Chesapeake Lodging Trust
Form 10-Q
November 06, 2013

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 September 30, 2013
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.)
1997 Annapolis Exchange Parkway, Suite 410 Annapolis, Maryland	21401
(Address of principal executive offices)	(Zip Code)

(410) 972-4140
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of November 1, 2013, there were 49,597,947 shares of the registrant's common shares issued and outstanding.

Table of Contents

CHESAPEAKE LODGING TRUST
INDEX

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

Table of Contents

PART I
Item 1. Financial Statements

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

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Property and equipment, net	$1,426,171	$1,107,722
Intangible assets, net	38,931	39,382
Cash and cash equivalents	40,756	33,194
Restricted cash	31,526	23,460
Accounts receivable, net of allowance for doubtful accounts of $95 and $94, respectively	20,096	8,384
Prepaid expenses and other assets	8,368	14,056
Deferred financing costs, net of accumulated amortization of $2,761 and $1,410, respectively	7,231	6,630
Total assets	$1,573,079	$1,232,828
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt	$564,229	$405,208
Accounts payable and accrued expenses	49,199	34,868
Other liabilities	29,760	25,944
Total liabilities	643,188	466,020
Commitments and contingencies (Note 11)		
Preferred shares, $.01 par value; 100,000,000 shares authorized; Series A Cumulative Redeemable Preferred Shares; 5,000,000 shares issued and outstanding ($127,422 liquidation preference)	50	50
Common shares, $.01 par value; 400,000,000 shares authorized; 48,747,147 shares and 39,763,930 shares issued and outstanding, respectively	487	398
Additional paid-in capital	970,998	799,278
Cumulative dividends in excess of net income	(41,556)	(32,089)
Accumulated other comprehensive loss	(88)	(829)
Total shareholders' equity	929,891	766,808
Total liabilities and shareholders' equity	$1,573,079	$1,232,828

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
REVENUE				
Rooms	$95,547	$58,632	$234,037	$148,394
Food and beverage	21,955	14,488	62,180	38,299
Other	4,941	2,740	12,397	6,483
Total revenue	122,443	75,860	308,614	193,176
EXPENSES				
Hotel operating expenses:				
Rooms	20,861	12,620	54,047	33,297
Food and beverage	17,558	10,368	47,292	27,750
Other direct	2,333	1,357	6,040	3,193
Indirect	38,780	23,640	100,485	63,240
Total hotel operating expenses	79,532	47,985	207,864	127,480
Depreciation and amortization	12,335	7,215	32,012	20,422
Air rights contract amortization	130	130	390	390
Corporate general and administrative	2,936	3,010	9,921	8,606
Hotel acquisition costs	59	2,474	4,195	2,917
Total operating expenses	94,992	60,814	254,382	159,815
Operating income	27,451	15,046	54,232	33,361
Interest income	4	74	247	96
Interest expense	(7,199)	(5,425)	(18,986)	(15,615)
Loss on early extinguishment of debt	(372)	—	(372)	—
Income before income taxes	19,884	9,695	35,121	17,842
Income tax expense	(641)	(662)	(1,331)	(552)
Net income	19,243	9,033	33,790	17,290
Preferred share dividends	(2,422)	(1,991)	(7,266)	(1,991)
Net income available to common shareholders	$16,821	$7,042	$26,524	$15,299
Net income available per common share—basic and diluted	$0.35	$0.21	$0.56	$0.47

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$19,243	$9,033	$33,790	$17,290
Other comprehensive income:				
Unrealized losses on cash flow hedge instruments	(38)	(231)	(93)	(671)
Reclassification of unrealized losses on cash flow hedge instruments to interest expense	297	255	834	725
Comprehensive income	$19,502	$9,057	$34,531	$17,344

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

Table of Contents

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

	Preferred Shares		Common Shares		Additional Paid-In Capital	Cumulative Dividends in Excess of Net Income	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balances at December 31, 2012	5,000,000	$ 50	39,763,930	$ 398	$ 799,278	$ (32,089)	$ (829)	$ 766,808
Sale of common shares, net of underwriting fees and offering costs	—	—	8,494,758	85	169,364	—	—	169,449
Repurchase of common shares	—	—	(49,625)	(1)	(1,097)	—	—	(1,098)
Issuance of restricted common shares	—	—	535,400	5	(5)	—	—	—
Issuance of unrestricted common shares	—	—	2,684	—	60	—	—	60
Amortization of deferred compensation	—	—	—	—	3,398	—	—	3,398
Declaration of dividends on common shares	—	—	—	—	—	(35,991)	—	(35,991)
Declaration of dividends on preferred shares	—	—	—	—	—	(7,266)	—	(7,266)
Net income	—	—	—	—	—	33,790	—	33,790
Other comprehensive income	—	—	—	—	—	—	741	741
Balances at September 30, 2013	5,000,000	$ 50	48,747,147	$ 487	$ 970,998	$ (41,556)	$ (88)	$ 929,891

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

Table of Contents

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

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	$33,790	$17,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,012	20,422
Air rights contract amortization	390	390
Deferred financing costs amortization	2,102	1,488
Loss on early extinguishment of debt	372	—
Share-based compensation	3,458	2,348
Other	(155)	(392)
Changes in assets and liabilities:		
Accounts receivable, net	(9,628)	(7,177)
Prepaid expenses and other assets	(1,194)	(345)
Accounts payable and accrued expenses	10,467	10,057
Other liabilities	782	19
Net cash provided by operating activities	72,396	44,100
Cash flows from investing activities:		
Acquisition of hotels, net of cash acquired	(331,058)	(184,702)
Deposit on hotel acquisition	—	(2,000)
Receipt of deposit on hotel acquisition	700	—
Improvements and additions to hotels	(19,510)	(17,530)
Repayment of (investment in) hotel construction loan	7,810	(6,478)
Change in restricted cash	(8,066)	(5,160)
Net cash used in investing activities	(350,124)	(215,870)
Cash flows from financing activities:		
Proceeds from sale of common shares, net of underwriting fees	169,855	132,756
Proceeds from sale of preferred shares, net of underwriting fees	—	121,062
Payment of offering costs related to sale of common and preferred shares	(406)	(637)
Borrowings under revolving credit facility	105,000	148,000
Repayments under revolving credit facility	(125,000)	(293,000)
Proceeds from issuance of mortgage debt	312,500	95,000
Principal prepayment on mortgage debt	(130,000)	—
Scheduled principal payments on mortgage debt	(3,321)	(1,545)
Payment of deferred financing costs	(3,075)	(1,838)
Payment of dividends to common shareholders	(31,899)	(20,529)
Payment of dividends to preferred shareholders	(7,266)	—
Repurchase of common shares	(1,098)	(621)
Net cash provided by financing activities	285,290	178,648
Net increase in cash	7,562	6,878
Cash and cash equivalents, beginning of period	33,194	20,960
Cash and cash equivalents, end of period	$40,756	$27,838
Supplemental disclosure of cash flow information:		
Cash paid for interest	$16,363	$14,005

Cash paid for income taxes	$1,186	$470

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

Table of Contents

CHESAPEAKE LODGING TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Description of Business

Chesapeake Lodging Trust (the “Trust”) is a self-advised real estate investment trust (“REIT”) that was organized in the state of Maryland in June 2009. The Trust is focused on investments primarily in upper-upscale hotels in major business and convention markets and, on a selective basis, premium select-service hotels in urban settings or unique locations in the United States of America (“U.S.”). The Trust completed its initial public offering (“IPO”) on January 27, 2010. As of September 30, 2013, the Trust owned 20 hotels with an aggregate of 5,932 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 CHSP TRS LLC (“CHSP TRS”), which is a wholly owned subsidiary of the Operating Partnership. CHSP TRS then engages hotel management companies to operate the hotels pursuant to management agreements. CHSP TRS is treated as a taxable REIT subsidiary for federal income tax purposes.

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, 2012.

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

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

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

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

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

Table of Contents

The Trust reviews its hotels for impairment whenever events or changes in circumstances indicate that the carrying values of the hotels may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the hotels due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel's estimated fair market value is recorded and an impairment loss is recognized. No impairment losses have been recognized for the three and nine months ended September 30, 2013 and 2012.

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. The Trust will classify the loss, together with the related operating results, as discontinued operations in the consolidated statements of operations and classify the related assets and liabilities as held for sale in the consolidated balance sheets. As of September 30, 2013, the Trust had no assets held for sale or liabilities related to assets held for sale.

Revenue Recognition—Revenues from operations of the hotels are recognized when the services are provided. Revenues consist of room sales, food and beverage sales, and other hotel department revenues, such as parking, marina, 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, deferred franchise costs, loan receivables, inventories, 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.

Derivative Instruments—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 these derivative instruments at fair value as either assets or liabilities and has designated 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 CHSP TRS, the Trust’s wholly owned taxable REIT subsidiary, and that is currently distributed to its shareholders. CHSP TRS, which leases the Trust’s hotels from the Operating Partnership, is subject to federal and state income taxes.

Table of Contents

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. 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 February 2013, the Financial Accounting Standards Board (the "FASB") issued updated accounting guidance to improve the reporting of amounts reclassified out of accumulated other comprehensive income. The new accounting guidance requires information to be provided about the amounts reclassified out of accumulated other comprehensive income by component and to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by respective line items of net income. The new accounting guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2012. The Trust adopted the new accounting guidance on January 1, 2013. The Trust does not believe that the adoption of this guidance has a material impact on the interim consolidated financial statements.

Table of Contents

3. Acquisition of Hotels

The Trust has acquired the following hotels since January 1, 2012 (in thousands, except rooms data):

Hotel	Location	Rooms	Net Assets Acquired	Acquisition Date
2012 Acquisitions:				
W Chicago – Lakeshore	Chicago, IL	520	$124,920	August 21, 2012
Hyatt Regency Mission Bay Spa and Marina[(1)]	San Diego, CA	429	59,900	September 7, 2012
The Hotel Minneapolis, Autograph Collection	Minneapolis, MN	222	46,372	October 30, 2012
		1,171	$231,192	
2013 Acquisitions:				
Hyatt Place New York Midtown South	New York, NY	185	$76,362	March 14, 2013
W New Orleans – French Quarter	New Orleans, LA	97	25,595	March 28, 2013
W New Orleans	New Orleans, LA	410	65,786	April 25, 2013
Hyatt Fisherman's Wharf	San Francisco, CA	313	102,485	May 31, 2013
Hyatt Santa Barbara	Santa Barbara, CA	200	60,972	June 27, 2013
		1,205	$331,200	

(1) As part of the acquisition, the Trust assumed a ground lease, which has an initial term ending January 2056. See Note 11, "Commitments and Contingencies," for additional information relating to the lease agreement.

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

	2013 Acquisitions
Land and land improvements	$82,462
Buildings and leasehold improvements	228,349
Furniture, fixtures and equipment	20,140
Cash	142
Accounts receivable, net	2,084
Prepaid expenses and other assets	1,633
Accounts payable and accrued expenses	(3,610)
Net assets acquired	$331,200

The following financial information presents the pro forma results of operations of the Trust for the three and nine months ended September 30, 2013 and 2012 as if all the 2012 and 2013 hotel acquisitions had taken place on January 1, 2012. The pro forma results for the three and nine months ended September 30, 2013 and 2012 have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have actually occurred had all transactions taken place on January 1, 2012, or of future results of operations (in thousands, except per share data).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total revenue	$122,443	$114,670	$336,859	$310,519
Total hotel operating expenses	79,532	77,045	231,335	220,143
Total operating expenses	94,938	90,785	276,990	260,834
Operating income	27,505	23,885	59,869	49,685
Net income available to common shareholders	16,974	13,874	30,997	21,549
Net income available per common share—basic and diluted	$0.35	$0.29	$0.64	$0.45

Table of Contents

For the three and nine months ended September 30, 2013, the consolidated statements of operations included total revenue of $24.1 million and $39.6 million, respectively, and total hotel operating expenses of $17.1 million and $26.7 million, respectively, related to the operations of the five hotels acquired in 2013.

4. Property and Equipment

Property and equipment as of September 30, 2013 and December 31, 2012 consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Land and land improvements	$262,282	$179,786
Buildings and leasehold improvements	1,135,041	897,725
Furniture, fixtures and equipment	101,736	76,077
Construction-in-progress	11,230	6,240
	1,510,289	1,159,828
Less: accumulated depreciation and amortization	(84,118)	(52,106)
Property and equipment, net	$1,426,171	$1,107,722

5. Intangible Assets and Liability

Intangible assets and liability as of September 30, 2013 and December 31, 2012 consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Intangible assets:		
Air rights contract	$36,105	$36,105
Favorable ground leases	4,828	4,828
	40,933	40,933
Less: accumulated amortization	(2,002)	(1,551)
Intangible assets, net	$38,931	$39,382
Intangible liability:		
Unfavorable contract liability	$14,236	$14,236
Less: accumulated amortization	(785)	(490)
Intangible liability, net (included within other liabilities)	$13,451	$13,746

6. Long-Term Debt

Long-term debt as of September 30, 2013 and December 31, 2012 consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Revolving credit facility	$30,000	$50,000
Term loans	60,000	155,000
Other mortgage loans	473,578	199,399
	563,578	404,399
Unamortized premium	651	809
Long-term debt	$564,229	$405,208

Revolving credit facility

On October 25, 2012, the Trust entered into an amended credit agreement to (1) increase the maximum size of the revolving credit facility from $200.0 million to $250.0 million, (2) lower the interest rate to LIBOR plus 1.75% - 2.75% (the spread over LIBOR continues to be based on the Trust's consolidated leverage ratio), and (3) extend the maturity date to April 2016. The amended credit agreement provides for the possibility of further future increases, up to a maximum of $375.0

12

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.

As of September 30, 2013, the interest rate in effect for borrowings under the revolving credit facility was 1.93%. The amount that the Trust can borrow under the revolving credit facility is based on the value of the Trust's hotels included in the borrowing base, as defined in the amended credit agreement. As of September 30, 2013, the revolving credit facility was secured by nine hotels providing borrowing availability of $250.0 million, of which $220.0 million remained available. The amended credit agreement contains standard financial covenants, including certain leverage ratios, coverage ratios, and a minimum tangible net worth requirement.

Term loans

On July 3, 2012, the Trust entered into a loan agreement to obtain a $60.0 million term loan. The initial term of the loan matures in July 2014 and the Trust has three one-year extension options that may be exercised subject to certain conditions. At the initial closing, $25.0 million was advanced by the lender and was secured by the Holiday Inn New York City Midtown – 31st Street. On March 14, 2013, $35.0 million was advanced by the lender in connection with the acquisition of the Hyatt Place New York Midtown South. Following the subsequent advance, the entire $60.0 million principal amount of the loan is secured by both hotels. The loan bears interest equal to LIBOR plus 3.25%. Contemporaneous with the closing of the term loan, the Trust entered into an interest rate swap to effectively fix the interest rate on the initial $25.0 million advance for the original two-year term at 3.75% per annum. Under the terms of the interest rate swap, the Trust pays fixed interest of 0.50% per annum on a notional amount of $25.0 million and receives floating rate interest equal to the one-month LIBOR. The effective date of the interest rate swap is July 3, 2012 and it matures on July 3, 2014. Contemporaneous with the subsequent advance, the Trust entered into an interest rate swap to effectively fix the interest rate on the $35.0 million subsequent advance for the remaining initial term of the loan at 3.65% per annum. Under the terms of the interest rate swap, the Trust pays fixed interest of 0.40% per annum on a notional amount of $35.0 million and receives floating rate interest equal to the one-month LIBOR. The effective date of the interest rate swap is March 14, 2013 and it matures on July 3, 2014.

On July 11, 2013, the Trust prepaid its previous $130.0 million term loan secured by the Le Meridien San Francisco and the W Chicago – City Center, which was scheduled to mature in July 2014. The Trust recorded a loss on early extinguishment of debt of $0.4 million during the three months ended September 30, 2013 related to the write-off of unamortized deferred financing costs associated with the $130.0 million term loan. The Trust also reclassified $0.3 million from accumulated other comprehensive loss to interest expense during the three months ended September 30, 2013 related to the termination of an interest rate cap associated with the $130.0 million term loan.

Other mortgage loans

On July 27, 2012, the Trust entered into a loan agreement to obtain a $70.0 million loan secured by the Denver Marriott City Center. 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 loan carries a fixed interest rate of 4.90% per annum, with principal and interest payments based on a 30-year principal amortization.

On February 15, 2013, the Trust entered into a loan agreement to obtain a $32.0 million loan, which matures in March 2023 and is secured by the Hilton Checkers Los Angeles. The loan carries a fixed interest rate of 4.11% per annum, with principal and interest payments based on a 30-year principal amortization.

On May 3, 2013, the Trust entered into a loan agreement to obtain a $60.0 million loan, which matures in June 2020 and is secured by the Boston Marriott Newton. The loan carries a fixed interest rate of 3.63% per annum, with principal and interest payments based on a 25-year principal amortization.

On July 11, 2013, the Trust entered into a loan agreement to obtain a $92.5 million loan, which matures in August 2020 and is secured by the Le Meridien San Francisco. The loan carries a fixed interest rate of 3.50% per annum, with principal and interest payments based on a 25-year principal amortization. Also on July 11, 2013, the Trust entered into a loan agreement to obtain a $93.0 million loan, which matures in August 2023 and is secured by the W Chicago – City Center. The loan carries a fixed interest rate of 4.25% per annum, with principal and interest payments based on a 25-year principal amortization.

Table of Contents

As of September 30, 2013, the Trust was in compliance with all financial covenants under its borrowing arrangements. As of September 30, 2013, the Trust's weighted-average interest rate on its long-term debt was 4.18%. Future scheduled principal payments of debt obligations (assumes no exercise of extension options) as of September 30, 2013 are as follows (in thousands):

Year	Amounts
2013	$2,405
2014	69,837
2015	10,271
2016	161,323
2017	8,598
Thereafter	311,144
	$563,578

7. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator:				
Net income available to common shareholders	$16,821	$7,042	$26,524	$15,299
Less: Dividends declared on unvested time-based awards	(98)	(34)	(276)	(102)
Less: Undistributed earnings allocated to unvested time-based awards	(33)	—	—	—
Net income available to common shareholders, excluding amounts attributable to unvested time-based awards	$16,690	$7,008	$26,248	$15,197
Denominator:				
Weighted-average number of common shares outstanding—basic and diluted	47,885,696	32,971,594	46,759,598	32,254,777
Net income available per common share—basic and diluted	$0.35	$0.21	$0.56	$0.47

For the three and nine months ended September 30, 2013, 344,900 unvested performance-based awards, and for the three and nine months ended September 30, 2012, 63,870 unvested performance-based awards, 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 or their effect would have been anti-dilutive.

8. Shareholders' Equity

Common Shares—The Trust is authorized to issue up to 400,000,000 common shares, $.01 par value per share. Each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders. Holders of the Trust's common shares are entitled to receive distributions when authorized by the Trust's board of trustees out of assets legally available for the payment of distributions.

On September 18, 2012, the Trust completed an underwritten public offering of 7,475,000 common shares at a price of $18.50 per share, including 975,000 shares sold pursuant to the underwriters' exercise of their option to purchase additional shares. After deducting underwriting fees and offering costs, the Trust generated net proceeds of $132.6 million.

On February 6, 2013, the Trust completed an underwritten public offering of 8,337,500 common shares at a price of $20.75 per share, including 1,087,500 shares sold pursuant to the underwriters' exercise of their option to purchase additional shares. After deducting underwriting fees and offering costs, the Trust generated net proceeds of $165.9 million.

On September 6, 2013, the Trust entered into sales agreements with two sales agents, pursuant to which the Trust may issue and sell up to $100.0 million in the aggregate of its common shares through a continuous at-the-market offering or other methods (the “ATM program”). For the nine months ended September 30, 2013, the Trust sold 157,258 common shares at an

14

average price of $24.23 per share under the ATM program and generated net proceeds of $3.7 million after deducting sales commissions and offering costs. As of September 30, 2013, $96.2 million of common shares remained available for issuance under the ATM program. Subsequent to September 30, 2013 and through November 6, 2013, the Trust sold 854,800 common shares at an average price of $23.64 per share under the ATM program and generated net proceeds of $20.0 million after deducting sales commissions and offering costs.

For the nine months ended September 30, 2013, the Trust issued 2,684 unrestricted common shares and 535,400 restricted common shares to its trustees and employees. For the nine months ended September 30, 2013, the Trust repurchased 49,625 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 September 30, 2013, the Trust had 48,747,147 common shares outstanding.

For the nine months ended September 30, 2013, 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 2012	December 31, 2012	January 15, 2013	$0.22
First Quarter 2013	March 29, 2013	April 15, 2013	$0.24
Second Quarter 2013	June 28, 2013	July 15, 2013	$0.24
Third Quarter 2013	September 30, 2013	October 15, 2013	$0.26

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.

On July 17, 2012, the Trust completed an underwritten public offering of 5,000,000 shares of its 7.75% Series A Cumulative Redeemable Preferred Shares, including 600,000 shares sold pursuant to the underwriters’ exercise of their over-allotment option. After deducting underwriting fees and offering costs, the Trust generated net proceeds of $120.6 million. As of September 30, 2013, the Trust had 5,000,000 shares of its 7.75% Series A Cumulative Redeemable Preferred Shares outstanding.

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

For the nine months ended September 30, 2013, the Trust paid or its board of trustees declared the following dividends per preferred share:

	Record Date	Payment Date	Dividend Per Series A Cumulative Redeemable Preferred Share
Fourth Quarter 2012	December 31, 2012	January 15, 2013	$0.484375
First Quarter 2013	March 29, 2013	April 15, 2013	$0.484375
Second Quarter 2013	June 28, 2013	July 15, 2013	$0.484375
Third Quarter 2013	September 30, 2013	October 15, 2013	$0.484375

The Trust cannot redeem the Series A Cumulative Redeemable Preferred Shares prior to July 17, 2017, except as described below and in certain limited circumstances related to the ownership limitation necessary to preserve the Trust's qualification as a REIT. On and after July 17, 2017, the Trust, at its option, can redeem the Series A Cumulative Redeemable Preferred Shares, in whole or from time to time in part, at a redemption price of $25.00 per

share, plus any accrued and unpaid dividends. The holders of Series A Cumulative Redeemable Preferred Shares have no voting rights except, in certain limited circumstances.

Table of Contents

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

Universal Shelf—In August 2012, the Trust filed a Registration Statement on Form S-3 with the SEC, registering equity securities with a maximum aggregate offering price of up to $500.0 million. As of September 30, 2013, equity securities with a maximum aggregate offering price of $88.7 million remained available to issue under this Registration Statement.

9. Equity Plan

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

The Trust initially reserved 454,657 common shares for issuance under the Plan at its establishment. In May 2012, the Trust’s common shareholders approved an amendment to the Plan such that the number of shares available for issuance under the Plan was increased by 2,750,000. Shares that are issued under the Plan to any person pursuant to an award are counted against this limit as one share for every one share granted. If any shares covered by an award are not purchased or are forfeited, if an award is settled in cash, or if an award otherwise terminates without delivery of any shares, then the number of common 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 September 30, 2013, subject to increases that may result in the case of any future forfeiture or termination of currently outstanding awards, 2,050,490 common shares were reserved and available for future issuances under the Plan.

The Trust will make appropriate adjustments to outstanding awards and the number of shares available for issuance under the Plan, including the individual limitations on awards, to reflect share dividends, share splits, spin-offs and other similar events. While the compensation committee can terminate or amend the Plan at any time, no amendment can adversely impair the rights of grantees with respect to outstanding awards. In addition, an amendment will be contingent on approval of the Trust’s common shareholders to the extent required by law or if the amendment would materially increase the benefits accruing to participants under the Plan, materially increase the aggregate number of shares that can be issued under the Plan, or materially modify the requirements as to eligibility for participation in the Plan. Unless terminated earlier, the Plan will terminate in January 2020, but will continue to govern unexpired awards.

For the nine months ended September 30, 2013, the Trust granted 535,400 restricted common shares to certain employees and trustees, of which 190,500 shares were time-based awards and 344,900 shares were performance-based awards. The time-based awards are generally eligible to vest at the rate of one-fourth of the number of restricted shares granted commencing on the first anniversary of their issuance. The performance-based awards are eligible to vest at the rate of one-fourth of the number of restricted shares granted commencing on December 31, 2013 and each year thereafter. Additional vesting of performance-based awards can also occur at December 31, 2016 based on the cumulative level of relative total shareholder return during the entire performance measurement period. Dividends on these performance-based awards accrue, but are not paid unless the related shares vest. The fair value of the 2013 performance-based awards was determined using a Monte Carlo simulation with the following assumptions: volatility

of 31.15%; an expected term equal to the requisite service period for the awards; and a risk-free interest rate of 0.55%. As of September 30, 2013, there was approximately $10.0 million of unrecognized share-based compensation expense related to restricted common shares. The unrecognized share-based compensation expense is expected to be recognized over a weighted-average period of 2.8 years.

Table of Contents

The following is a summary of the Trust’s restricted common share activity for the nine months ended September 30, 2013:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Restricted common shares as of December 31, 2012	341,583	$ 19.59
Granted	535,400	$ 17.48
Vested	(155,183)	$ 18.67
Forfeited	—	$ —
Restricted common shares as of September 30, 2013	721,800	$ 18.22

10. Fair Value Measurements and Derivative Instruments

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 September 30, 2013			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swaps (included within other liabilities)	$88	$—	$88	$—
	$88	$—	$88	$—

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 September 30, 2013, the carrying value reported in the consolidated balance sheet for the Trust's long-term debt approximated its fair value.

11. Commitments and Contingencies

Management Agreements—The Trust’s hotels operate pursuant to management agreements with various third-party management companies. Each management company receives a base management fee generally between 2% and 4% of hotel revenues. The management companies are also eligible to receive an incentive management fee if hotel operating income, as defined in the management agreements, exceeds certain performance thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Trust has received a priority return on its investment in the hotel.

Franchise Agreements—As of September 30, 2013, 12 of the Trust’s hotels operated pursuant to franchise agreements with hotel brand companies and eight hotels operated pursuant to management agreements with hotel brand companies that allowed them to operate under their respective brands. Under the 12 franchise agreements, the Trust generally pays a royalty fee ranging from 3% to 6% of room revenues and up to 3% of food and beverage revenues, plus additional fees for marketing, central reservation systems, and other franchisor costs that amount to between 1% and 5% of room revenues.

Ground Lease Agreement—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 $2.2 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 2016. 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.

Table of Contents

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.

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, 2012 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 or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report, except as required by law.

Table of Contents

Overview

The Trust was organized as a self-advised REIT in the state of Maryland in June 2009, with a focus on investments primarily in upper-upscale hotels in major business and convention markets and, on a selective basis, premium select-service hotels in urban settings or unique locations in the U.S. We completed our IPO in January 2010 and have since acquired the following 20 hotels:

Hotel	Location	Rooms	Acquisition Date
Hyatt Regency Boston	Boston, MA	502	March 18, 2010
Hilton Checkers Los Angeles	Los Angeles, CA	193	June 1, 2010
Courtyard Anaheim at Disneyland Resort	Anaheim, CA	153	July 30, 2010
Boston Marriott Newton	Newton, MA	430	July 30, 2010
Le Meridien San Francisco	San Francisco, CA	360	December 15, 2010
Homewood Suites Seattle Convention Center	Seattle, WA	195	May 2, 2011
W Chicago – City Center	Chicago, IL	403	May 10, 2011
Hotel Indigo San Diego Gaslamp Quarter	San Diego, CA	210	June 17, 2011
Courtyard Washington Capitol Hill/Navy Yard	Washington, DC	204	June 30, 2011
Hotel Adagio San Francisco, Autograph Collection	San Francisco, CA	171	July 8, 2011
Denver Marriott City Center	Denver, CO	613	October 3, 2011
Holiday Inn New York City Midtown – 31st Street	New York, NY	122	December 22, 2011
W Chicago – Lakeshore	Chicago, IL	520	August 21, 2012
Hyatt Regency Mission Bay Spa and Marina	San Diego, CA	429	September 7, 2012
The Hotel Minneapolis, Autograph Collection	Minneapolis, MN	222	October 30, 2012
Hyatt Place New York Midtown South	New York, NY	185	March 14, 2013
W New Orleans – French Quarter	New Orleans, LA	97	March 28, 2013
W New Orleans	New Orleans, LA	410	April 25, 2013
Hyatt Fisherman's Wharf	San Francisco, CA	313	May 31, 2013
Hyatt Santa Barbara	Santa Barbara, CA	200	June 27, 2013
		5,932	

Hotel Operating Metrics

We believe that the results of operations of our hotels are best explained by three key performance indicators: occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR"), which is room revenue divided by total number of available rooms. RevPAR does not include food and beverage revenues or other ancillary revenues, such as parking, telephone or other guest services provided by the hotel.

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

Executive Summary

We were pleased with our hotel portfolio performance during the quarter despite a few headwinds. Pro forma RevPAR growth for our hotel portfolio during the third quarter of 2013 was 4.2%, which was driven by an increase in pro forma occupancy of 0.2 percentage points to 84.9% and an increase in pro forma ADR of 4.0%. Our hotel portfolio underperformed the overall U.S. lodging industry RevPAR growth of 5.5%, as reported by Smith Travel Research, as a result of several factors affecting our portfolio.

During the quarter, we commenced on our comprehensive renovation of the W Chicago - Lakeshore earlier than previously expected. In addition, convention calendars in certain of our markets, including New Orleans and Boston, were weaker in the third quarter of 2013 as compared to the same period in 2012 resulting in lower demand for rooms at certain of our hotels in those markets. Lastly, the ongoing federal sequestration put into effect earlier this year, and more recently, the government shutdown in the fourth quarter of 2013, have negatively impacted certain of our hotels in a few markets, including

Table of Contents

Washington, Denver, and San Diego. Despite these factors, our overall hotel portfolio performed well and our hotel operators were able to reduce or limit increases in expenses, thereby increasing hotel profitability and operating margins significantly during the quarter.
The U.S. economy continues to improve despite ongoing uncertainty surrounding U.S. fiscal policy. We continue to see positive economic indicators, including strong levels of corporate profits, a decreasing unemployment rate, and increased levels of consumer confidence and sentiment. We believe supply and demand dynamics in the geographic markets in which our hotels are concentrated will remain strong for the foreseeable future.

Results of Operations
Comparison of three months ended September 30, 2013 and 2012
Results of operations for the three months ended September 30, 2013 include the operating activity of 20 hotels for the full quarter, whereas the results of operations for the three months ended September 30, 2012 include the operating activity of 12 hotels for the full quarter and two hotels for part of the quarter. As a result, comparisons of results of operations between the periods are not meaningful.
Revenues—Total revenue for the three months ended September 30, 2013 and 2012 was $122.4 million and $75.9 million, respectively. Total revenue for the three months ended September 30, 2013 included rooms revenue of $95.5 million, food and beverage revenue of $22.0 million, and other revenue of $4.9 million. Total revenue for the three months ended September 30, 2012 included rooms revenue of $58.6 million, food and beverage revenue of $14.5 million, and other revenue of $2.7 million.
Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the three months ended September 30, 2013 and 2012 were $79.5 million and $48.0 million, respectively. Direct hotel operating expenses for the three months ended September 30, 2013 included rooms expense of $20.9 million, food and beverage expense of $17.6 million, and other direct expenses of $2.3 million. Direct hotel operating expenses for the three months ended September 30, 2012 included rooms expense of $12.6 million, food and beverage expense of $10.4 million, and other direct expenses of $1.4 million. Indirect hotel operating expenses, which includes management and franchise fees, lease expense, real estate taxes, insurance, utilities, repairs and maintenance, advertising and sales, and general and administrative expenses, for the three months ended September 30, 2013 and 2012 were $38.8 million and $23.6 million, respectively.
Depreciation and amortization—Depreciation and amortization expense for the three months ended September 30, 2013 and 2012 was $12.3 million and $7.2 million, respectively. The increase in depreciation and amortization expense was directly attributable to the increase in investment in hotels since September 30, 2012.
Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the three months ended September 30, 2013 and 2012 was $0.1 million.
Corporate general and administrative—Corporate general and administrative expense for the three months ended September 30, 2013 and 2012 was $2.9 million and $3.0 million, respectively. Included in corporate general and administrative expense for the three months ended September 30, 2013 and 2012 was $1.2 million and $0.8 million, respectively, of non-cash share-based compensation expense. The increase in non-cash share-based compensation expense related to restricted common shares granted to employees since September 30, 2012.
Hotel acquisition costs—Hotel acquisition costs for the three months ended September 30, 2013 and 2012 was $0.1 million and $2.5 million, respectively. The decrease in hotel acquisition costs is a result of no hotel acquisitions occurring during the three months ended September 30, 2013, as compared to two hotel acquisitions occurring during the three months ended September 30, 2012.
Interest income—Interest income on cash and cash equivalents and from a loan receivable for the three months ended September 30, 2013 and 2012 was $4 thousand and $74 thousand, respectively.
Interest expense—Interest expense for the three months ended September 30, 2013 and 2012 was $7.2 million and $5.4 million, respectively. The increase in interest expense is directly related to the increase in long-term debt outstanding.
Loss on early extinguishment of debt—Loss on early extinguishment of debt for the three months ended September 30, 2013 was $0.4 million. The loss on early extinguishment of debt was related to the write-off of unamortized deferred financing costs associated with the prepayment of a previous $130.0 million term loan secured by the Le Meridien San

Francisco and the W Chicago – City Center during the period.

Income tax expense—Income tax expense for the three months ended September 30, 2013 and 2012 was $0.6 million and $0.7 million, respectively. Income tax expense is directly related to taxable income generated by our TRS during the periods.

Table of Contents

Comparison of nine months ended September 30, 2013 and 2012

Results of operations for the nine months ended September 30, 2013 include the operating activity of 15 hotels for the full period and five hotels for part of the period, whereas the results of operations for the nine months ended September 30, 2012 include the operating activity of 11 hotels for the full period and three hotels for part of the period. As a result, comparisons of results of operations between the periods are not meaningful.

Revenues—Total revenue for the nine months ended September 30, 2013 and 2012 was $308.6 million and $193.2 million, respectively. Total revenue for the nine months ended September 30, 2013 included rooms revenue of $234.0 million, food and beverage revenue of $62.2 million, and other revenue of $12.4 million. Total revenue for the nine months ended September 30, 2012 included rooms revenue of $148.4 million, food and beverage revenue of $38.3 million, and other revenue of $6.5 million.

Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the nine months ended September 30, 2013 and 2012 were $207.9 million and $127.5 million, respectively. Direct hotel operating expenses for the nine months ended September 30, 2013 included rooms expense of $54.0 million, food and beverage expense of $47.3 million, and other direct expenses of $6.0 million. Direct hotel operating expenses for the nine months ended September 30, 2012 included rooms expense of $33.3 million, food and beverage expense of $27.8 million, and other direct expenses of $3.2 million. Indirect hotel operating expenses, which includes management and franchise fees, lease expense, real estate taxes, insurance, utilities, repairs and maintenance, advertising and sales, and general and administrative expenses, for the nine months ended September 30, 2013 and 2012 were $100.5 million and $63.2 million, respectively.

Depreciation and amortization—Depreciation and amortization expense for the nine months ended September 30, 2013 and 2012 was $32.0 million and $20.4 million, respectively. The increase in depreciation and amortization expense was directly attributable to the increase in investment in hotels since September 30, 2012.

Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the nine months ended September 30, 2013 and 2012 was $0.4 million.

Corporate general and administrative—Corporate general and administrative expense for the nine months ended September 30, 2013 and 2012 was $9.9 million and $8.6 million, respectively. Included in corporate general and administrative expense for the nine months ended September 30, 2013 and 2012 was $3.5 million and $2.3 million, respectively, of non-cash share-based compensation expense. The increase in non-cash share-based compensation expense related to restricted common shares granted to employees since September 30, 2012.

Hotel acquisition costs—Hotel acquisition costs for the nine months ended September 30, 2013 and 2012 was $4.2 million and $2.9 million, respectively. The increase in hotel acquisition costs is a result of five hotel acquisitions occurring during the nine months ended September 30, 2013, as compared to two hotel acquisitions occurring during the nine months ended September 30, 2012.

Interest income—Interest income on cash and cash equivalents and from a loan receivable for the nine months ended September 30, 2013 and 2012 was $0.2 million and $0.1 million, respectively.

Interest expense—Interest expense for the nine months ended September 30, 2013 and 2012 was $19.0 million and $15.6 million, respectively. The increase in interest expense is directly related to the increase in long-term debt outstanding.

Loss on early extinguishment of debt—Loss on early extinguishment of debt for the nine months ended September 30, 2013 was $0.4 million. The loss on early extinguishment of debt was related to the write-off of unamortized deferred financing costs associated with the prepayment of a previous $130.0 million term loan secured by the Le Meridien San Francisco and the W Chicago – City Center during the period.

Income tax expense—Income tax expense for the nine months ended September 30, 2013 and 2012 was $1.3 million and $0.6 million, respectively. Income tax expense is directly related to taxable income generated by our TRS during the periods.

Hotel operating results

Management assesses the operating performance of its hotels irrespective of the hotel owner during the periods compared. Included in the following table are comparisons, on a pro forma basis, of occupancy, ADR, RevPAR, Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin, the key operating metrics that management uses to assess the performance of its hotels. The key operating metrics include the hotel operating results of 19 of the Trust's

20 hotels owned as of September 30, 2013. The key operating metrics do not include operating results for the Hyatt Place New York Midtown South, as the hotel does not have comparable prior year operating results given it was newly developed in 2013.

Table of Contents

The following is a summary of the key operating metrics for the three and nine months ended September 30, 2013 and 2012 (in thousands, except for pro forma ADR and pro forma RevPAR):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Change	2013	2012	Change
Pro forma occupancy	84.9 %	84.7 %	20 bps	80.9 %	79.6 %	130 bps
Pro forma ADR	$203.58	$195.80	4.0%	$193.53	$187.17	3.4%
Pro forma RevPAR	$172.76	$165.83	4.2%	$156.64	$148.94	5.2%
Pro forma Adjusted Hotel EBITDA	$40,732	$37,555	8.5%	$100,408	$90,167	11.4%
Pro forma Adjusted Hotel EBITDA Margin	34.5 %	32.8 %	170 bps	30.7 %	29.0 %	170 bps

The increase in pro forma RevPAR for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 was primarily driven by pro forma RevPAR increases at the Hotel Adagio San Francisco, Autograph Collection, the Hotel Indigo San Diego Gaslamp Quarter, the Homewood Suites Seattle Convention Center, The Hotel Minneapolis, Autograph Collection, the Le Meridien San Francisco, the Hyatt Fisherman's Wharf, the W New Orleans – French Quarter, and the Hyatt Santa Barbara. The increase in pro forma RevPAR for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 was primarily driven by pro forma RevPAR increases at the Hotel Adagio San Francisco, Autograph Collection, the Holiday Inn New York City Midtown – 31st Street, the Hotel Indigo San Diego Gaslamp Quarter, the W New Orleans – French Quarter, The Hotel Minneapolis, Autograph Collection, the Hyatt Santa Barbara, the Homewood Suites Seattle Convention Center, and the Hyatt Fisherman's Wharf.

The increase in pro forma Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 was primarily driven by pro forma Adjusted Hotel EBITDA increases at the Hotel Adagio San Francisco, Autograph Collection, the Hotel Indigo San Diego Gaslamp Quarter, the W New Orleans – French Quarter, The Hotel Minneapolis, Autograph Collection, the Denver Marriott City Center, and the Hyatt Fisherman's Wharf. The increase in pro forma Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 was primarily driven by pro forma Adjusted Hotel EBITDA increases at the W Chicago – City Center, the Hotel Adagio San Francisco, Autograph Collection, the Denver Marriott City Center, the Holiday Inn New York City Midtown – 31st Street, The Hotel Minneapolis, Autograph Collection, the W New Orleans – French Quarter, the Hotel Indigo San Diego Gaslamp Quarter, and the Hyatt Fisherman's Wharf.

Non-GAAP Financial Measures

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

FFO—We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"), which defines FFO as net income (calculated in accordance with GAAP), excluding depreciation and amortization, impairment charges, gains (losses) from sales of real estate, the cumulative effect of changes in accounting principles, and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most industry investors consider presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. By excluding the effect of depreciation and amortization and gains (losses) from sales of

real estate, both of which are based on historical cost accounting and which may be of lesser significance in evaluating current performance, we believe that FFO provides investors a useful financial measure to evaluate our operating performance.

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

Table of Contents

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

The following table reconciles net income to FFO, FFO available to common shareholders, and AFFO available to common shareholders for the three and nine months ended September 30, 2013 and 2012 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$ 19,243	$ 9,033	$ 33,790	$ 17,290
Add: Depreciation and amortization	12,335	7,215	32,012	20,422
FFO	31,578	16,248	65,802	37,712
Less: Preferred share dividends	(2,422)	(1,991)	(7,266)	(1,991)
Dividends declared on unvested time-based awards	(98)	(34)	(276)	(102)
Undistributed earnings allocated to unvested time- based awards	(33)	—	—	—
FFO available to common shareholders	29,025	14,223	58,260	35,619
Add: Hotel acquisition costs	59	2,474	4,195	2,917
Non-cash amortization[(1)]	55	60	167	181
AFFO available to common shareholders	$ 29,139	$ 16,757	$ 62,622	$ 38,717
FFO available per common share—basic and diluted	$ 0.61	$ 0.43	$ 1.25	$ 1.10
AFFO available per common share—basic and diluted	$ 0.61	$ 0.51	$ 1.34	$ 1.20

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

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

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

23

The following table reconciles net income to Corporate EBITDA and Adjusted Corporate EBITDA for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$19,243	$9,033	$33,790	$17,290
Add: Depreciation and amortization	12,335	7,215	32,012	20,422
Interest expense	7,199	5,425	18,986	15,615
Loss on early extinguishment of debt	372	—	372	—
Income tax expense	641	662	1,331	552
Less: Interest income	(4)	(74)	(247)	(96)
Corporate EBITDA	39,786	22,261	86,244	53,783
Add: Hotel acquisition costs	59	2,474	4,195	2,917
Non-cash amortization(1)	55	60	167	181
Adjusted Corporate EBITDA	$39,900	$24,795	$90,606	$56,881

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

Hotel EBITDA—Hotel EBITDA is defined as total revenues less total hotel operating expenses. We believe that Hotel EBITDA provides investors a useful financial measure to evaluate our hotel operating performance.

Adjusted Hotel EBITDA—We further adjust Hotel EBITDA for certain additional recurring and non-recurring items. Specifically, we adjust for non-cash amortization of intangible assets and liabilities, including ground lease assets and unfavorable contract liabilities, deferred franchise costs, and deferred key money, all of which are recurring items. We believe that Adjusted Hotel EBITDA provides investors with another useful financial measure to evaluate our hotel operating performance.

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

The following table calculates for the comparable 19-hotel portfolio pro forma Hotel EBITDA, Adjusted Hotel EBITDA, and Adjusted Hotel EBITDA Margin for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total revenue	$118,115	$114,670	$327,430	$310,519
Less: Total hotel operating expenses	77,309	77,046	226,800	220,143
Hotel EBITDA	40,806	37,624	100,630	90,376
Less: Non-cash amortization(1)	(74)	(69)	(222)	(209)
Adjusted Hotel EBITDA	$40,732	$37,555	$100,408	$90,167
Adjusted Hotel EBITDA Margin	34.5%	32.8%	30.7%	29.0%

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

None of FFO, FFO available to common shareholders, AFFO available to common shareholders, Corporate EBITDA, Adjusted Corporate EBITDA, Hotel EBITDA, or Adjusted Hotel EBITDA 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, FFO, FFO available to common shareholders, AFFO available to common

shareholders, Corporate EBITDA, Adjusted Corporate EBITDA, Hotel EBITDA, and Adjusted Hotel EBITDA are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Table of Contents

Sources and Uses of Cash

For the nine months ended September 30, 2013, net cash flows from operating activities were $72.4 million; net cash flows used in investing activities were $350.1 million, including $331.1 million for the acquisition of the Hyatt Place New York Midtown South, the W New Orleans – French Quarter, the W New Orleans, the Hyatt Fisherman's Wharf, and the Hyatt Santa Barbara, and $19.5 million for improvements and additions to our hotels, offset by the receipt of $7.8 million from the repayment of a hotel construction loan; and net cash flows provided by financing activities were $285.3 million, including net proceeds of $169.4 million from the sale of common shares and proceeds of $312.5 million from the issuance of mortgage debt, offset by net repayments of $20.0 million under our revolving credit facility, a principal prepayment of $130.0 million on mortgage debt, and $39.2 million in dividend payments to common and preferred shareholders. As of September 30, 2013, we had cash and cash equivalents of $40.8 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 intend to incur indebtedness to supplement our investment capital and to maintain flexibility to respond to industry conditions and opportunities. We are targeting an overall debt level of approximately 40% of the aggregate value of all of our hotels as calculated in accordance with our revolving credit facility.

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

We expect to continue declaring distributions to shareholders, as required to maintain our REIT status, although no assurances can be made that we will continue to generate sufficient income to distribute similar aggregate amounts in the future. The per share amounts of future distributions will depend on the number of our common and preferred shares outstanding from time to time and will be determined by our board of trustees following its periodic review of our financial performance and capital requirements, and the terms of our existing borrowing arrangements.

On September 6, 2013, we entered into sales agreements with two sales agents, pursuant to which we may issue and sell up to $100.0 million in the aggregate of our common shares through a continuous at-the-market offering or other methods. For the nine months ended September 30, 2013, we sold 157,258 common shares at an average price of $24.23 per share under the ATM program and generated net proceeds of $3.7 million after deducting sales commissions and offering costs. Subsequent to September 30, 2013 and through the date of this filing, we sold 854,800 common shares at an average price of $23.64 per share under the ATM program and generated net proceeds of $20.0 million after deducting sales commissions and offering costs. As of the date of this filing, $76.0 million of common shares remained available for issuance under the ATM program.

As of the date of this filing, we have approximately $33.0 million of cash and cash equivalents, total borrowing availability of $250.0 million under our revolving credit facility, of which we have $10.0 million currently outstanding, and two unencumbered hotels. 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. Based on our targeted overall debt level, we have approximately $125.0 million to $150.0 million of remaining investment capacity to continue to grow our hotel portfolio.

Capital Expenditures

We maintain each hotel in good repair and condition and in conformity with applicable laws and regulations and in accordance with the franchisor's standards and the agreed-upon requirements in our management and loan agreements. The cost of all such routine improvements and alterations will be paid out of property improvement reserves, which will be funded by a portion of each hotel's gross revenues. Routine capital expenditures will be administered by the

management companies. However, we will have approval rights over the capital expenditures as part of the annual budget process.

From time to time, certain of our hotels may be undergoing renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, meeting space, and/or restaurants, in order to better compete with other hotels in our markets. 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.

Table of Contents

The Trust currently has the following significant renovation or repositioning projects in process:

- W Chicago – Lakeshore—A comprehensive renovation encompassing guestrooms, public spaces, restaurant, bars, and meeting space is currently underway. The renovation commenced in the third quarter of 2013 and is expected to be completed in the second quarter of 2014. The current estimated renovation cost, subject to adjustments based on continued evaluation, is approximately $38.0 million, of which $6.4 million had been spent as of September 30, 2013.
- W New Orleans—A comprehensive renovation encompassing guestrooms, public spaces, restaurant, bars, and meeting space to reposition the hotel to the Le Meridien brand is currently in the design and planning stage. The renovation is expected to commence in the second quarter of 2014 and be completed in the fourth quarter of 2014. The current estimated renovation cost, subject to adjustments based on continued evaluation, is approximately $29.0 million, of which less than $0.1 million had been spent as of September 30, 2013.

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2013, 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 September 30, 2013.

	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)	$31,557	$587	$30,970	$—	$—
Term loan, including interest(1)	61,881	61,881	—	—	—
Other mortgage loans, including interest	601,052	30,540	147,701	77,384	345,427
Corporate office lease	913	218	456	239	—
Ground leases(2)	99,779	2,261	4,522	4,522	88,474
	$795,182	$95,487	$183,649	$82,145	$433,901

(1) Assumes no additional borrowings, and interest payments are based on the interest rate in effect as of September 30, 2013. Also assumes that no extension options are exercised. See the notes to our interim consolidated financial statements for additional information relating to our revolving credit facility and term loans.

(2) The ground lease for the Hyatt Regency Mission Bay Spa and Marina provides for the greater of base or percentage rent, both subject to potential increases over the term of the lease. Amounts assume only base rent for all periods presented and do not assume any adjustments for potential increases.

Inflation

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

Seasonality

Demand in the lodging industry is affected by recurring seasonal patterns. For non-resort properties, demand is generally lower in the winter months due to decreased travel and higher in the spring and summer months during the peak travel season. For resort properties, demand is generally higher in the winter months. We expect that our operations will generally reflect non-resort seasonality patterns. Accordingly, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters. These general trends are, however, expected to be greatly influenced by overall economic cycles.

Critical Accounting Policies

Our interim consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of

our interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our critical accounting policies are disclosed in our Form 10-K for the year ended December 31, 2012.

Table of Contents

Recently Adopted Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We earn interest income primarily from cash and cash equivalent balances. Based on our cash and cash equivalents as of September 30, 2013, 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 1.75% - 2.75% (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 $0.3 million annually, assuming that the amount outstanding under our revolving credit facility was to remain at $30.0 million, the balance at September 30, 2013.

Item 4. Controls and Procedures

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

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

Table of Contents

PART II

Item 1. Legal Proceedings
We are not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us.

Item 1A. Risk Factors
There have been no material changes from the risk factors disclosed under the caption "Risk Factors" in the Trust's Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Not applicable.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. Mine Safety Disclosures
Not applicable.

Item 5. Other Information
None.

Item 6. Exhibits
The following exhibits are filed as part of this Form 10-Q:

Exhibit Number	Description of Exhibit
10.1	Loan Agreement, dated July 11, 2013, by and between CHSP San Francisco LLC, as borrower, and PNC Bank, National Association, as lender
10.2	Loan Agreement, dated July 11, 2013, by and between CHSP Chicago LLC, as borrower, and Goldman Sachs Mortgage Company, as lender
31.1	Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Executive Vice President, Chief Financial Officer and Treasurer
32.1	Section 1350 Certification of President and Chief Executive Officer
32.2	Section 1350 Certification of Executive Vice President, Chief Financial Officer and Treasurer
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

28

Table of Contents

SIGNATURES

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

CHESAPEAKE LODGING TRUST

Date: November 6, 2013

By: /S/ DOUGLAS W. VICARI
Douglas W. Vicari
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

/S/ GRAHAM J. WOOTTEN
Graham J. Wootten
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)