

Chesapeake Lodging Trust
Form PRER14A
April 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

CHESAPEAKE LODGING TRUST

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than The Registrant)

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PRELIMINARY PROXY STATEMENT

SUBJECT TO COMPLETION

DATED APRIL 7, 2015

Dear Shareholder:

On behalf of the Board of Trustees, we are pleased to invite you to attend the 2015 Annual Meeting of Shareholders of Chesapeake Lodging Trust, to be held on May 20, 2015 at 9 a.m., local time, at the . You may attend the meeting in person or by proxy. Only shareholders or their legal proxy holders will be allowed to attend the 2015 Annual Meeting. To be admitted to the 2015 Annual Meeting, you must present a form of government-issued photo identification and an admission ticket, valid proof of ownership of the Trust's common shares as of April 1, 2015 or a valid legal proxy. Please refer to page 53 of this proxy statement for more logistical information about attending the 2015 Annual Meeting.

Your vote is important. We strongly urge you to cast your vote as soon as possible, even if you currently plan to attend the meeting in person. You may vote your shares by following the instructions on the WHITE proxy card or the WHITE voting instruction card you received.

We appreciate your investment in the Trust and look forward to seeing you at our 2015 Annual Meeting.

Sincerely,

Thomas A. Natelli

Chairman of the Board of Trustees

James L. Francis

President and Chief Executive Officer

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PRELIMINARY PROXY STATEMENT

SUBJECT TO COMPLETION

DATED APRIL 7, 2015

NOTICE OF THE 2015 ANNUAL MEETING

The 2015 Annual Meeting of Shareholders (the "2015 Annual Meeting") of Chesapeake Lodging Trust, a Maryland real estate investment trust (the "Trust"), will be held at the time and place and for the purposes indicated below.

Time and Date: 9 a.m., local time, on May 20, 2015.

Place:

Items of Business:

To elect seven trustees from the nominees named in the attached proxy statement to serve until the 2016 Annual Meeting or until their successors are elected and qualified (Proposal 1);

To ratify the appointment of Ernst & Young LLP as the Trust's independent registered public accounting firm for the year ending December 31, 2015 (Proposal 2);

To approve, through a non-binding advisory vote, the Trust's executive compensation program (Proposal 3);

To consider five shareholder proposals from UNITE HERE, if properly presented at the 2015 Annual Meeting (Shareholder Proposals 4, 5, 6, 7 and 8); and

To transact such other matters as may properly come before the meeting and any adjournment or postponement thereof.

Please note that UNITE HERE, a labor union that represents employees working in the hotel industry (the "Union"), has filed preliminary proxy materials with the Securities and Exchange Commission pursuant to which it has advised us it intends to seek shareholder support for five non-binding shareholder proposals at the 2015 Annual Meeting. In its proxy materials, the Union reports ownership of 175 of our common shares, representing 0.0003% of our common shares outstanding. You may receive proxy solicitation materials from the Union, including proxy statements and proxy cards. The Trust is not responsible for the accuracy of any information provided by or relating to the Union or its proposals contained in proxy solicitation materials filed or disseminated by or on behalf of the Union or any other statements the Union may make.

Recommendations of the Board: The Board of Trustees unanimously recommends that you vote on the WHITE proxy card or WHITE voting instruction form as follows:

FOR each of the trustee nominees in Proposal 1,

FOR Proposal 2 and Proposal 3; and

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AGAINST Shareholder Proposals 4, 5, 6, 7 and 8.

Adjournments and Postponements:

Any action on the items of business described above may be considered at the 2015 Annual Meeting at the time and on the date specified above or at any time and date to which the 2015 Annual Meeting may be properly adjourned or postponed.

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Record Date: Our Board of Trustees has set April 1, 2015 as the record date for determining the holders of the Trust's common shares that are eligible to vote at the 2015 Annual Meeting.

Voting: **Your vote is very important.** To ensure your representation at the meeting, please vote your shares as soon as possible, even if you currently plan to attend. You are urged to submit your WHITE proxy card in the envelope provided to you so that your shares can be voted at the 2015 Annual Meeting in accordance with your instructions. For specific instructions on voting, please refer to the instruction on voting beginning on page 2 or on the WHITE proxy card or WHITE voting instruction form.

The Board of Trustees strongly urges you not to sign or return any proxy card sent to you by UNITE HERE. If you have previously submitted a proxy card sent to you by UNITE HERE, you have the right to revoke that proxy and vote for all matters to be voted on at the 2015 Annual Meeting by using the enclosed WHITE proxy card. Only the latest validly executed proxy that you submit will be counted.

If you have any questions or require any assistance with voting your shares, please contact our proxy solicitor at the following telephone numbers or address:

MacKenzie Partners

(212) 929-5916 or toll-free (800) 322-2885

105 Madison Ave, 17th Floor, New York, New York 10016

Corporate Headquarters: 1997 Annapolis Exchange Parkway, Suite 410, Annapolis, Maryland 21401
By Order of the Board of Trustees

Graham J. Wootten,

Senior Vice President,

Chief Accounting Officer and Secretary

April 20, 2015

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CHESAPEAKE LODGING TRUST

PROXY STATEMENT

2015 ANNUAL MEETING OF SHAREHOLDERS

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PRELIMINARY PROXY STATEMENT

SUBJECT TO COMPLETION

DATED APRIL 7, 2015

PROXY STATEMENT

2015 ANNUAL MEETING

May 20, 2015

GENERAL INFORMATION

We are providing these proxy materials in connection with the solicitation by the Board of Trustees (the Board) of Chesapeake Lodging Trust of proxies to be voted at our 2015 Annual Meeting and at any adjournment or postponement. The proxies will be used at our 2015 Annual Meeting to be held on May 20, 2015 beginning at 9 a.m., local time, at the .

The proxy materials include our Notice of the 2015 Annual Meeting and Proxy Statement. These materials also include the WHITE proxy card and postage-paid return envelope or voting instruction form for the 2015 Annual Meeting. WHITE proxy cards are being solicited on behalf of our Board of Trustees.

This proxy statement contains important information regarding our 2015 Annual Meeting. Specifically, it identifies the proposals on which you are being asked to vote, provides information that you may find useful in determining how to vote, and describes voting procedures. Our proxy materials are first being distributed on or about April 20, 2015 to holders of record of our common shares of beneficial interest at the close of business on April 1, 2015.

Purpose of the Meeting

Shareholders are being asked to vote on the following matters at the 2015 Annual Meeting:

the election of seven trustee nominees identified in Proposal 1 to the Board;

the ratification of the appointment of Ernst & Young LLP as the Trust's independent registered public accounting firm for the year ending December 31, 2015 as set forth in Proposal 2;

the approval, on a non-binding advisory basis, of the Trust's executive compensation program as set forth in Proposal 3;

the consideration of five non-binding shareholder proposals as set forth in Proposals 4, 5, 6, 7 and 8; and

the consideration of any other appropriate matters properly brought before the meeting or any adjournment or postponement of the meeting.

Other than the items of business described in this proxy statement, we are not aware of any other business to be acted upon at the 2015 Annual Meeting.

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Recommendations of the Board of Trustees

The Board recommends that you vote as follows:

FOR election of seven trustee nominees nominated by the Board and named in Proposal 1;

FOR ratification of the appointment of Ernst & Young LLP as the Trust's independent registered public accounting firm for the year ending December 31, 2015 as set forth in Proposal 2;

FOR approval of the Trust's executive compensation program as set forth in Proposal 3; and

AGAINST each of the five non-binding shareholder proposals as set forth in Proposals, 4, 5, 6, 7 and 8.

If you grant a proxy on your WHITE proxy card, the persons named as proxy holders, James L. Francis, Douglas W. Vicari and Graham J. Wootten, or any of them, will have the discretion to vote your shares on those matters for which such action is permitted by Rule 14a-4(c) at the meeting or any adjournment or postponement thereof. If any of our nominees becomes unable or for good cause unwilling to serve, the persons named as proxy holders will vote all shares represented by your validly submitted proxy for such other candidate or candidates as may be nominated by the Board.

Who May Attend the Meeting and Vote

Only holders of record of our common shares outstanding at the close of business on the record date of April 1, 2015 will be entitled to receive notice of and to vote at the meeting or at any adjournment or postponement of the 2015 Annual Meeting. On the record date, we had 59,651,190 common shares issued and outstanding.

Only shareholders or their legal proxy holders will be allowed to attend the 2015 Annual Meeting. To be admitted to the 2015 Annual Meeting, you must present a form of government-issued photo identification and an admission ticket, valid proof of ownership of the Trust's common shares as of April 1, 2015 or a valid legal proxy. Please refer to page 53 of this proxy statement for more logistical information about attending the 2015 Annual Meeting.

Quorum

The presence in person or by proxy of the holders of a majority of the outstanding common shares will constitute a quorum for the transaction of business at the 2015 Annual Meeting. Abstentions and broker non-votes, as described below, will be counted in determining whether a quorum exists. If the shareholders present or represented by proxy at the 2015 Annual Meeting constitute holders of less than a majority of the shares entitled to vote, the meeting may be adjourned to a subsequent date for the purpose of obtaining a quorum.

Voting Rights

Each holder of common shares is entitled to cast one vote for each common share owned on April 1, 2015, the record date of the 2015 Annual Meeting. With respect to the election of each nominee for trustee and with respect to all other matters, shareholders may vote For, Against or Abstain.

Voting Your Shares

Voting shares prior to, or without attending, the 2015 Annual Meeting. We strongly urge you to cast your vote as soon as possible, even if you currently plan to attend the meeting in person. Whether you hold shares directly as the shareholder of record or through a bank, broker, trustee or other nominee as the beneficial owner, you may direct how your shares are voted prior to, or without attending, the 2015 Annual Meeting.

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Shareholders of record may submit proxies by completing, signing, and dating their WHITE proxy card and returning it in the accompanying pre-addressed, postage-prepaid envelope. Your WHITE proxy card must be received no later than May 19, 2015 for your shares to be voted at the 2015 Annual Meeting.

If you are a beneficial owner, that is, you hold your common shares through a bank, broker, trustee or other nominee, you must provide your nominee with appropriate voting instructions as set forth on the voting instruction card you receive from your nominee no later than 11:59 p.m. EDT on May 19, 2015.

Given the contested nature of the 2015 Annual Meeting, the rules of the New York Stock Exchange (NYSE) governing brokers' discretionary authority do not permit nominee to exercise discretionary authority regarding any of the proposals to be voted on at the 2015 Annual Meeting, whether routine or not. If you are a beneficial owner (hold your shares in street name) and you wish to have your shares voted on all items in this proxy statement, you must complete and return your voting instruction form to your nominee. If you do not provide your nominee with these instructions, your nominee will not have discretionary authority to vote your shares on your behalf. As a result, your failure to provide these instructions will result in a broker non-vote for each proposal. Beneficial owners may provide instructions to their bank, broker, trustee or other nominee holding their shares in one of these three ways:

By Internet Beneficial owners may give instructions over the Internet by following the instructions on the voting instruction card you received from your nominee.

By Telephone Beneficial owners may give instructions by telephone by calling the number on the voting instruction card you received from your nominee and following the instructions. You will need to have the control number that appears on the proxy or voting instruction card available when voting.

By Mail Beneficial owners may give instructions by completing, signing and dating their voting instruction card received from your nominee and mailing it in the accompanying pre-addressed, postage-prepaid envelope.

We encourage you to provide voting instructions to the organization that holds your shares. Please return your completed proxy card or voting instruction form to your broker and contact the person responsible for your account, or vote by internet or telephone so that your vote can be counted.

Voting shares in person at the 2015 Annual Meeting. Shares held in your name as the shareholder of record may be voted in person at the 2015 Annual Meeting using your WHITE proxy card. Shares for which you are the beneficial owner but not the shareholder of record may be voted in person only if you obtain a legal proxy from the bank, broker, trustee or nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the 2015 Annual Meeting, we recommend that you vote by proxy as described above so that your vote will be counted if you later decide not to attend the meeting.

If additional matters are presented at the 2015 Annual Meeting. Other than the items of business described in this proxy statement, we are not aware of any other business to be acted upon at the 2015 Annual Meeting. If you grant a proxy using the WHITE proxy card, the persons named as proxy holders, James L. Francis, Douglas W. Vicari and Graham J. Wootten, or any of them, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If any nominee becomes unable or for good cause unwilling to serve, the Board may recommend a substitute nominee. The shares represented by all validly submitted proxies may be voted in favor of the election of such substitute nominee.

Voting Mechanics of Certain Proxies

If you grant a proxy and do not revoke it before the applicable voting deadline, the persons designated as proxy holders will vote the common shares represented thereby in the manner specified. **If you grant a proxy using the WHITE proxy card but do not indicate how your shares should be voted on a matter, the shares**

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represented by your properly completed WHITE proxy card or WHITE voting instruction card will be voted in accordance with the Board's recommendation for each proposal, and in the discretion of the proxy holders on those matters for which such action is permitted by Rule 14a-4(c).

Changing Your Vote

You may change your vote before the vote at the 2015 Annual Meeting in accordance with the following procedures. If you are a shareholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically **revokes** the earlier proxy), by providing a written notice of revocation to our Secretary at the Trust's headquarters address in Annapolis, Maryland, no later than May 19, 2015, or by attending the 2015 Annual Meeting and voting in person. Attendance at the meeting alone will not cause your previously granted proxy to be revoked unless you specifically make that request. For shares you hold beneficially in the name of a bank, broker, trustee or other nominee, you may change your vote by submitting new voting instructions to your bank, broker, trustee or nominee by 11:59 p.m. EDT on May 19, 2015, or, if you have obtained a legal proxy from your bank, broker, trustee or other nominee giving you the right to vote your shares, by attending the 2015 Annual Meeting and voting in person.

If you sent in a blue proxy card. If you have previously signed a blue proxy card sent to you by the Union, you have every right to change your vote by completing and mailing the enclosed WHITE proxy card in the enclosed pre-paid envelope. Submitting a blue proxy card sent to you by the Union will revoke votes you have previously made via our WHITE proxy card. **Only the latest validly executed proxy that you submit will be counted.**

If You Receive Proxy Cards Sent by UNITE HERE

UNITE HERE has filed preliminary proxy materials with the Securities and Exchange Commission pursuant to which it has advised us it intends to seek shareholder support for five non-binding shareholder proposals at the 2015 Annual Meeting. If the Union proceeds with its proposals, you may receive proxy solicitation materials from the Union, including an opposition proxy statement and blue proxy card. The Trust is not responsible for the accuracy of any information contained in any proxy solicitation materials used by the Union or any other statements that it may otherwise make. We encourage you to discard and not vote any blue proxy cards that you receive from the Union.

THE TRUST'S BOARD DOES NOT ENDORSE ANY OF THE UNION'S PROPOSALS AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE YOUR SHARES AGAINST EACH OF THEM. THE BOARD ALSO RECOMMENDS THAT YOU DISREGARD ANY PROXY CARD OR SOLICITATION MATERIALS THAT MAY BE SENT TO YOU BY THE UNION. PLEASE NOTE THAT USING THE UNION'S BLUE PROXY CARD TO VOTE ON ANY OF THE PROPOSALS ON ITS PROXY CARD WILL REVOKE ANY PROXY YOU PREVIOUSLY SUBMITTED. IF YOU HAVE ALREADY VOTED USING THE UNION'S BLUE PROXY CARD, YOU HAVE EVERY RIGHT TO CHANGE YOUR VOTE BY FOLLOWING THE INSTRUCTIONS ON THE WHITE PROXY CARD OR WHITE VOTING INSTRUCTION CARD YOU RECEIVED FROM YOUR BANK, BROKER, TRUSTEE OR OTHER NOMINEE, OR BY COMPLETING AND MAILING THE ENCLOSED WHITE PROXY CARD IN THE ENCLOSED PRE-PAID ENVELOPE. ONLY THE LATEST VALIDLY EXECUTED PROXY THAT YOU SUBMIT WILL BE COUNTED. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO ITS EXERCISE AT THE 2015 ANNUAL MEETING BY FOLLOWING THE INSTRUCTIONS UNDER "CHANGING YOUR VOTE" ON PAGE 4 OF THIS PROXY STATEMENT. IF YOU HAVE ANY QUESTIONS OR REQUIRE ANY ASSISTANCE WITH VOTING YOUR SHARES, PLEASE CONTACT THE TRUST'S PROXY SOLICITOR, MACKENZIE PARTNERS, INC., TOLL FREE AT (800) 322-2885 OR COLLECT AT (212) 929-5916.

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If You Receive More Than One WHITE Proxy Card on or About the Same Time

It generally means you hold shares registered in more than one account. In order to vote all of your shares, please sign and return each WHITE proxy card.

If the Union proceeds with its previously announced proposals, the Trust may conduct multiple mailings prior to the 2015 Annual Meeting date so that shareholders have the Trust's latest proxy information and materials to vote. The Trust will send you a new WHITE proxy card with each mailing, regardless of whether you have previously voted. The latest-dated proxy you submit will be counted. If you wish to vote as recommended by the Trust's Board, you should submit a WHITE proxy card. Please see [If You Receive Proxy Cards Sent by UNITE HERE](#) for more information.

Required Vote

Election of Trustees. Under our bylaws, to be elected in an uncontested election, trustee nominees must receive the affirmative vote of a majority of the votes cast, which means that the number of shares voted for a nominee must exceed the number of shares voted against that nominee. Common shares not voted (whether by abstention, broker non-vote or otherwise) will not be counted as a vote cast for or against a nominee's election.

If an incumbent trustee were to fail to be re-elected by a majority of votes cast, that trustee would be required under our bylaws to tender his or her resignation to the Board. The Nominating and Corporate Governance Committee will make a recommendation to the Board on whether to accept or reject the resignation, or whether other action should be taken. The Board is required to act on the Committee's recommendation and publicly disclose its decision and its rationale within 90 days after the election results are certified. Notwithstanding the foregoing, our bylaws require the Board to accept any such resignation if the nominee has received more votes against than for his or her election at each of two consecutive annual meetings of shareholders.

Ratification of Independent Registered Public Accounting Firm. Approval of this proposal requires that the number of votes cast for the proposal exceeds the number of votes cast against the proposal. Any common shares not voted (whether by abstention, broker non-vote or otherwise) will not affect the vote.

Non-binding Advisory Vote to Approve the Trust's Executive Compensation Program. Approval of this proposal requires that the number of votes cast for the proposal exceeds the number of votes cast against the proposal. Any common shares not voted (whether by abstention, broker non-vote or otherwise) will not affect the vote. Although this proposal is not binding on us, the Board and its Compensation Committee will consider the results of the shareholder vote in determining future executive compensation matters.

Non-binding Shareholder Proposals. Approval of each of the non-binding shareholder proposals requires that the number of votes cast for the proposal exceeds the number of votes cast against the proposal. Any common shares not voted (whether by abstention, broker non-vote or otherwise) will not affect the vote.

Proxy Solicitation Costs

The Trust will pay the cost of preparing, assembling, printing, mailing, and distributing its own proxy materials. We will also bear the cost of soliciting votes on behalf of the Board of Trustees. The Trust will provide copies of these proxy materials to banks, brokerage houses, fiduciaries, and custodians holding in their names shares of our common stock beneficially owned by others so that they may forward these proxy materials to the beneficial owners. Our trustees, officers or employees may solicit proxies or votes for us in person, or by mail, telephone, electronic communication or other means. They will not receive any additional compensation for these solicitation activities. We will enlist the help of banks, brokers and other nominee holders in soliciting proxies for the 2015 Annual Meeting from their customers who are beneficial owners of our common shares and will reimburse those firms for their reasonable related out-of-pocket expenses.

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We have retained MacKenzie Partners, Inc., a professional proxy solicitation firm, to help us solicit proxies. This proxy solicitation firm estimates that approximately [redacted] of its employees will assist in this proxy solicitation, which they may conduct by personal interview, mail, telephone, facsimile, email, other electronic channels of communication or otherwise. The Trust expects that it will pay MacKenzie Partners, Inc. its customary fees, estimated to be approximately \$ [redacted] in the aggregate, plus reasonable out-of-pocket expenses incurred in the process of soliciting proxies. The Trust's aggregate expenses, including those of MacKenzie Partners, Inc., related to the solicitation in excess of those normally spent for an annual meeting as a result of the potential proxy contest and excluding salaries and wages of the Trust's officers and regular employees, are expected to be approximately \$ [redacted], of which approximately \$ [redacted] has been spent to date. The Trust has also agreed to indemnify MacKenzie Partners, Inc. against certain liabilities relating to or arising out of their engagement.

Inspector of Elections

The inspector of elections will be [redacted] ..

BACKGROUND OF THE UNITE HERE SOLICITATION

UNITE HERE, a labor union that represents employees working in the hotel industry (the Union) has filed preliminary proxy materials with the Securities and Exchange Commission pursuant to which it has advised us it intends to seek shareholder support for five non-binding shareholder proposals at the 2015 Annual Meeting.

The Board of Trustees of the Trust respectfully does not believe that any of the Union's proposals is in the best interests of the Trust or its shareholders, and unanimously recommends votes AGAINST each of the Union's proposals. Please return your WHITE proxy card voting AGAINST these proposals.

The Union's proposals purport to request that we:

1. Amend our governing documents to provide our shareholders the right to amend our bylaws by a vote of the majority of our outstanding common shares;
2. Permit our shareholders the right to vote on the adoption of any poison pill unless required to be implemented in the exercise of our board's fiduciary duties, in which case the poison pill would be required to expire unless approved by shareholders within a 12-month period following implementation;
3. Amend our bylaws to lower the voting standard to remove trustees for cause as that definition is proposed to be modified in the proposal;
4. Require that we seek ratification by a majority of the common shares voted of any new, renewed, extended or modified employment agreements providing for golden parachutes; and
5. Mandate that our employment agreements with our executives not provide for severance payments relating to termination following a change of control that exceed the severance payable in connection with any other form of involuntary termination without cause.

The Union suggests that its proposals are necessary for good governance at the Trust and to make the trustees more accountable to the shareholders. Their preliminary proxy materials imply their proposals are necessary to ensure that the Trust is in position to pursue and accept a change in control transaction that may be in the best interests of our shareholders. The Union's materials cite a mix of statistics that cause the Union to believe that the current lodging cycle is approaching its peak. As a result, the Union's materials assert that it is time for shareholders to exercise greater control over their investments, and to remove unnecessary barriers to takeover opportunities that could hinder their ability to maximize the value of their shares.

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We disagree with the Union's assertion that its proposals are necessary or desirable to encourage, facilitate or effect a change in control transaction. The Union's preliminary proxy materials cite nine change in control transactions involving lodging REITs that occurred between 2006 and 2007, near the prior peak of the lodging cycle. After reviewing all of those transactions that involved target companies organized under Maryland law, like the Trust, we noted a number of significant findings, including that:

None of the merger targets identified in the Union's preliminary proxy materials provided shareholders with the ability to amend their bylaws;

None of them adopted a bylaw provision prohibiting the imposition of a poison pill without shareholder approval;

None of them had organizational documents that permitted removal of a trustee with a vote of less than two-thirds of the shares outstanding and entitled to vote in the election of trustees at an annual meeting; and

None of them had adopted a bylaw or policy requiring that all compensatory arrangements relating to golden parachutes must be submitted to shareholders for ratification or approval.

Clearly, it is not a prerequisite to accepting a change in control transaction to implement any of the Union's proposed corporate governance and executive compensation reforms. This begs the question of why the Union has incurred the time and expense to bring this proxy contest.

The Union's economic interests are not aligned with those of our other shareholders, and we believe it is pursuing this proxy contest to advance unrelated goals not shared by our other investors.

In its proxy materials, the Union reports ownership of 175 of our common shares, representing 0.0003% of our common shares outstanding. The Union's shares have a total market value of approximately \$6,000 at current market prices. The Union estimates in its preliminary proxy materials that it will, if it pursues the proxy contest, spend approximately \$10,000 in support of its proposals. Given that selling the shares it owns in the Trust would be a superior economic outcome for the Union as compared to pursuing the proxy contest, it seems apparent to the Board of Trustees that the Union's pursuit of its proposals reflects an ulterior motive rather than a true interest in the Trust's corporate governance and executive compensation practices.

Our belief that the Union is pursuing interests not shared by our other investors is supported by its other recent proxy campaigns involving other publicly traded companies in the hospitality industry. Not only does 2015 mark the second year in a row that the Union has filed proxy materials for a potential proxy contest with the Trust, but based on publicly available resources, we understand that the Union has submitted over a dozen shareholder proposals for inclusion in the proxy statements of lodging and entertainment companies in recent years. From a review of publicly available information, it further appears that in 2015 alone the Union has filed similar preliminary proxy materials as it filed in respect of the Trust at not less than three other such companies. Without exception, all of the targets of these proposals and solicitation efforts have been, like the Trust, companies that could employ Union labor, or could employ Union labor to a larger degree. In each case, again like it has with the Trust, the Union has pursued these special interest efforts despite not having any material economic stake in the stock of these other publicly traded companies.

While the proposals ostensibly are focused on corporate governance improvements, the Trust believes that in reality the proposals are intended to do little more than distract and annoy the Trust, in hopes that these nuisance activities will result in the Trust's capitulation to the Union's to-date unsuccessful efforts to unionize the workforces at two of the Trust's hotels in San Francisco, the Le Meridien San Francisco and the Hyatt Fisherman's Wharf. From its pattern of behavior agitating for changes at companies that could employ Union labor, or could employ Union labor to a larger degree, it is the sense of the Board and management that the Union's actions in pursuing this proxy contest reflect a relatively low-cost pressure tactic to promote its own union organizing agenda, given that the Union has been unsuccessful in persuading the workforces at these hotels to organize.

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The Trust's existing practices and procedures reflect the strong commitment of the Board to sound corporate governance and responsiveness of our shareholders.

The Board regularly reviews the Trust's corporate governance practices to ensure that the Trust's practices are consistent with prevailing trends and best practices and the views of our shareholders. The Trust is committed to serving our shareholders' interests, and recognizes that communicating with shareholders on a regular basis is a critical component of the Trust's corporate governance program. As part of this commitment, management actively engages with our shareholders in order to fully understand their viewpoints concerning the Trust, to gather feedback on what we can do better and to help our shareholders understand our performance and strategy. In addition to answering questions from shareholders on our quarterly earnings calls, the Trust's management regularly engages with investors by participating in industry media conferences, through frequent in-person meetings with our shareholders and prospective investors, and by telephone with many shareholders at other times throughout the year to solicit input and answer questions on a variety of topics. We believe this level of responsiveness is one of the many reasons that Institutional Shareholder Services (ISS) has consistently given the Trust high governance scores; our ISS QuickScore rating on governance in April 2014 and again in March 2015 was a 1 – the highest possible score.

The Trust's history of excellent corporate governance and a willingness to assess and act on constructive proposals from shareholders has been proven throughout its existence, including by the amendment of the employment contracts between the Trust and its executive officers to remove from each executive's employment agreement a provision that would have required the Trust to make gross-up payments to the executive in amounts equal to any excise taxes incurred by the executive pursuant to Section 4999 of the Internal Revenue Code as a result of his receipt of payments upon termination following a change in control.

Another example of the Trust's commitment to sound governance and shareholder responsiveness came last year when, faced with a similar proxy solicitation effort undertaken by the Union, the Board considered the substance of the proposals and concluded that they were reasonable and in the best interests of the Trust's shareholders. In doing so, despite the Union's history of activism at certain of the Trust's hotels in San Francisco, the Board put the Trust's difficulties with the Union aside and gave its proposals the same careful consideration as it would to proposals brought by any other shareholder. As a result, the Trust implemented three corporate governance initiatives last year in response to the Union's proposals. The Trust's actions reinforced its strong commitment to shareholders' interests, particularly in respect of the decision to opt out of, and require shareholder approval before the Trust may elect to become subject to, any of three Maryland statutes that could be viewed as providing publicly traded entities organized in Maryland, like the Trust, with certain defenses against unsolicited or hostile takeover attempts.

The Trust's overarching goal is to deliver value to its shareholders, not enrich and entrench management.

Our Board and management team are keenly focused on delivering value to the Trust's shareholders. In that regard, 2014 was a very successful year for holders of the Trust's common shares, who enjoyed a substantial increase in the value of their investment. During 2014, the Trust produced a 53.0% total return for its common shareholders assuming reinvestment of all dividends declared during the year. This total return ranked 3 of 164 REITs with a market capitalization in excess of \$250 million. The Trust's leading returns during 2014 capped an exceptional five-year period since the Trust's initial public offering in January 2010. An investor who purchased shares in the Trust's initial public offering and reinvested all dividends declared and paid through December 31, 2014 would have realized a total return of 141%, well in excess of the total returns generated by the S&P 500 Index, the Russell 2000 Index and the FTSE NAREIT All Equity REITs Index.

Our leadership team has shown from its past actions that it is willing to do the right thing for its shareholders, including by pursuing a change in control transaction. Messrs. Francis, Vicari, Adams and Wootten served as officers of Highland Hospitality Corporation commencing with its initial public offering. They and Messrs. Natelli and Hill and the other members of the Highland board successfully navigated the sale of

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Highland at a valuation near the peak of the lodging market in 2007. The Union's 2015 proxy materials correctly cite the Highland deal as a great success, as that company, under the leadership of Mr. Francis (president and chief executive officer) and Mr. Vicari (executive vice president and chief financial officer) delivered a total shareholder return of 127% to its stockholders over the time of its initial public offering in 2003 through its sale in 2007 at a price that represented an approximate 19.2% premium to the closing price of Highland's common stock on March 8, 2007, the date prior to the public announcement that Highland was exploring a potential business combination transaction.

The Union's proposals relating to post-termination pay are unnecessary and unhelpful to the Trust's goal of delivering shareholder value.

Our executive compensation program, which is described elsewhere in this proxy statement, is designed to achieve four significant objectives:

Provide total compensation opportunities reflecting individual responsibilities and accomplishments while also providing appropriate incentives related to our long-term performance;

Emphasize performance-based pay to align the interests of our executive officers with those of the Trust's shareholders, motivating the executives to take actions that enhance shareholder returns, in the form of a stable and growing dividend and through long-term appreciation in our share price;

Align the interests of our executives with those of our shareholders by providing that a significant portion of executive officers' total compensation opportunity is offered in common shares; and

Offer contractual protections, including post-termination pay opportunities that are standard and customary among our peers, to help us achieve our goal of retaining our executive officers.

The Trust's annual say-on-pay proposal has received overwhelming support of common shareholders owning over 98% of the votes cast in 2013 and 2014. It is clear from this vote that the Trust's shareholders approve our executive compensation program. Accordingly, the Union's proposals that effectively would require us to seek ratification of any contract providing for post-termination pay of any sort are unnecessary and may adversely impact our ability to retain our executive team or recruit any future members of it, which we believe could put us at a competitive disadvantage.

For these reasons, and others described in response to each proposal specifically, the Board unanimously recommends votes AGAINST each of the Union's proposals. Please return your WHITE proxy card voting AGAINST these proposals.

CORPORATE GOVERNANCE AND BOARD MATTERS

Corporate Governance Highlights

The Board and the Trust have instituted strong corporate governance practices, a number of which are described below, to ensure that the Trust operates in ways that support the long-term interests of our shareholders. Important corporate governance practices of the Trust include the following: