 2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Interest rate swap (included within prepaid expenses and other assets)	$7,054	$ —	$7,054	$ —
	$7,054	$ —	$7,054	$ —

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, 2018, 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, 2018, 11 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 11 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

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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.

13. Subsequent Event

On July 26, 2018, the Trust sold the 200-room Hyatt Centric Santa Barbara located in Santa Barbara, California for a sale price of $90.0 million. The Trust used the net proceeds from the sale to repay all outstanding borrowings under its revolving credit facility.

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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, whethe negative or affirmative. We cannot guarantee that we actually will achieve these plans, intentions or expectations. All statements regarding our expected financial position, business and financing plans are forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

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

These risks and uncertainties, together with the information contained in our Form 10-K for the year ended December 31, 2017 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 20 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	Hilton Denver 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	Hyatt Place New York Midtown South	New York, NY	185	March 14, 2013
15	W New Orleans – French Quarter	New Orleans, LA	97	March 28, 2013
16	Le Meridien New Orleans	New Orleans, LA	410	April 25, 2013
17	Hyatt Centric Fisherman's Wharf	San Francisco, CA	316	May 31, 2013
18	JW Marriott San Francisco Union Square	San Francisco, CA	344	October 1, 2014
19	Royal Palm South Beach Miami, a Tribute Portfolio Resort	Miami Beach, FL	393	March 9, 2015
20	Ace Hotel and Theater Downtown Los Angeles	Los Angeles, CA	182	April 30, 2015
			6,279	

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 EBITDAre, and Adjusted Hotel EBITDAre Margin. See the "Non-GAAP Financial Measures" section for additional information on Adjusted Hotel EBITDAre and Adjusted Hotel EBITDAre 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 EBITDAre and Adjusted Hotel EBITDAre Margin, while increases in RevPAR attributable to increases in ADR typically result in greater levels of increases in Adjusted Hotel EBITDAre and Adjusted Hotel EBITDAre Margin.

Executive Summary

Our 21-hotel portfolio owned during the second quarter of 2018 had a RevPAR increase of 4.7% during the second quarter of 2018 as compared to the second quarter of 2017, driven by an increase in occupancy of 2.1 percentage points and an increase in ADR of 2.3%. Our hotel portfolio outperformed the U.S. industry average RevPAR growth of 4.0%, as reported by STR. Given the increase in RevPAR and as a result of the efforts of our hotel managers, working with our asset management team, to manage and control expenses, our hotel portfolio also experienced an increase in Adjusted Hotel EBITDAre of 5.6% and an increase in Adjusted Hotel EBITDAre Margin of 110 basis

points during the second quarter of 2018 as compared to the second quarter of 2017. We believe the headwinds we experienced throughout 2017 (i.e., disruption resulting from significant guestroom renovations at three of our hotels and the temporary closure of the Moscone Center in San Francisco, California in the second and third quarters) have and will continue to provide tailwinds for our hotel portfolio for the coming several years.

During the second quarter of 2018, we amended and restated our revolving credit facility to extend the initial maturity and reduce our cost of borrowings. Subsequent to quarter end, we were able to take advantage of the strong pricing seen in the hotel transaction market by selling the Hyatt Centric Santa Barbara for a sale price of $90.0 million.
We remain committed to maximizing cash flows from our hotel portfolio by driving optimum results, increasing operational efficiencies, and investing in the physical quality and positioning of our hotels. We believe our hotel portfolio, which is concentrated in the central business districts of top U.S. lodging markets, remains well positioned for future performance and long-term real estate value appreciation.

Results of Operations

Comparison of the three months ended June 30, 2018 and 2017

Results of operations for the three months ended June 30, 2018 include the operating activity of 21 hotels, whereas the results of operations for the three months ended June 30, 2017 include the operating activity of 22 hotels. 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 not owned for the entirety of the two periods being compared. For the three months ended June 30, 2018 and 2017, the comparable hotel portfolio includes the 21 hotels owned as of June 30, 2018 and the non-comparable hotel portfolio includes The Hotel Minneapolis, Autograph Collection, which was sold on November 8, 2017.

Revenues—Total revenue for the three months ended June 30, 2018 was $163.3 million, all of which was contributed by the comparable hotel portfolio. Total revenue for the three months ended June 30, 2017 was $162.5 million, of which $159.4 million was contributed by the comparable hotel portfolio and $3.1 million was contributed by the non-comparable hotel portfolio. The increase in total revenue for the comparable hotel portfolio of $3.9 million was primarily driven by increases in total revenue at the Boston Marriott Newton and the JW Marriott San Francisco Union Square, both of which were undergoing guestroom renovations during the three months ended June 30, 2017, and increases in total revenue at our other hotels located in San Francisco (during the three months ended June 30, 2017, demand from customers at our hotels located in San Francisco was negatively impacted by the temporary closure of the Moscone Center and the resultant decrease in citywide events). The aforementioned increases in total revenue were offset partially by decreases in total revenue at our hotels located in Chicago and Los Angeles.

Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the three months ended June 30, 2018 was $104.0 million, all of which was contributed by the comparable hotel portfolio. Hotel operating expenses, excluding depreciation and amortization, for the three months ended June 30, 2017 was $105.3 million, of which $103.1 million was contributed by the comparable hotel portfolio and $2.2 million was contributed by the non-comparable hotel portfolio. The increase in hotel operating expenses for the comparable hotel portfolio of $0.9 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 for the comparable hotel portfolio were rooms expense and the following indirect hotel operating expenses: administrative and general, advertising and sales, repairs and maintenance, franchise fees, and property and other taxes. Credit card commissions (included within administrative and general) and franchise fees are both variable hotel operating expenses calculated as a percentage of revenue, and therefore, increased commensurately with the increase in total revenue for the comparable hotel portfolio. The increases in the aforementioned expenses were offset partially by decreases in food and beverage expense, which was primarily a result of the corresponding decrease in food and beverage revenue for the comparable hotel portfolio, and management fees, which was primarily a result of no incentive management fees being incurred at the Hilton Denver City Center during the three months ended June 30, 2018 following a change in management of the hotel that took effect on December 1, 2017.

Depreciation and amortization—Depreciation and amortization expense for each of the three months ended June 30, 2018 and 2017 was $19.1 million.

Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the three months ended June 30, 2018 and 2017 was $0.1 million.

Corporate general and administrative—Corporate general and administrative expense for the three months ended June 30, 2018 and 2017 was $4.7 million and $4.6 million, respectively. Included in corporate general and administrative expense for the three months ended June 30, 2018 and 2017 was $1.8 million and $1.9 million,

respectively, of non-cash share-based compensation expense.
Interest expense—Interest expense for the three months ended June 30, 2018 and 2017 was $8.9 million and $8.2 million, respectively. The increase in interest expense was primarily related to the increase in long-term debt outstanding, reflecting the use of debt to fund the redemption of the 7.75% Series A Cumulative Redeemable Preferred Shares in July 2017.
Income tax expense—Income tax expense for the three months ended June 30, 2018 and 2017 was $2.6 million and $3.4 million, respectively. Income tax expense is directly related to taxable income generated by our TRSs during the period. The

decrease in income tax expense was partially related to a decrease in our effective income tax rate resulting from the enactment of the Tax Cuts and Jobs Act in December 2017.

Preferred share dividends—There was no preferred share dividends for the three months ended June 30, 2018. Preferred share dividends for the three months ended June 30, 2017 was $2.4 million. The decrease in preferred share dividends is directly related to the full redemption of the 7.75% Series A Cumulative Redeemable Preferred Shares in July 2017.

Comparison of the six months ended June 30, 2018 and 2017

Results of operations for the six months ended June 30, 2018 include the operating activity of 21 hotels, whereas the results of operations for the six months ended June 30, 2017 include the operating activity of 22 hotels. 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 not owned for the entirety of the two periods being compared. For the six months ended June 30, 2018 and 2017, the comparable hotel portfolio includes the 21 hotels owned as of June 30, 2018 and the non-comparable hotel portfolio includes The Hotel Minneapolis, Autograph Collection, which was sold on November 8, 2017.

Revenues—Total revenue for the six months ended June 30, 2018 was $298.3 million, all of which was contributed by the comparable hotel portfolio. Total revenue for the six months ended June 30, 2017 was $297.3 million, of which $291.8 million was contributed by the comparable hotel portfolio and $5.5 million was contributed by the non-comparable hotel portfolio. The increase in total revenue for the comparable hotel portfolio of $6.5 million was primarily driven by increases in total revenue at the Boston Marriott Newton, the Hilton Denver City Center, the Hyatt Regency Mission Bay Spa and Marina and the JW Marriott San Francisco Union Square, all of which were undergoing guestroom renovations during all or a portion of the six months ended June 30, 2017, and increases in total revenue at our other hotels located in San Francisco (during a portion of the six months ended June 30, 2017, demand from customers at our hotels located in San Francisco was negatively impacted by the temporary closure of the Moscone Center and the resultant decrease in citywide events). The aforementioned increases in total revenue were offset partially by decreases in total revenue at our hotels located in Chicago and Los Angeles.

Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the six months ended June 30, 2018 was $201.3 million, all of which was contributed by the comparable hotel portfolio. Hotel operating expenses, excluding depreciation and amortization, for the six months ended June 30, 2017 was $204.1 million, of which $199.7 million was contributed by the comparable hotel portfolio and $4.4 million was contributed by the non-comparable hotel portfolio. The increase in hotel operating expenses for the comparable hotel portfolio of $1.6 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 for the comparable hotel portfolio were rooms expense and the following indirect hotel operating expenses: administrative and general, advertising and sales, repairs and maintenance, franchise fees, and property and other taxes. Credit card commissions (included within administrative and general) and franchise fees are both variable hotel operating expenses calculated as a percentage of revenue, and therefore, increased commensurately with the increase in total revenue for the comparable hotel portfolio. The increases in the aforementioned expenses were offset partially by decreases in food and beverage expense, which was primarily a result of the corresponding decrease in food and beverage revenue for the comparable hotel portfolio, and management fees, which was primarily a result of no incentive management fees being incurred at the Hilton Denver City Center during the six months ended June 30, 2018 following a change in management of the hotel that took effect on December 1, 2017.

Depreciation and amortization—Depreciation and amortization expense for the six months ended June 30, 2018 and 2017 was $38.3 million and $37.9 million, respectively. The increase in depreciation and amortization expense was primarily attributable to the guestroom renovations completed during the year ended December 31, 2017, offset partially by the sale of The Hotel Minneapolis, Autograph Collection in November 2017.

Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the six months ended June 30, 2018 and 2017 was $0.3 million.

Corporate general and administrative—Corporate general and administrative expense for the six months ended June 30, 2018 and 2017 was $10.1 million and $9.6 million, respectively. Included in corporate general and administrative expense for each of the six months ended June 30, 2018 and 2017 was $3.8 million of non-cash share-based

compensation expense. The increase in corporate general and administrative expense is primarily related to an increase in employee compensation expense and professional service fees.

Interest expense—Interest expense for the six months ended June 30, 2018 and 2017 was $17.8 million and $16.0 million, respectively. The increase in interest expense was primarily related to the increase in long-term debt outstanding, reflecting the use of debt to fund the redemption of the 7.75% Series A Cumulative Redeemable Preferred Shares in July 2017.

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Income tax benefit (expense)—Income tax expense for the six months ended June 30, 2018 was $0.3 million and income tax benefit for the six months ended June 30, 2017 was $0.1 million. Income tax benefit (expense) is directly related to taxable losses (income) generated by our TRSs during the period.

Preferred share dividends—There was no preferred share dividends for the six months ended June 30, 2018. Preferred share dividends for the six months ended June 30, 2017 was $4.8 million. The decrease in preferred share dividends is directly related to the full redemption of the 7.75% Series A Cumulative Redeemable Preferred Shares in July 2017.

Hotel operating results

We use the term "comparable" to refer to metrics that include only those hotels owned for the entirety of the two periods being compared. As of June 30, 2018, we owned 21 hotels. Since The Hotel Minneapolis, Autograph Collection was sold on November 8, 2017, it has been excluded from the comparable hotel portfolio metrics for the three and six months ended June 30, 2017. Included in the following table are comparisons of occupancy, ADR, RevPAR, Adjusted Hotel EBITDAre, and Adjusted Hotel EBITDAre Margin for the comparable 21-hotel portfolio for the three and six months ended June 30, 2018 and 2017 (in thousands, except for ADR and RevPAR):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Comparable Occupancy	88.9%	86.8 %	210 bps	84.9%	81.7 %	320 bps
Comparable ADR	$239.57	$234.09	2.3%	$227.01	$226.39	0.3%
Comparable RevPAR	$212.89	$203.27	4.7%	$192.83	$185.08	4.2%
Comparable Adjusted Hotel EBITDAre	$59,200	$56,066	5.6%	$96,864	$91,810	5.5%
Comparable Adjusted Hotel EBITDAre Margin	36.3%	35.2 %	110 bps	32.5%	31.5 %	100 bps

Non-GAAP Financial Measures

Non-GAAP financial measures are measures of our historical financial performance that are different from measures calculated and presented in accordance with U.S. generally accepted accounting principles. We report the following seven non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: (1) EBITDAre,(2) Adjusted Corporate EBITDAre, (3) Adjusted Hotel EBITDAre, (4) Adjusted Hotel EBITDAre Margin, (5) Funds from operations (FFO), (6) FFO available to common shareholders, and (7) Adjusted FFO (AFFO) available to common shareholders. Effective January 1, 2018, we report EBITDAre in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"). Adjusted Corporate EBITDAre, Adjusted Hotel EBITDAre, and Adjusted Hotel EBITDAre Margin are equivalent to our previously reported Adjusted Corporate EBITDA, Adjusted Hotel EBITDA, and Adjusted Hotel EBITDA Margin measures, respectively.

EBITDAre—We calculate EBITDAre in accordance with standards established by NAREIT, which defines EBITDAre as net income (calculated in accordance with GAAP) before interest, income taxes, depreciation and amortization, gains (losses) from sales of real estate, impairment charges of depreciated real estate, and adjustments for unconsolidated partnerships and joint ventures. We believe that EBITDAre 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 EBITDAre—We further adjust EBITDAre for certain additional recurring and non-recurring items that are not in NAREIT's definition of EBITDAre. Specifically, we adjust for hotel acquisition costs and non-cash amortization of intangible assets and liabilities, deferred franchise costs, and deferred key money, all of which are recurring items. We believe that Adjusted Corporate EBITDAre provides investors another financial measure of our operating performance that provides for greater comparability of our core operating results between periods.

Adjusted Hotel EBITDAre—We further adjust Adjusted Corporate EBITDAre for corporate general and administrative expenses, which is a recurring item. We believe that Adjusted Hotel EBITDAre provides investors a useful financial measure to evaluate our hotel operating performance by excluding the impact of corporate-level expenses.

Adjusted Hotel EBITDAre Margin—Adjusted Hotel EBITDAre Margin is defined as Adjusted Hotel EBITDAre as a percentage of total revenues. We believe that Adjusted Hotel EBITDAre Margin provides investors another useful

financial measure to evaluate our hotel operating performance.

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The following table reconciles net income to EBITDAre, Adjusted Corporate EBITDAre, Adjusted Hotel EBITDAre, and Adjusted Hotel EBITDAre Margin for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$23,810	$21,661	$30,359	$29,680
Add: Interest expense	8,914	8,171	17,758	15,969
Income tax expense (benefit)	2,629	3,407	259	(120)
Depreciation and amortization	19,105	19,096	38,313	37,883
Less: Interest income	(38)	—	(38)	—
EBITDAre	54,420	52,335	86,651	83,412
Add: Non-cash amortization[1]	55	(25)	110	(50)
Adjusted Corporate EBITDAre	54,475	52,310	86,761	83,362
Add: Corporate general and administrative	4,725	4,647	10,103	9,582
Adjusted Hotel EBITDAre	59,200	56,957	96,864	92,944
Less: Adjusted Hotel EBITDAre of hotel sold[2]	—	(891)	—	(1,134)
Comparable Adjusted Hotel EBITDAre	$59,200	$56,066	$96,864	$91,810
Total revenue	$163,285	$162,461	$298,310	$297,335
Less: Total revenue of hotel sold[2]	—	(3,135)	—	(5,524)
Comparable total revenue	$163,285	$159,326	$298,310	$291,811
Comparable Adjusted Hotel EBITDAre Margin	36.3%	35.2%	32.5%	31.5%

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

(2) Reflects results of operations for The Hotel Minneapolis, Autograph Collection, which was sold on November 8, 2017.

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

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

AFFO available to common shareholders—We further adjust FFO available to common shareholders for certain additional recurring and non-recurring items that are not in NAREIT's definition of FFO. Specifically, we adjust for hotel acquisition costs and non-cash amortization of intangible assets and liabilities, deferred franchise costs, and deferred key money, all of which are recurring items. We believe that AFFO available to common shareholders provides investors another financial measure of our operating performance that provides for greater comparability of

our core operating results between periods.

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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, 2018 and 2017 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$23,810	$21,661	$30,359	$29,680
Add: Depreciation and amortization	19,105	19,096	38,313	37,883
FFO	42,915	40,757	68,672	67,563
Less: Preferred share dividends	—	(2,422)	—	(4,844)
Dividends declared on unvested time-based awards	(119)	(123)	(240)	(247)
Undistributed earnings allocated to unvested time-based awards	—	—	—	—
FFO available to common shareholders	42,796	38,212	68,432	62,472
Add: Non-cash amortization[1]	55	(25)	110	(50)
AFFO available to common shareholders	$42,851	$38,187	$68,542	$62,422
FFO available per common share:				
Basic	$0.72	$0.65	$1.16	$1.06
Diluted	$0.72	$0.65	$1.15	$1.06
AFFO available per common share:				
Basic	$0.72	$0.65	$1.16	$1.06
Diluted	$0.72	$0.65	$1.15	$1.06

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

None of EBITDAre, Adjusted Corporate EBITDAre, Adjusted Hotel EBITDAre, Adjusted Hotel EBITDAre Margin, FFO, FFO available to common shareholders, or AFFO available to common shareholders represent cash generated from operating activities as determined by GAAP, nor shall any of these measures be considered as an alternative to GAAP net income (loss), as an indication of our financial performance, or to GAAP cash flow from operating activities, as a measure of liquidity. In addition, EBITDAre, Adjusted Corporate EBITDAre, Adjusted Hotel EBITDAre, Adjusted Hotel EBITDAre Margin, 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, 2018, net cash flows from operating activities were $60.2 million; net cash flows used in investing activities were $18.9 million, which were for improvements and additions to our hotels; and net cash flows used in financing activities were $46.8 million, including $47.5 million in dividend payments to common shareholders and $6.5 million in scheduled principal payments on mortgage debt, offset partially by a net borrowing of $10.0 million under our revolving credit facility. As of June 30, 2018, we had cash and cash equivalents of $40.6 million and restricted cash of $28.8 million.

Liquidity and Capital Resources

We expect our primary source of cash to meet operating requirements, including payment of dividends in accordance with the REIT requirements of the U.S. federal income tax laws, payment of interest on any borrowings and funding of any capital expenditures, will be from our hotels' results of operations and existing cash and cash equivalent balances. We currently expect that our operating cash flows will be sufficient to fund our continuing operations. We also expect to use existing restricted cash balances and borrowings under our revolving credit facility to partially fund any capital expenditures. We intend to incur indebtedness to supplement our investment capital and to maintain

flexibility to respond to industry conditions and opportunities. We are targeting an overall debt level 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, 2018, our overall debt level was 37.2% under this calculation.

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

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

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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 May 31, 2018, we entered into an amended and restated credit agreement with a syndicate of banks to (1) extend the maturity date to May 2022 and (2) lower the interest rate to LIBOR plus 1.45% - 2.20% (the spread over LIBOR continues to be based on our consolidated leverage ratio) for our revolving credit facility. The amended credit agreement provides for the possibility of further future increases, up to a maximum of $450.0 million, in accordance with the terms of the amended credit agreement. The amended credit agreement also provides for an extension of the maturity date by one year, subject to satisfaction of certain customary conditions.
On July 26, 2018, we sold the 200-room Hyatt Centric Santa Barbara for a sale price of $90.0 million. We used the net proceeds from the sale to repay all outstanding borrowings under our revolving credit facility.
As of the date of this filing, we have approximately $42.0 million of cash and cash equivalents, approximately $29.0 million of restricted cash, and $300.0 million available to borrow under our revolving credit facility. See Note 6, “Long-Term Debt,” to our interim consolidated financial statements for additional information relating to our revolving credit facility and other long-term debt.

Capital Expenditures
We maintain each hotel in good repair and condition and in conformity with applicable laws and regulations and in accordance with the franchisor’s standards and the agreed-upon requirements in our management and loan agreements. The cost of all such routine improvements and alterations will be paid out of FF&E reserves, which will be funded by a portion of each hotel’s gross revenues. Routine capital expenditures will be administered by the management companies. However, we will have approval rights over the capital expenditures as part of the annual budget process. From time to time, certain of our hotels may be undergoing renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, meeting space, and/or restaurants, in order to better compete with other hotels in our markets. As of June 30, 2018, 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, 2018, 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, 2018.

	Payments Due by Period				
Contractual Obligations	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Revolving credit facility, including interest(1)	$86,224	$ 2,804	$ 5,616	$ 77,804	$ —
Term loan, including interest(1)	255,321	7,788	15,598	231,935	—
Secured loans, including interest	649,794	35,034	186,215	131,965	296,580
Corporate office lease	1,219	292	610	317	—
Ground leases(2)	203,438	4,101	8,201	8,219	182,917
	$1,195,996	$ 50,019	$ 216,240	$ 450,240	$ 479,497

(1) Assumes no additional borrowings and interest payments are based on the interest rate in effect at June 30, 2018. Also assumes that no extension options, if any, are exercised. See Note 6, “Long-Term Debt,” to our interim consolidated financial statements for additional information relating to our revolving credit facility and term loan.

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

Inflation

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

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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, 2017.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We earn interest income primarily from cash and cash equivalent balances. Based on our cash and cash equivalents as of June 30, 2018, if interest rates increase or decrease by 1.00%, our interest income will increase or decrease by approximately $0.4 million annually.

Amounts borrowed under our revolving credit facility currently bear interest at variable rates based on LIBOR plus 1.45% - 2.20% (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 $0.8 million annually, assuming that the amount outstanding under our revolving credit facility was to remain at $75.0 million, the balance at June 30, 2018.

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, 2017.

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

None.

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	Fifth Amended and Restated Credit Agreement, dated May 31, 2018, by and among Chesapeake Lodging, L.P., as borrower, the financial institutions party thereto and their assignees under section13.6, as lenders, and Wells Fargo Bank, N.A., as administrative agent
10.2	First Amendment to Term Loan Agreement, dated May 31, 2018, by and among Chesapeake Lodging, L.P., as borrower, the financial institutions party thereto and their assignees under Section 13.6, as lenders, and Wells Fargo Bank, N.A., as administrative agent
10.3	Chesapeake Lodging Trust Equity Plan (As Amended and Restated Effective as of June 14, 2018)
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 27, 2018 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)