Pebblebrook Hotel Trust
Form 10-Q
November 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number 001-34571

PEBBLEBROOK HOTEL TRUST
(Exact Name of Registrant
as Specified in Its Charter)

Maryland	27-1055421
(State of Incorporation or Organization)	(I.R.S. Employer Identification No.)
7315 Wisconsin Avenue, 1100 West Bethesda, Maryland	20814
(Address of Principal Executive Offices)	(Zip Code)

(240) 507-1300
(Registrant's telephone number, including area code)

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 29, 2018
Common shares of beneficial interest ($0.01 par value per share)	69,039,917

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

Pebblebrook Hotel Trust
Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Investment in hotel properties, net	$ 2,437,679	$ 2,456,450
Investment in marketable securities	373,891	—
Ground lease asset, net	28,593	29,037
Cash and cash equivalents	18,026	25,410
Restricted cash	8,485	7,123
Hotel receivables (net of allowance for doubtful accounts of $153 and $245, respectively)	36,317	29,206
Prepaid expenses and other assets	173,472	43,642
Total assets	$ 3,076,463	$ 2,590,868
LIABILITIES AND EQUITY		
Unsecured revolving credit facilities	$ 394,000	$ 45,000
Term loans, net of unamortized deferred financing costs	771,087	670,406
Senior unsecured notes, net of unamortized deferred financing costs	99,445	99,374
Mortgage debt, net of unamortized deferred financing costs	68,731	70,457
Accounts payable and accrued expenses	147,564	141,290
Deferred revenues	25,547	26,919
Accrued interest	3,459	2,073
Distribution payable	31,647	31,823
Total liabilities	1,541,480	1,087,342
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred shares of beneficial interest, $.01 par value (liquidation preference $250,000 at September 30, 2018 and at December 31, 2017), 100,000,000 shares authorized; 10,000,000 shares issued and outstanding at September 30, 2018 and December 31, 2017	100	100
Common shares of beneficial interest, $.01 par value, 500,000,000 shares authorized; 68,912,185 issued and outstanding at September 30, 2018 and 68,812,575 issued and outstanding at December 31, 2017	689	688
Additional paid-in capital	1,686,530	1,685,437
Accumulated other comprehensive income (loss)	12,356	3,689
Distributions in excess of retained earnings	(170,284)	(191,013)
Total shareholders' equity	1,529,391	1,498,901
Non-controlling interests	5,592	4,625
Total equity	1,534,983	1,503,526
Total liabilities and equity	$ 3,076,463	$ 2,590,868

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

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Pebblebrook Hotel Trust
Consolidated Statements of Operations and Comprehensive Income
(In thousands, except share and per-share data)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenues:				
Room	$146,907	$144,770	$411,396	$412,862
Food and beverage	43,141	42,839	136,919	134,858
Other operating	15,432	14,184	44,721	41,968
Total revenues	205,480	201,793	593,036	589,688
Expenses:				
Hotel operating expenses:				
Room	34,675	34,453	99,540	102,076
Food and beverage	30,687	29,913	93,611	91,403
Other direct and indirect	54,301	52,504	160,663	158,953
Total hotel operating expenses	119,663	116,870	353,814	352,432
Depreciation and amortization	24,765	25,210	74,229	77,456
Real estate taxes, personal property taxes, property insurance, and ground rent	11,206	11,345	35,809	37,095
General and administrative	10,286	4,467	21,465	17,045
Impairment and other losses	74	3,191	1,452	4,240
Gain on insurance settlement	(866)	—	(13,954)	—
Total operating expenses	165,128	161,083	472,815	488,268
Operating income (loss)	40,352	40,710	120,221	101,420
Interest income	40	1	162	97
Interest expense	(12,647)	(8,969)	(33,274)	(28,015)
Other	3,891	132	29,247	132
Gain on sale of hotel properties	—	290	—	14,877
Income (loss) before income taxes	31,636	32,164	116,356	88,511
Income tax (expense) benefit	(1,719)	(1,593)	(3,628)	(181)
Net income (loss)	29,917	30,571	112,728	88,330
Net income (loss) attributable to non-controlling interests	125	128	424	341
Net income (loss) attributable to the Company	29,792	30,443	112,304	87,989
Distributions to preferred shareholders	(4,023)	(4,023)	(12,070)	(12,070)
Net income (loss) attributable to common shareholders	$25,769	$26,420	$100,234	$75,919
Net income (loss) per share available to common shareholders, basic	$0.37	$0.38	$1.45	$1.08
Net income (loss) per share available to common shareholders, diluted	$0.37	$0.38	$1.44	$1.08
Weighted-average number of common shares, basic	68,912,185	68,814,805	68,900,402	69,854,618
Weighted-average number of common shares, diluted	69,255,858	69,202,920	69,267,098	70,228,074

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Pebblebrook Hotel Trust
Consolidated Statements of Operations and Comprehensive Income - Continued
(In thousands, except share and per-share data)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Comprehensive Income:				
Net income (loss)	$29,917	$30,571	$112,728	$88,330
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments	829	733	8,119	1,544
Comprehensive income (loss)	30,746	31,304	120,847	89,874
Comprehensive income (loss) attributable to non-controlling interests	128	131	452	346
Comprehensive income (loss) attributable to the Company	$30,618	$31,173	$120,395	$89,528

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

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Pebblebrook Hotel Trust
Consolidated Statements of Equity
(In thousands, except share data)
(Unaudited)

	Preferred Shares		Common Shares							
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non-Controlling Interests	Total Equit
Balance at December 31, 2016	10,000,000	$100	71,922,904	$719	$1,776,404	$(2,312)	$(169,227)	$1,605,684	$3,432	$1,609,116
Issuance of shares, net of offering costs	—	—	—	—	(62)	—	—	(62)	—	(62
Issuance of common shares for Board of Trustees compensation	—	—	16,711	1	502	—	—	503	—	503
Repurchase of common shares	—	—	(3,335,278)	(33)	(95,948)	—	—	(95,981)	—	(95,981
Share-based compensation	—	—	208,238	1	2,889	—	—	2,890	827	3,717
Distributions on common shares/units	—	—	—	—	—	—	(79,268)	(79,268)	(269)	(79,537
Distributions on preferred shares	—	—	—	—	—	—	(12,070)	(12,070)	(15)	(12,085
Net contribution from non-controlling interests	—	—	—	—	—	—	—	—	106	106
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	1,544	—	1,544	—	1,544
Net income (loss)	—	—	—	—	—	—	87,989	87,989	341	88,330
Balance at September 30, 2017	10,000,000	$100	68,812,575	$688	$1,683,785	$(768)	$(172,576)	$1,511,229	$4,422	$1,515,651

Balance at December 31, 2017	10,000,000	$100	68,812,575	$688	$1,685,437	$3,689	$(191,013)	$1,498,901	$4,625	$1,503,526
Issuance of shares, net of offering costs	—	—	—	—	(470)	—	—	(470)	—	(470
Issuance of common shares for Board of Trustees compensation	—	—	17,410	1	661	—	—	662	—	662
Repurchase of common shares	—	—	(69,687)	(1)	(2,506)	—	—	(2,507)	—	(2,507
Share-based compensation	—	—	151,887	1	3,408	—	—	3,409	828	4,237
Distributions on common shares/units	—	—	—	—	—	—	(78,957)	(78,957)	(269)	(79,226
Distributions on preferred shares	—	—	—	—	—	—	(12,070)	(12,070)	(16)	(12,086
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	8,119	—	8,119	—	8,119
Cumulative effect adjustment from adoption of new accounting standard	—	—	—	—	—	548	(548)	—	—	—
Net income (loss)	—	—	—	—	—	—	112,304	112,304	424	112,728
Balance at September 30, 2018	10,000,000	$100	68,912,185	$689	$1,686,530	$12,356	$(170,284)	$1,529,391	$5,592	$1,534,983

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

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Pebblebrook Hotel Trust
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	For the nine months ended September 30,	
	2018	2017
Operating activities:		
Net income (loss)	$112,728	$88,330
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	74,229	77,456
Share-based compensation	4,237	3,717
(Gain) loss on derivative instruments	—	(132)
(Gain) loss on marketable securities	(24,369)	—
Amortization of deferred financing costs and mortgage loan premiums	2,889	1,200
Gain on sale of hotel properties	—	(14,877)
Impairment and other losses	—	3,849
Non-cash ground rent	2,027	2,200
Other	1,807	1,861
Changes in assets and liabilities:		
Hotel receivables	(7,019)	(7,932)
Prepaid expenses and other assets	(4,582)	(2,963)
Accounts payable and accrued expenses	10,254	(626)
Deferred revenues	(1,387)	(1,002)
Net cash provided by (used in) operating activities	170,814	151,081
Investing activities:		
Improvements and additions to hotel properties	(56,935)	(63,545)
Deposit received on hotel properties	—	2,000
Proceeds from sale of hotel properties	—	203,479
Investment in marketable securities	(356,180)	—
Sale of marketable securities	6,658	—
Payment for merger consideration	(112,000)	—
Purchase of corporate office equipment, software, and furniture	(34)	(39)
Property insurance proceeds	5,104	—
Net cash provided by (used in) investing activities	(513,387)	141,895
Financing activities:		
Payment of offering costs — common and preferred shares	(470)	(62)
Payment of deferred financing costs	(15,724)	(145)
Contributions from non-controlling interest	—	106
Borrowings under revolving credit facilities	500,181	220,502
Repayments under revolving credit facilities	(151,181)	(272,502)
Proceeds from term loans	100,000	—
Repayments of mortgage debt	(1,764)	(71,737)
Repurchase of common shares	(2,507)	(95,981)
Distributions — common shares/units	(79,403)	(81,039)
Distributions — preferred shares	(12,070)	(12,070)
Proceeds from refundable membership deposits	30	402
Repayments of refundable membership deposits	(541)	(621)

Net cash provided by (used in) financing activities	336,551	(313,147)

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Pebblebrook Hotel Trust
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

Net change in cash and cash equivalents and restricted cash	(6,022)	(20,171)
Cash and cash equivalents and restricted cash, beginning of year	32,533	40,829
Cash and cash equivalents and restricted cash, end of period	$26,511	$20,658

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

PEBBLEBROOK HOTEL TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Organization

Pebblebrook Hotel Trust (the "Company") was formed as a Maryland real estate investment trust in October 2009 to opportunistically acquire and invest in hotel properties located primarily in major United States cities, with an emphasis on major gateway coastal markets.

As of September 30, 2018, the Company owned 28 hotels with a total of 6,973 guest rooms. The hotels are located in the following markets: Atlanta (Buckhead), Georgia; Boston, Massachusetts; Miami (Coral Gables), Florida; Minneapolis, Minnesota; Naples, Florida; Nashville, Tennessee; Philadelphia, Pennsylvania; Portland, Oregon; San Diego, California; San Francisco, California; Santa Monica, California; Seattle, Washington; Stevenson, Washington; Washington, D.C.; West Hollywood, California; and Los Angeles (Beverly Hills), California.

Substantially all of the Company’s assets are held by, and all of the Company's operations are conducted through, Pebblebrook Hotel, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At September 30, 2018, the Company owned 99.7% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 0.3% of the common units are owned by the other limited partners of the Operating Partnership. For the Company to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), it cannot operate the hotels it owns. Therefore, the Operating Partnership and its subsidiaries lease the hotel properties to subsidiaries of Pebblebrook Hotel Lessee, Inc. (collectively with its subsidiaries, "PHL"), the Company’s taxable REIT subsidiary ("TRS"), which in turn engages third-party eligible independent contractors to manage the hotels. PHL is consolidated into the Company’s financial statements.

On September 6, 2018, the Company and LaSalle Hotel Properties ("LaSalle") entered into a definitive Agreement and Plan of Merger (the "Merger Agreement"). Under the terms of the Merger Agreement, each of LaSalle's common shares of beneficial interest, $.01 par value per share ("LaSalle common shares") will receive either a fixed amount of $37.80 in cash or a fixed exchange ratio of 0.92 common share of the Company. A maximum of 30% of the LaSalle common shares outstanding immediately before the merger may be exchanged for cash (and elections of cash will be subject to pro rata cutbacks if holders of more than 30% of the outstanding LaSalle common shares elect cash). Additionally, the LaSalle common shares held by the Company will be canceled and excluded from the cash election. LaSalle's Series I and Series J preferred shares will be converted into two new series of the Company's preferred shares, which will be issued in connection with the merger. The Company filed a joint proxy statement/prospectus relating to the merger and other transactions contemplated by the Merger Agreement with the United States Securities and Exchange Commission (the "SEC") on October 29, 2018. The transaction is expected to close on November 30, 2018. The transaction is subject to customary closing conditions, including approval of certain aspects of the transaction by both the Company's and LaSalle's shareholders. On September 6, 2018, the Company also paid a $112.0 million termination fee on LaSalle's behalf which was due upon LaSalle's termination of its prior merger agreement with affiliates of The Blackstone Group L.P., which occurred upon LaSalle's entry into the Merger Agreement. The Company has included this termination fee in prepaid expenses and other assets in the consolidated balance sheets.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim financial information. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements include all adjustments considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and comprehensive income, consolidated statements of equity and consolidated statements of cash flows for the periods presented. Interim results are not necessarily indicative of

full-year performance, as a result of the impact of seasonal and other short-term variations and the acquisitions and or dispositions of hotel properties. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The Company and its subsidiaries are separate legal entities and maintain records and books of account separate and apart from each other. The consolidated financial statements include all of the accounts of the Company and its subsidiaries and are

presented in accordance with U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain reclassifications have been made to the prior period's financial statements to conform to the current year presentation.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management's best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

Fair Value Measurements

A fair value measurement is based on the assumptions that market participants would use in pricing an asset or liability in an orderly transaction. The hierarchy for inputs used in measuring fair value are as follows:

1. Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
2. 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, and model-derived valuations whose inputs are observable.
3. Level 3 – Model-derived valuations with unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts payable and accrued expenses. Due to their short maturities, the carrying amounts of these assets and liabilities approximate fair value. Marketable securities are carried at fair value using Level 1 inputs. See Note 5 to the accompanying financial statements for disclosures on the fair value of debt and derivative instruments.

Investment in Hotel Properties

Upon acquisition of a hotel property, the Company allocates the purchase price based on the fair value of the acquired land, land improvements, building, furniture, fixtures and equipment, identifiable intangible assets or liabilities, other assets and assumed liabilities. Identifiable intangible assets or liabilities typically arise from contractual arrangements in connection with the transaction, including terms that are above or below market compared to an estimated market agreement at the acquisition date. Acquisition-date fair values of assets and assumed liabilities are determined based on replacement costs, appraised values, and estimated fair values using methods similar to those used by independent appraisers and that use appropriate discount and/or capitalization rates and available market information. Hotel acquisitions are generally considered to be asset acquisitions defined by ASU 2017-01 and transaction costs related to asset acquisitions are capitalized. Acquisition costs related to business combinations are expensed as incurred and are included in general and administrative expenses on the consolidated statements of operations and comprehensive income.

Hotel renovations and replacements of assets that improve or extend the life of an asset are recorded at cost and depreciated over their estimated useful lives. Assets under capital leases are recorded at the present value of the minimum lease payments. Repair and maintenance costs are expensed as incurred.

Hotel properties are recorded at cost and depreciated using the straight-line method over an estimated useful life of 10 to 40 years for buildings, land improvements, and building improvements and 1 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets. Intangible assets arising from contractual arrangements are typically amortized over the life of the contract.

The Company is required to make subjective assessments as to the useful lives and classification of properties for purposes of determining the amount of depreciation expense to reflect each year with respect to the assets. These assessments may impact the Company's results of operations.

The Company reviews its investments in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause

a review include, but are not limited to, when a hotel property experiences a current or projected loss from operations, when it becomes

more likely than not that a hotel property will be sold before the end of its useful life, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, the Company 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 value of the asset, an adjustment to reduce the carrying value to the related hotel's estimated fair market value is recorded and an impairment loss is recognized. In the evaluation of impairment of its hotel properties, the Company makes many assumptions and estimates including projected cash flows both from operations and eventual disposition, expected useful life and holding period, future required capital expenditures, and fair values, including consideration of capitalization rates, discount rates, and comparable selling prices. The Company will adjust its assumptions with respect to the remaining useful life of the hotel property when circumstances change or it is more likely than not that the hotel property will be sold prior to its previously expected useful life.

The Company will classify a hotel as held for sale and will cease recording depreciation expense when a binding agreement to sell the property has been signed under which the buyer has committed a significant amount of nonrefundable cash, approval of the Board of Trustees has been obtained, no significant financing contingencies exist, and the sale is expected to close within one year. If the fair value less costs to sell is lower than the carrying value of the hotel, the Company will record an impairment loss. The Company will classify the loss, together with the related operating results, as continuing or discontinuing operations on the consolidated statements of operations and comprehensive income and classify the assets and related liabilities as held for sale on the consolidated balance sheets.

Investment in Marketable Securities

The Company's investment in marketable securities consists of common shares and is reported at fair value, based on quoted market prices. Changes in the fair value of equity securities and investment income, including dividends, are reported as a component of "Other" in the consolidated statements of operations and comprehensive income.

As of September 30, 2018, the Company owned 10,809,215 LaSalle common shares. For the nine months ended September 30, 2018 and 2017, gains on these marketable securities were $24.1 million and zero, respectively.

Revenue Recognition

Revenue consists of amounts derived from hotel operations, including the sales of rooms, food and beverage, and other ancillary services. Room revenue is recognized over a customer's hotel stay. Revenue from food and beverage and other ancillary services is generated when a customer chooses to purchase goods or services separately from a hotel room and revenue is recognized on these distinct goods and services at the point in time or over the time period that goods or services are provided to the customer. Certain ancillary services are provided by third parties and the Company assesses whether it is the principal or agent in these arrangements. If the Company is the agent, revenue is recognized based upon the commission earned from the third party. If the Company is the principal, the Company recognizes revenue based upon the gross sales price. Some contracts for rooms or food and beverage services require an upfront deposit which is recorded as deferred revenues (or contract liabilities) and recognized once the performance obligations are satisfied.

The Company recognizes revenue related to nonrefundable membership initiation fees and refundable membership initiation deposits over the expected life of an active membership. For refundable membership initiation deposits, the difference between the amount paid by the member and the present value of the refund obligation is deferred and recognized as other operating revenues on the consolidated statements of operations and comprehensive income over the expected life of an active membership. The present value of the refund obligation is recorded as a membership initiation deposit liability in the consolidated balance sheets and accretes over the nonrefundable term using the effective interest method using the Company's incremental borrowing rate. The accretion is included in interest expense.

Certain of the Company's hotels have retail spaces, restaurants or other spaces which the Company leases to third parties. Lease revenue is recognized on a straight-line basis over the life of the lease and included in other operating revenues in the Company's consolidated statements of operations and comprehensive income.

The Company collects sales, use, occupancy and similar taxes at its hotels which are presented on a net basis on the consolidated statements of operations and comprehensive income. Accounts receivable primarily represents receivables from hotel guests who occupy hotel rooms and utilize hotel services. The Company maintains an

allowance for doubtful accounts sufficient to cover estimated potential credit losses.

Income Taxes

To qualify as a REIT for federal income tax purposes, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90 percent of its adjusted taxable income to its

shareholders. As a REIT, the Company generally is not subject to federal corporate income tax on that portion of its taxable income that is currently distributed to shareholders. The Company is subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. In addition, PHL, which leases the Company's hotels from the Operating Partnership, is subject to federal and state income taxes. The Company 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

The Company has adopted an equity incentive plan that provides for the grant of common share options, share awards, share appreciation rights, performance units and other equity-based awards. Equity-based compensation is measured at the fair value of the award on the date of grant and recognized as an expense on a straight-line basis over the vesting period. Share-based compensation awards that contain a performance condition are reviewed at least quarterly to assess the achievement of the performance condition. Compensation expense will be adjusted when a change in the assessment of achievement of the specific performance condition level is determined to be probable. The determination of fair value of these awards is subjective and involves significant estimates and assumptions including expected volatility of the Company's shares, expected dividend yield, expected term and assumptions of whether these awards will achieve parity with other operating partnership units or achieve performance thresholds.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing the net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) available to common shareholders, as adjusted for dilutive securities, by the weighted-average number of common shares outstanding plus dilutive securities. Any anti-dilutive securities are excluded from the diluted per-share calculation.

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Company adopted this standard on January 1, 2018 using the modified retrospective transition method. Due to the short-term nature of the Company's revenue streams, the adoption of this standard did not have a material impact on the amount and timing of revenue recognition for revenues from rooms, food and beverage, and other ancillary services. The adoption of this standard had no impact on the Company's revenue or net income, and, therefore, no adjustment was recorded to the Company's opening balance of retained earnings. The adoption of this standard has resulted in the reclassification of certain accounts on the Company's consolidated balance sheets to present deferred revenues (contract liabilities) and additional disclosures. As of December 31, 2017, the Company reclassified $7.5 million from accounts payable and accrued expenses to deferred revenues on the Company's consolidated balance sheets.

In February 2016, the FASB issued ASU 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases today. This guidance is effective for the Company on January 1, 2019, however, early adoption is permitted. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, to clarify how to apply certain aspects of the new leases standard. In July 2018, the FASB also issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, to give companies another option for transition and to provide lessors with a practical expedient to reduce the cost and complexity of implementing the new standard. The transition option allows companies to not apply the new leases standard in the comparative periods

they present in their financial statements in the year of adoption. Upon adoption, the Company currently expects to elect the practical expedients allowed under the guidance and retain the original lease classification and historical accounting for initial direct costs for leases existing prior to the adoption date. The Company also expects that it will elect not to restate prior periods for the impact of the adoption of the new standard and will instead recognize a cumulative-effect adjustment to beginning retained earnings in the period of adoption. These standards are expected to result in the recognition of right-to-use assets and related liabilities to account for the Company's future obligations under the ground lease arrangements for which the

Company is the lessee. The Company will continue to evaluate the potential effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU-2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Payment, which clarifies and provides specific guidance on eight cash flow classification issues with an objective to reduce the current diversity in practice. The Company adopted this standard on January 1, 2018 and it did not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies how companies should present restricted cash and restricted cash equivalents in the statement of cash flows. This guidance requires companies to show the changes in the total of cash, cash equivalents, restricted cash equivalents in the statement of cash flows. The Company adopted this standard on January 1, 2018 and it did not have a material impact on the Company's consolidated financial statements. As a result, the Company's consolidated statements of cash flows included changes to cash and cash equivalents and restricted cash for all periods presented.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU clarifies the definition of a business with the objective of adding guidance to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The changes to the definition of a business will likely result in more of the Company's property acquisitions qualifying as asset acquisitions, which will permit capitalization of acquisition costs. The Company adopted this standard on January 1, 2018 and it did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity will account for the effects of a modification unless the fair value of the modified award is the same as the original award, the vesting conditions of the modified award are the same as the original award, and the classification of the modified award as an equity instrument or liability instrument is the same as the original award. The Company adopted this standard on January 1, 2018 and it did not have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better align risk management activities in financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The Company adopted this standard on January 1, 2018 and reclassified an immaterial amount from retained earnings to accumulated other comprehensive income. In subsequent periods, any ineffectiveness related to the Company's derivatives instruments are reflected in accumulated other comprehensive income.

Note 3. Acquisition and Disposition of Hotel Properties

The Company had no acquisitions and dispositions during the nine months ended September 30, 2018.

The Company will report a disposed or held for sale hotel property or group of hotel properties in discontinued operations only if the disposal represents a strategic shift that has, or will have, a major effect on its operations and financial results. All other disposed hotel properties will have their operating results reflected within continuing operations on the Company's consolidated statements of operations for all periods presented.

On June 20, 2017, the Company sold the Dumont NYC for $118.0 million and recognized an immaterial gain on sale. In March 2017, the Company recognized an impairment loss of $1.0 million related to this hotel property when the property was designated as held for sale.

On June 23, 2017, the Company sold the parking garage at the Revere Hotel Boston Common for $95.0 million. The Company recognized a gain of $13.9 million related to the sale of this parking garage.

For the three and nine months ended September 30, 2017, the Company's consolidated statements of operations included operating income of zero and $4.2 million, respectively, related to the Dumont NYC and the parking garage at the Revere Hotel Boston Common.

The sales of the hotel property and parking garage described above did not represent a strategic shift that had a major effect on the Company's operations and financial results, and therefore, did not qualify as discontinued operations.

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Note 4. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2018 and December 31, 2017 consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Land	$ 448,401	$ 448,401
Buildings and improvements	2,238,919	2,205,315
Furniture, fixtures and equipment	260,731	240,842
Construction in progress	10,729	9,514
Investment in hotel properties	$ 2,958,780	$ 2,904,072
Less: Accumulated depreciation	(521,101)	(447,622)
Investment in hotel properties, net	$ 2,437,679	$ 2,456,450

On September 10, 2017, Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel ("Hotel Colonnade") located in Coral Gables, Florida and LaPlaya Beach Resort and LaPlaya Beach Club ("LaPlaya") located in Naples, Florida were impacted by Hurricane Irma. Hotel Colonnade did not suffer any material damage and remained open. LaPlaya was closed in anticipation of the storm and re-opened in stages beginning in the fourth quarter of 2017 and was fully reopened in January 2018.

The Company’s insurance policies provide coverage for property damage, business interruption, and reimbursement for other costs that were incurred relating to damages sustained during Hurricane Irma. Insurance proceeds are subject to deductibles. As of September 30, 2018, the Company reached a final agreement with the insurance carriers related to LaPlaya totaling $20.5 million, and the Company recognized a gain of zero and $13.1 million for the three and nine months ended September 30, 2018, respectively.

Note 5. Debt

Senior Unsecured Revolving Credit Facilities

The Company's $750.0 million unsecured credit facility provides for a $450.0 million unsecured revolving credit facility and a $300.0 million unsecured term loan (the "First Term Loan"). On October 13, 2017, the Company amended and restated the credit agreement governing its senior unsecured revolving credit facility and the First Term Loan. The revolving credit facility matures in January 2022 with options to extend the maturity date to January 2023 pursuant to certain terms and conditions and payment of an extension fee.

The First Term Loan matures in January 2023. The Company has the ability to increase the aggregate borrowing capacity under the credit agreement to up to $1.3 billion, subject to lender approval. Borrowings on the revolving credit facility bear interest at LIBOR plus 1.45% to 2.25%, depending on the Company’s leverage ratio. Additionally, the Company is required to pay an unused commitment fee at an annual rate of 0.20% or 0.30% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The credit agreement that governs the revolving credit facility and the First Term Loan contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio, and a maximum percentage of secured debt to total asset value.

As of September 30, 2018 and December 31, 2017, the Company had $394.0 million and $45.0 million, respectively, in outstanding borrowings under the revolving credit facility. As of September 30, 2018, the Company had $56.0 million borrowing capacity remaining under the revolving credit facility. As of September 30, 2018, the Company was in compliance with the credit agreement debt covenants. For the three and nine months ended September 30, 2018, the Company incurred unused commitment fees of zero and $0.4 million, respectively. For the three and nine months ended September 30, 2017, the Company incurred unused commitment fees of $0.3 million and $0.7 million, respectively.

On May 17, 2017, PHL entered into a $10.0 million unsecured revolving credit facility ("PHL Credit Facility") to be used for PHL's working capital and general corporate purposes. On October 13, 2017, PHL amended and restated the

credit agreement governing the PHL Credit Facility. The PHL Credit Facility's maturity was extended to January 2022. Borrowings on the PHL Credit Facility bear interest at LIBOR plus 1.45% to 2.25%, depending on the Company's leverage ratio. The PHL Credit Facility is subject to debt covenants substantially similar to the covenants under the Company's amended and restated credit agreement. Additionally, PHL is required to pay an unused commitment fee at an annual rate of 0.20% or 0.30% of the unused portion of the PHL Credit Facility.

As of September 30, 2018 and December 31, 2017, PHL had no borrowings under its revolving credit facility. As of September 30, 2018, there is $10.0 million borrowing capacity remaining under the PHL Credit Facility.

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Commitment for an Unsecured Bridge Loan Facility

On September 3, 2018, the Company secured a commitment for a senior unsecured bridge loan facility ("Bridge Facility") for up to $2.4 billion to be used, if needed, for either financing the merger with LaSalle, paying for transactions costs associated with the merger or funding the Company's debt refinancing. The Bridge Facility is available to be drawn down upon at the closing date of the merger with LaSalle. The maturity date of this Bridge Facility is 364 days after the closing date of the merger with LaSalle. Borrowings on the Bridge Facility, if any, will bear interest at LIBOR plus 1.45% to 3.00%, depending on the Company's leverage ratio and the number of days after the closing date of the merger that the debt, if any, is incurred. The Company paid $15.6 million to secure this commitment which is amortized over the commitment period.

Unsecured Term Loan Facilities

On October 13, 2017, the Company amended and restated the credit agreement governing its senior unsecured revolving credit facility and the First Term Loan. The First Term Loan's maturity was extended to January 2023. As of September 30, 2018, the Company had $300.0 million outstanding under the First Term Loan. This term loan facility bears interest at a variable rate of LIBOR plus 1.40% to 2.20%, depending on the Company's leverage ratio.

On April 13, 2015, the Company entered into a second unsecured term loan facility. This term loan had a $100.0 million capacity which could have been increased to up to $200.0 million, subject to lender approval. On January 5, 2016, the Company exercised its option to increase the borrowing capacity to $175.0 million and borrowed the additional $75.0 million resulting from such increase. On October 13, 2017, the Company amended and restated the credit agreement governing this loan and entered into a second credit agreement, in effect separating it into two tranches, consisting of a $65.0 million unsecured term loan maturing in April 2022 (the "Second Term Loan") and a $110.0 million unsecured term loan maturing in October 2024 (the "Fourth Term Loan").

As of September 30, 2018, the Company had $65.0 million outstanding under the Second Term Loan. The Second Term Loan bears interest at a variable rate of LIBOR plus 1.40% to 2.20%, depending on the Company's leverage ratio. The Company has the ability to increase the aggregate borrowing capacity of the Second Term Loan to up to $150.0 million subject to lender approval.

On June 10, 2015, the Company entered into a third unsecured term loan facility (the "Third Term Loan"). The Third Term Loan has a $125.0 million capacity, which may be increased up to $250.0 million, subject to lender approval, and matures in January 2021. On January 5, 2016, the Company exercised its option to increase the borrowing capacity to $200.0 million and borrowed the additional $75.0 million resulting from such increase. On October 13, 2017, the Company amended and restated the credit agreement governing the Third Term Loan. As of September 30, 2018, the Company had $200.0 million outstanding under the Third Term Loan. This Third Term Loan bears interest at a variable rate of LIBOR plus 1.40% to 2.20%, depending on the Company's leverage ratio.

On October 13, 2017, the Company entered into a fourth unsecured term loan facility (the "Fourth Term Loan"). The Fourth Term Loan has a $110.0 million capacity and matures in October 2024. As of September 30, 2018, the Company had $110.0 million outstanding under the Fourth Term Loan. The Fourth Term Loan bears interest at a variable rate of LIBOR plus 1.70% to 2.60%, depending on the Company's leverage ratio. The Company has the ability to increase the aggregate borrowing capacity of the Fourth Term Loan to up to $250.0 million subject to lender approval.

On September 5, 2018, the Company entered into a fifth unsecured term loan facility (the "Fifth Term Loan"). The Fifth Term Loan has a $100.0 million capacity and matures in March 2019 with an option to extend the maturity date to September 2019. As of September 30, 2018, the Company had $100.0 million outstanding under the Fifth Term Loan. The Fifth Term Loan bears interest at a variable rate of LIBOR plus 1.40% to 2.20%, depending on the Company's leverage ratio.

As of September 30, 2018 and December 31, 2017, the Company had $775.0 million and $675.0 million, respectively, in aggregate outstanding borrowings under the unsecured term loan facilities. Each of the term loan facilities is subject to debt covenants substantially similar to the covenants under the credit agreement that governs the revolving credit facility and First Term Loan. As of September 30, 2018, the Company was in compliance with all debt covenants of its term loan facilities. The Company has entered into interest rate swaps to effectively fix the LIBOR rates for $600.0 million of its unsecured term loan facilities (see “Derivative and Hedging Activities” below).

Senior Unsecured Notes

On November 12, 2015, the Company issued $60.0 million of senior unsecured notes (the "Series A Notes") bearing a fixed interest rate of 4.70% per annum and maturing in December 2023. On November 12, 2015, the Company issued $40.0 million of senior unsecured notes (the "Series B Notes") bearing a fixed interest rate of 4.93% per annum and maturing in December 2025. The Series A Notes and the Series B Notes are subject to debt covenants substantially similar to the covenants under the credit agreement that governs the revolving credit facility and the First Term Loan. On October 13, 2017, the agreement governing the Series A Notes and the Series B Notes was also amended to match the financial and other covenants in

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the senior unsecured revolving credit facility, as amended and restated. As of September 30, 2018, the Company was in compliance with all such debt covenants.

Derivative and Hedging Activities

The Company enters into interest rate swap agreements to hedge against interest rate fluctuations. All of the Company's interest rate swaps are cash flow hedges. On January 1, 2018, the Company adopted ASU No. 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. All unrealized gains and losses on these hedging instruments are reported in accumulated other comprehensive income (loss) and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

As of September 30, 2018, the Company had interest rate swaps with an aggregate notional amount of $300.0 million to hedge the variable interest rate on the First Term Loan and, as a result, the First Term Loan had a weighted-average effective interest rate of 2.83% per annum through July 13, 2017 and a weighted-average effective interest rate of 3.46% from July 13, 2017 through January 15, 2020, based on the Company’s leverage ratio at September 30, 2018.

The Company entered into interest rate swap agreements with an aggregate notional amount of $200.0 million to effectively fix the LIBOR rate of the Third Term Loan through January 2021, resulting in a weighted-average effective interest rate of 3.21% per annum, based on the Company’s leverage ratio at September 30, 2018.

The Company entered into interest rate swap agreements with an aggregate notional amount of $100.0 million to effectively fix the LIBOR rate of a portion of the Fourth Term Loan through April 2022, resulting in a weighted-average effective interest rate of 3.56% per annum, based on the Company’s leverage ratio at September 30, 2018. The interest rate on the other $10.0 million of the Fourth Term Loan remains floating at a variable rate of LIBOR plus 1.70% to 2.60%, depending on the Company's leverage ratio.

The Company records all derivative instruments at fair value in the consolidated balance sheets. Fair values of interest rate swaps are determined using the standard market methodology of netting the discounted future fixed cash receipts/payments and the discounted expected variable cash payments/receipts. Variable interest rates used in the calculation of projected receipts and payments on the swaps are based on an expectation of future interest rates derived from observable market interest rate curves (Overnight Index Swap curves) and volatilities (Level 2 inputs). Derivatives expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company incorporates these counterparty credit risks in its fair value measurements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions.

As of September 30, 2018, the Company's derivative instruments were in an asset position, with aggregate asset fair values of $12.4 million, in the accompanying consolidated balance sheets. For the nine months ended September 30, 2018 and 2017, there was $8.1 million and $1.5 million in unrealized gain (loss), respectively, recorded in accumulated other comprehensive income (loss). For the three and nine months ended September 30, 2017, the Company recorded a gain (loss) of $0.1 million and $0.1 million, respectively, for the ineffective portion of the change in fair values of the interest rate swaps. There were no ineffectiveness for the three and nine months ended September 30, 2018. For the three and nine months ended September 30, 2018, the Company reclassified $(0.5) million and $(0.3) million, respectively, from accumulated other comprehensive income (loss) to interest expense. For the three and nine months ended September 30, 2017, the Company reclassified $0.8 million and $2.6 million, respectively, from accumulated other comprehensive income (loss) to interest expense. The Company expects approximately $4.9 million will be reclassified from accumulated other comprehensive income (loss) to interest expense in the next 12 months.

Mortgage Debt

The Company’s mortgage loan is secured by a first mortgage lien on the underlying property. The mortgage is non-recourse to the Company except for customary carve-outs such as fraud or misapplication of funds.

Debt Summary

Debt as of September 30, 2018 and December 31, 2017 consisted of the following (dollars in thousands):

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	Interest Rate	Maturity Date	Balance Outstanding as of September 30, 2018	December 31, 2017
Revolving credit facilities				
Senior unsecured revolving credit facility	Floating [1]	January 2022	$394,000	$ 45,000
PHL unsecured revolving credit facility	Floating [2]	January 2022	—	—
Total revolving credit facilities			$394,000	$ 45,000
Term loans				
First Term Loan	Floating [3]	January 2023	300,000	300,000
Second Term Loan	Floating [3]	April 2022	65,000	65,000
Third Term Loan	Floating [3]	January 2021	200,000	200,000
Fourth Term Loan	Floating [3]	October 2024	110,000	110,000
Fifth Term Loan	Floating [3]	March 2019	100,000	—
Total term loans at stated value			775,000	675,000
Deferred financing costs, net			(3,913)	(4,594)
Total term loans			$771,087	$ 670,406
Senior unsecured notes				
Series A Notes	4.70%	December 2023	60,000	60,000
Series B Notes	4.93%	December 2025	40,000	40,000
Total senior unsecured notes at stated value			100,000	100,000
Deferred financing costs, net			(555)	(626)
Total senior unsecured notes			$99,445	$ 99,374
Mortgage loans				
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	68,809	70,573
Mortgage loans at stated value			68,809	70,573
Deferred financing costs, net			(78)	(116)
Total mortgage loans			$68,731	$ 70,457
Total debt			$1,333,263	$ 885,237

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[1] Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) an Adjusted Base Rate (as defined in the applicable credit agreement) plus an applicable margin.

[2] Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) an Eurocurrency Rate (as defined in the applicable credit agreement) plus an applicable margin.

[3] Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. At September 30, 2018 and December 31, 2017, the Company had interest rate swaps to effectively fix the interest rate for $600.0 million of its term loan facilities. See "Derivative and Hedging Activities" above.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates, taking into consideration general market conditions and maturity of the debt with similar credit terms and is classified within level 2 of the fair value hierarchy. The estimated fair value of the Company’s fixed rate debt (unsecured senior notes and mortgage loans) as of September 30, 2018 and December 31, 2017 was $161.8 million and $167.1 million, respectively.

The Company was in compliance with all debt covenants as of September 30, 2018.

Note 6. Revenue

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The Company presents revenue on a disaggregated basis on the consolidated statements of operations and comprehensive income. The following table presents revenues by geographic location for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
San Francisco, CA	$53,734	$49,973	$146,467	$134,623
Los Angeles, CA	32,759	34,983	95,224	97,482
San Diego, CA	18,010	18,478	52,134	54,412
Boston, MA	21,522	20,689	55,610	55,633
Seattle, WA	10,202	9,927	25,727	24,510
Portland, OR	29,882	30,481	74,787	75,777
Other [(1)]	39,371	37,262	143,087	147,251
	$205,480	$201,793	$593,036	$589,688

[(1)] Other includes: Atlanta (Buckhead), GA, Coral Gables, FL, Minneapolis, MN, Naples, FL, Nashville, TN, Philadelphia, PA, Washington, DC, and New York City, NY.

Payments from customers are primarily made when services are provided. Due to the short-term nature of the Company's contracts and the almost simultaneous receipt of payment, almost all of the contract liability balance at the beginning of the year is expected to be recognized as revenue over the next 12 months.

Note 7. Equity

Common Shares

The Company is authorized to issue up to 500,000,000 common shares of beneficial interest, $.01 par value per share (“common shares”). Each outstanding common share entitles the holder to one vote on each matter submitted to a vote of shareholders. Holders of the Company’s common shares are entitled to receive dividends when authorized by the Company's Board of Trustees.

On March 5, 2014, the Company filed a prospectus supplement with the SEC to sell up to $175.0 million in common shares under a new "at the market" offering program (an "ATM program"). At the same time, the Company terminated its prior $170.0 million ATM program. As of March 1, 2017, $159.8 million in common shares remained available for issuance under the $175.0 million ATM program, and as of that date the Company terminated the program.

On February 22, 2016, the Company announced that the Board of Trustees authorized a share repurchase program of up to $150.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. Upon repurchase by the Company, common shares cease to be outstanding and become authorized but unissued common shares. For the nine months ended September 30, 2018, the Company had no repurchases under this program and as of September 30, 2018, $56.6 million of common shares remained available for repurchase under this program.

On July 27, 2017, the Company announced that the Board of Trustees authorized a new share repurchase program of up to $100.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. This $100.0 million share repurchase program will commence upon completion of the Company's $150.0 million share repurchase program.

Common Dividends

The Company declared the following dividends on common shares/units for the nine months ended September 30, 2018:

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Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
$0.38	March 31, 2018	March 29, 2018	April 16, 2018
$0.38	June 30, 2018	June 29, 2018	July 16, 2018
$0.38	September 30, 2018	September 28, 2018	October 15, 2018

Preferred Shares

The Company is authorized to issue up to 100,000,000 preferred shares of beneficial interest, $.01 par value per share (“preferred shares”).

As of September 30, 2018 and December 31, 2017, the Company had 5,000,000 of its 6.50% Series C Cumulative Redeemable Preferred Shares ("Series C Preferred Shares") and 5,000,000 of its 6.375% Series D Cumulative Redeemable Preferred Shares ("Series D Preferred Shares") outstanding.

The Series C Preferred Shares and Series D Preferred Shares (collectively, the “Preferred Shares”) rank senior to the common shares and on parity with each other with respect to payment of distributions. The Preferred Shares are cumulative redeemable preferred shares, do not have any maturity date and are not subject to mandatory redemption. The Company could not redeem the Series C Preferred Shares prior to March 18, 2018 and may not redeem the Series D Preferred Shares prior to June 9, 2021, except in limited circumstances relating to the Company’s continuing qualification as a REIT or as discussed below. On or after June 9, 2021, the Company may, at its option, redeem the Series D Preferred Shares, and at any time the Company may, at its option, redeem the Series C Preferred Shares, in each case in whole or from time to time in part, by payment of $25.00 per share, plus any accumulated, accrued and unpaid distributions through the date of redemption. Upon the occurrence of a change of control, as defined in the Company's declaration of trust, the result of which the Company’s common shares and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE MKT or NASDAQ, or any successor exchanges, the Company may, at its option, redeem the 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 distributions through the date of redemption. If the Company does not exercise its right to redeem the Preferred Shares upon a change of control, the holders of the Preferred Shares have the right to convert some or all of their shares into a number of the Company’s common shares based on a defined formula subject to a share cap. The share cap on each Series C Preferred Share is 2.0325 common shares and each Series D Preferred Share is 1.9794 common shares.

Preferred Dividends

The Company declared the following dividends on preferred shares for the nine months ended September 30, 2018:

Security Type	Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
6.50% Series C	$ 0.41	March 31, 2018	March 29, 2018	April 16, 2018
6.50% Series C	$ 0.41	June 30, 2018	June 29, 2018	July 16, 2018
6.50% Series C	$ 0.41	September 30, 2018	September 28, 2018	October 15, 2018
6.375% Series D	$ 0.40	March 31, 2018	March 29, 2018	April 16, 2018
6.375% Series D	$ 0.40	June 30, 2018	June 29, 2018	July 16, 2018
6.375% Series D	$ 0.40	September 30, 2018	September 28, 2018	October 15, 2018

Non-controlling Interest of Common Units in Operating Partnership

Holders of Operating Partnership units have certain redemption rights that enable the unit holders to cause the Operating Partnership to redeem their units in exchange for, at the Company’s option, cash per unit equal to the market price of the Company’s common shares at the time of redemption or the Company’s common shares on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of share splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the Operating Partnership's limited partners or the Company's shareholders.

As of September 30, 2018 and December 31, 2017, the Operating Partnership had 236,351 long-term incentive partnership units ("LTIP units") outstanding. Of the 236,351 LTIP units outstanding at September 30, 2018, 145,598 LTIP units have vested. Only vested LTIP units may be converted to common units of the Operating Partnership, which in turn can be tendered for redemption as described above.

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Note 8. Share-Based Compensation Plan

The Company maintains the 2009 Equity Incentive Plan, as amended and restated (as amended, the "Plan"), to attract and retain independent trustees, executive officers and other key employees and service providers. The Plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. Share awards under the Plan vest over a period determined by the Board of Trustees, generally over three to five years, with certain awards vesting over periods of up to six years. The Company pays or accrues for dividends on share-based awards. All share awards are subject to full or partial accelerated vesting upon a change in control and upon death or disability or certain other employment termination events as set forth in the award agreements. As of September 30, 2018, there were 1,207,886 common shares available for issuance under the Plan, assuming performance-based equity awards vest at target.

Service Condition Share Awards

From time to time, the Company awards restricted common shares under the Plan to members of the Board of Trustees, officers and employees. These shares generally vest over three to five years based on continued service or employment.

The following table provides a summary of service condition restricted share activity as of September 30, 2018:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2017	137,105	$ 30.05
Granted	52,609	36.86
Vested	(61,982)	31.35
Forfeited	—	—
Unvested at September 30, 2018	127,732	$ 32.22

The fair value of each of these service condition restricted share awards is determined based on the closing price of the Company’s common shares on the grant date and compensation expense is recognized on a straight-line basis over the vesting period. For the three and nine months ended September 30, 2018, the Company recognized approximately $0.5 million and $1.5 million, respectively, of share-based compensation expense related to these service condition restricted shares in the consolidated statement of operations. For the three and nine months ended September 30, 2017, the Company recognized approximately $0.5 million and $1.4 million, respectively, of share-based compensation expense related to these service condition restricted shares in the consolidated statements of operations. As of September 30, 2018, there was $2.7 million of total unrecognized share-based compensation expense related to unvested restricted shares. The unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 1.8 years.

Performance-Based Equity Awards

On January 30, 2013, the Board of Trustees approved a target award of 72,118 performance-based equity awards to officers and employees of the Company. In January 2016, these awards vested and the Company issued 120,730 and 56,562 common shares to officers and non-executive management employees, respectively. The actual number of common shares that ultimately vested were based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2013 through December 31, 2015.

On December 13, 2013, the Board of Trustees approved a target award of 252,088 performance-based equity awards to officers and employees of the Company. The awards vest ratably on January 1, 2016, 2017, 2018, 2019 and 2020. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined on each vesting date based upon the two performance criteria as defined in the award agreements for the period of performance beginning on the grant date and ending on the applicable vesting date. In January 2016, the Company issued 25,134 of common shares which represented achieving 49% of the 50,418 target number of shares for that measurement period. In January 2017, the Company issued 12,285 of common shares which represented achieving 25% of the 49,914 target number of shares for that measurement period. In January 2018, the Company

issued 72,236 of common shares which represented achieving 145% of the 49,914 target number of shares for that measurement period.

On February 4, 2014, the Board of Trustees approved a target award of 66,483 performance-based equity awards to officers and employees of the Company. In January 2017, these awards vested and the Company issued 112,782 and 25,619 common shares to officers and non-executive management employees, respectively. The actual number of common shares that ultimately vested was based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2014 through December 31, 2016.

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On February 11, 2015, the Board of Trustees approved a target award of 44,962 performance-based equity awards to officers and employees of the Company. In January 2018, these awards vested and the Company issued 14,089 and 2,501 common shares to officers and non-executive management employees, respectively. The actual number of common shares that ultimately vested was based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2015 through December 31, 2017.

On July 27, 2015, a target award of 771 performance-based equity awards was granted to an employee of the Company. In January 2018, these awards vested and the Company issued 1,079 common shares to the employee. The actual number of common shares that ultimately vested was based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2016 through December 31, 2017.

On February 10, 2016, the Board of Trustees approved a target award of 100,919 performance-based equity awards to officers and employees of the Company. These awards vest in 2019. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award (except for 17,372 target awards to non-executive management employees which have no maximum) and will be determined in 2019 based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2016 through December 31, 2018.

On February 15, 2017, the Board of Trustees approved a target award of 81,939 performance-based equity awards to officers and employees of the Company. These awards vest in 2020. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined in 2020 based on two performance criteria as defined in the award agreements for the period of performance from January 1, 2017 through December 31, 2019.

On February 14, 2018, the Board of Trustees approved a target award of 78,918 performance-based equity awards to officers and employees of the Company. These awards vest in 2021. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined in 2021 based on two performance criteria as defined in the award agreements for the period of performance from January 1, 2018 through December 31, 2020.

The grant date fair value of the performance awards, with market conditions, were determined using a Monte Carlo simulation method with the following assumptions:

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Performance Award Grant Date	Percentage of Total Award	Grant Date Fair Value by Component ($ in millions)	Volatility	Interest Rate	Dividend Yield
January 30, 2013					
Relative Total Shareholder Return	30.00%	$0.7	31.00%	0.41%	2.20%
Absolute Total Shareholder Return	30.00%	$0.5	31.00%	0.41%	2.20%
EBITDA Comparison	40.00%	$0.7	31.00%	0.41%	2.20%
December 13, 2013					
Relative Total Shareholder Return	50.00%	$4.7	29.00%	0.34% - 2.25%	2.40%
Absolute Total Shareholder Return	50.00%	$2.9	29.00%	0.34% - 2.25%	2.40%
February 4, 2014					
Relative Total Shareholder Return	30.00%	$0.7	29.00%	0.62%	2.40%
Absolute Total Shareholder Return	30.00%	$0.5	29.00%	0.62%	2.40%
EBITDA Comparison	40.00%	$0.8	29.00%	0.62%	2.40%
February 11, 2015					
Relative Total Shareholder Return	30.00%	$0.9	22.00%	1.02%	2.50%
Absolute Total Shareholder Return	40.00%	$0.7	22.00%	1.02%	2.50%
EBITDA Comparison	30.00%	$0.7	22.00%	1.02%	2.50%
July 27, 2015					
Relative Total Shareholder Return	30.00%	—	(1) 22.00%	0.68%	2.50%
Absolute Total Shareholder Return	40.00%	—	(1) 22.00%	0.68%	2.50%
EBITDA Comparison	30.00%	—	(1) 22.00%	0.68%	2.50%
February 10, 2016					
Relative Total Shareholder Return	70.00%	$1.6	25.00%	0.71%	3.00%
Absolute Total Shareholder Return	15.00%	$0.2	25.00%	0.71%	3.00%
EBITDA Comparison	15.00%	$0.4	25.00%	0.71%	3.00%
February 15, 2017					
Relative and Absolute Total Shareholder Return	65.00% / 35.00%	$2.7	28.00%	1.27%	5.60%
February 14, 2018					
	65.00% / 35.00%	$3.5	28.00%	2.37%	4.70%

Relative and Absolute Total Shareholder Return	

(1) Amounts round to zero.

In the table above, the Relative Total Shareholder Return and Absolute Total Shareholder Return components are market conditions as defined by ASC 718. The EBITDA Comparison component is a performance condition as defined by ASC 718, and, therefore, compensation expense related to this component will be reassessed at each reporting date based on the Company's estimate of the probable level of achievement, and the accrual of compensation expense will be adjusted as appropriate.

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Dividends on unvested performance-based equity awards accrue over the vesting period and will be paid on the actual number of shares that vest at the end of the applicable period. The Company recognizes compensation expense on a straight-line basis through the vesting date. As of September 30, 2018, there was approximately $5.8 million of unrecognized compensation expense related to these performance-based equity awards which will be recognized over the weighted-average remaining vesting period of 1.6 years. For the three and nine months ended September 30, 2018, the Company recognized $1.8 million and $1.9 million, respectively, in expense related to these awards. For the three and nine months ended September 30, 2017, the Company recognized $(0.2) million and $1.5 million, respectively, in expense related to these awards.

Long-Term Incentive Partnership Units

LTIP units, which are also referred to as profits interest units, may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. LTIP units are a class of partnership unit in the Operating Partnership and receive, whether vested or not, the same per-unit profit distributions as the other outstanding units in the Operating Partnership, which equal per-share distributions on common shares. LTIP units are allocated their pro-rata share of the Company's net income (loss). Vested LTIP units may be converted by the holder, at any time, into an equal number of common Operating Partnership units and thereafter will possess all of the rights and interests of a common Operating Partnership unit, including the right to redeem the common Operating Partnership unit for a common share in the Company or cash, at the option of the Operating Partnership.

As of September 30, 2018, the Operating Partnership had two classes of LTIP units, LTIP Class A and LTIP Class B units. All of the outstanding LTIP units are held by officers of the Company.

On December 13, 2013, the Board of Trustees approved a grant of 226,882 LTIP Class B units to executive officers of the Company. These LTIP units are subject to time-based vesting in five equal annual installments beginning January 1, 2016 and ending on January 1, 2020. The fair value of each award was determined based on the closing price of the Company’s common shares on the grant date of $29.19 per unit. The aggregate grant date fair value of the LTIP Class B units was $6.6 million.

As of September 30, 2018, the Company had 236,351 LTIP units outstanding. All unvested LTIP units will vest upon a change in control. As of September 30, 2018, of the 236,351 units outstanding, 145,598 LTIP units have vested. For the three and nine months ended September 30, 2018 , the Company recognized $0.3 million and $0.8 million, respectively, in expense related to these LTIP units. For the three and nine months ended September 30, 2017, the Company recognized $0.3 million and $0.8 million, respectively, in expense related to these LTIP units. As of September 30, 2018, there was $1.3 million of total unrecognized share-based compensation expense related to LTIP units. This unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 0.7 years. The aggregate expense related to the LTIP unit grants is presented as non-controlling interest in the Company’s consolidated balance sheets.

Note 9. Income Taxes

The Company's TRS, PHL, is subject to federal and state corporate income taxes at statutory tax rates. The Company has estimated PHL's income tax expense (benefit) for the nine months ended September 30, 2018 using an estimated combined federal and state effective tax rate of 30.0%.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state and local jurisdictions, where applicable. As of September 30, 2018 and December 31, 2017, the statute of limitations remains open for all major jurisdictions for tax years dating back to 2014 and 2013, respectively.

Note 10. Earnings Per Share

The following is a reconciliation of basic and diluted earnings per common share (in thousands, except share and per-share data):

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	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income (loss) attributable to common shareholders	$25,769	$ 26,420	$100,234	$ 75,919
Less: dividends paid on unvested share-based compensation	(83)	(104)	(249)	(311)
Undistributed earnings attributable to share-based compensation	—	—	(67)	—
Net income (loss) available to common shareholders	$25,686	$ 26,316	$99,918	$ 75,608
Denominator:				
Weighted-average number of common shares — basic	68,912,185	68,814,805	68,900,402	69,854,618
Effect of dilutive share-based compensation	343,673	388,115	366,696	373,456
Weighted-average number of common shares — diluted	69,255,858	69,202,920	69,267,098	70,228,074
Net income (loss) per share available to common shareholders — basic	$0.37	$ 0.38	$1.45	$ 1.08
Net income (loss) per share available to common shareholders — diluted	$0.37	$ 0.38	$1.44	$ 1.08

For the three and nine months ended September 30, 2018, zero and 4,212, respectively, of unvested service condition restricted shares and performance-based equity awards were excluded from diluted weighted-average common shares, as their effect would have been anti-dilutive. There were 6,319 and 18,380 unvested service condition restricted shares and performance-based equity awards excluded from diluted weighted-average common shares for the three and nine months ended September 30, 2017, respectively, as their effect would have been anti-dilutive. The LTIP units held by the non-controlling interest holders have been excluded from the denominator of the diluted earnings per share as there would be no effect on the amounts since the limited partners' share of income (loss) would also be added or subtracted to derive net income (loss) available to common shareholders.

Note 11. Commitments and Contingencies

Management Agreements

The Company’s hotel properties are operated pursuant to management agreements with various management companies. The terms of these management agreements range from five years to 21 years, not including renewals, and five years to 52 years, including renewals. Many of the Company’s management agreements are terminable at will by the Company upon paying a termination fee and some are terminable by the Company upon sale of the property, with, in some cases, the payment of termination fees. Most of the agreements also provide the Company the ability to terminate based on failure to achieve defined operating performance thresholds. Termination fees range from zero to up to four times the annual base management and incentive management fees, depending on the agreement and the reason for termination. Certain of the Company’s management agreements are non-terminable except upon the manager’s breach of a material representation or the manager’s failure to meet performance thresholds as defined in the management agreement.

The management agreements require the payment of a base management fee generally between 2% and 4% of hotel revenues. Under certain management agreements, the management companies are also eligible to receive an incentive management fee if hotel operating income, cash flows or other performance measures, as defined in the agreements, exceed certain performance thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Company has received a priority return on its investment in the hotel. Combined base and incentive management fees were $6.0 million and $17.4 million for the three and nine months ended September 30, 2018, respectively, and $5.9 million and $17.4 million for the three and nine months ended September 30, 2017, respectively. Base and incentive management fees are included in other direct and indirect expenses in the Company's consolidated statements of operations and comprehensive income.

Reserve Funds

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Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, typically 4.0% of hotel revenues, sufficient to cover the cost of (a) certain non-routine repairs and maintenance to the hotels and (b) replacements and renewals to the hotels' furniture, fixtures and equipment.

Restricted Cash

At September 30, 2018 and December 31, 2017, the Company had $8.5 million and $7.1 million, respectively, in restricted cash, which consisted of reserves for replacement of furniture and fixtures or reserves to pay for real estate taxes or property insurance under certain hotel management agreements or loan agreements.

Ground and Hotel Leases

The Hotel Monaco Washington DC is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2059. The hotel is required to pay the greater of an annual base rent of $0.2 million or a percentage of gross hotel revenues and gross food and beverage revenues in excess of certain thresholds, as defined in the agreement. The lease contains certain restrictions on modifications that can be made to the hotel structure due to its status as a national historic landmark.

The Argonaut Hotel is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2059. The hotel is required to pay the greater of an annual base rent of $1.3 million or a percentage of rooms revenues, food and beverage revenues and other department revenues in excess of certain thresholds, as defined in the agreement. The lease contains certain restrictions on modifications that can be made to the structure due to its status as a national historic landmark.

The Hotel Zelos San Francisco is subject to a long-term hotel lease agreement for the right to use the ground floor lobby area and floors five through nine of the building and underlying land. The hotel lease expires in 2097. The hotel is required to pay the greater of a fixed rent or percentage rent. The fixed rent increases annually by at least 2% and at most the lesser of (i) the increase in the consumer price index ("CPI") and (ii) 4%. Percentage rent is based on gross hotel and gross food and beverage revenues in excess of certain thresholds (adjusted for CPI increases), as defined in the lease agreement.

The Hotel Zephyr Fisherman's Wharf is subject to a long-term primary ground lease agreement. Through 2016, the primary ground lease required the hotel to make annual base rental payments of $0.1 million and percentage rental payments based on 5% of room revenues and 7.5% of retail revenues attributed to guest rooms and retail space added to the hotel property in 1998. Beginning in 2017, the primary ground lease requires the hotel to pay percentage rent based on 6% of total room revenues and 7.5% of total retail and parking revenues. The primary ground lease expires in 2062.

The Hotel Zeppelin San Francisco is subject to a long-term hotel lease for the right to use floors three through seven, the basement and the roof of an adjacent, attached building containing 64 of the 196 guest rooms at the property. The hotel lease expires in 2059, with a one-time extension option of 30 years. The Company is required to pay annual base rent of approximately $0.5 million, beginning in October 2017. The annual base rent is subject to a fixed increase every year during the remaining lease term. The building portion of the long-term hotel lease was determined to be a capital lease.

The Hotel Palomar Los Angeles Beverly Hills is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2107, including 19 five-year extension options. The hotel is required to pay annual base rent of approximately $3.8 million through January 2021 and the base rent will be adjusted for CPI increases at each five-year extension.

The Union Station Hotel Nashville, Autograph Collection is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2105. The hotel is required to pay the greater of annual base rent of $0.1 million or annual real property taxes.

The ground leases and the Hotel Zelos San Francisco hotel lease are considered operating leases. The Company records expense on a straight-line basis for leases that provide for minimum rental payments that increase in pre-established amounts over the remaining terms of the leases. Ground rent expense was $3.6 million and $10.1 million for the three and nine months ended September 30, 2018, respectively, and $3.5 million and $10.2 million for the three and nine months ended September 30, 2017, respectively. Ground rent expense is included in real estate taxes, personal property taxes, property insurance and ground rent in the Company's consolidated statements of operations and comprehensive income.

Litigation

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The nature of the operations of hotels exposes the Company's hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. The Company has insurance to cover certain potential material losses. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company.

Note 12. Supplemental Information to Statements of Cash Flows

	For the nine months ended September 30,	
	2018	2017
	(in thousands)	
Interest paid, net of capitalized interest	$29,389	$24,690
Income taxes paid	$2,288	$594
Non-Cash Investing and Financing Activities:		
Distributions payable on common shares/units	$28,205	$28,269
Distributions payable on preferred shares	$3,442	$3,442
Issuance of common shares for Board of Trustees compensation	$662	$503
Accrued additions and improvements to hotel properties	$593	$1,400
Write-off of fully depreciated building, furniture, fixtures and equipment	$—	$10,000
Write-off of deferred financing costs	$—	$776

Note 13. Subsequent Events

On October 31, 2018, the Company entered into a new $1.8 billion term loan agreement to fund the LaSalle merger in addition to providing increased liquidity and debt capacity. This new term loan will mature in five tranches, from 2020 to 2024. This loan has not yet been funded, so fees and interest expense have not been incurred, and will not be incurred until the closing of the merger.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. Pebblebrook Hotel Trust is a Maryland real estate investment trust that conducts its operations so as to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Substantially all of the operations are conducted through Pebblebrook Hotel, L.P. (our "Operating Partnership"), a Delaware limited partnership of which Pebblebrook Hotel Trust is the sole general partner. In this report, we use the terms "the Company", "we" or "our" to refer to Pebblebrook Hotel Trust and its subsidiaries, unless the context indicates otherwise.

FORWARD-LOOKING STATEMENTS

This report, together with other statements and information publicly disseminated by us, contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may", "will", "should", "potential", "could", "seek", "assume", "forecast", "believe", "expect", "intend", "anticipate", "estimate", "project" or similar expressions. Forward-looking statements in this report include, among others, statements about our business strategy, including acquisition and development strategies, industry trends, estimated revenues and expenses, estimated costs and durations of renovation or restoration projects, estimated insurance recoveries, our ability to realize deferred tax assets and expected liquidity needs and sources (including capital expenditures and our ability to obtain financing or raise capital). You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- risks associated with the hotel industry, including competition, changes in visa and other travel policies by the U.S. government making it less convenient, more difficult or less desirable for international travelers to enter the U.S., increases in employment costs, energy costs and other operating costs, or decreases in demand caused by events beyond our control including, without limitation, actual or threatened terrorist attacks, cyber attacks, any type of flu or disease-related pandemic, or downturns in general and local economic conditions;
- the availability and terms of financing and capital and the general volatility of securities markets;
- our dependence on third-party managers of our hotels, including our inability to implement strategic business decisions directly;
- risks associated with the global economy and real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act and similar laws;
- interest rate increases;
- our possible failure to qualify as a REIT under the Code and the risk of changes in laws affecting REITs;
- the timing and availability of potential hotel acquisitions and our ability to identify and complete hotel acquisitions in accordance with our business strategy;
- the possibility of uninsured losses;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns; and
- the other factors discussed under the heading "Risk Factors" in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2017.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview

The U.S. lodging industry is expected to continue to generate revenue growth during the remainder of 2018. Corporate business travel demand is steadily improving along with positive business sentiment and a growing global economy. Leisure travel demand is also continuing to grow steadily. On average, supply has increased in many of the larger urban markets such

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as New York, Boston, Los Angeles, Miami, Nashville, Philadelphia, Portland, Seattle and Washington, D.C. However, as demand continues to outpace supply, we expect that the larger urban markets in general will slightly outperform the U.S. lodging industry's modest RevPAR growth in 2018.

We believe that our capital reinvestments and redevelopment projects will drive continued operating cash flow growth and higher long-term economic values across our portfolio. In the third quarter, we saw significant gains in revenues and EBITDA at our recently renovated Hotel Zoe Fisherman's Wharf, following its transformation completed last year and Hotel Zeppelin San Francisco following its transformation and reopening in spring 2016. Many of our San Francisco hotels benefited in the third quarter as a result of the nearly completed renovation of the Moscone Convention Center, which was partially closed during the same time last year.

During the third quarter, our hotels performed better than expected, and we are encouraged by the positive travel trends in increased short-term group and transient bookings, fewer cancellations, better group attendance and increased overall group spend, as well as solid demand from the leisure segment. The overall improvements in business travel trends have been broad based across our portfolio. Our hotels continue to see strong revenue growth bolstered by our efforts to add value through enhanced amenities and redeveloped food and beverage outlets and public areas.

On September 6, 2018, we entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") with LaSalle Hotel Properties ("LaSalle"). Under the terms of the Merger Agreement, each LaSalle common share will receive either a fixed amount of $37.80 in cash or a fixed exchange ratio of 0.92 of Pebblebrook common share. A maximum of 30% of the outstanding LaSalle common shares may be exchanged for cash (and elections of cash will be subject to pro rata cutbacks if holders of more than 30% of the outstanding LaSalle common shares elect cash). Additionally, the 10,809,215 LaSalle common shares held by us will be canceled and excluded from the cash election. Each of LaSalle's Series I and Series J preferred shares will be converted into preferred shares that we will issue in connection with the merger. We filed a joint proxy statement/prospectus relating to the merger and other transactions contemplated by the Merger Agreement with the United States Securities and Exchange Commission (the "SEC") on October 29, 2018. The transaction is expected to close on November 30, 2018. The transaction is subject to customary closing conditions, including the approval of certain aspects of the transaction by both our and LaSalle's shareholders.

On September 3, 2018, we secured a commitment for a senior unsecured bridge loan facility for up to $2.4 billion to be used, if needed, for either financing the merger with LaSalle, paying for transactions costs associated with the merger or funding our debt refinancing. The Bridge Facility is available to be drawn down upon the closing date of the merger with LaSalle. The maturity date of this Bridge Facility is 364 days after the closing date of the merger with LaSalle. Borrowings on the Bridge Facility, if any, will bear interest at LIBOR plus 1.45% to 3.00%, depending on our leverage ratio and the number of days after the closing date of the merger that the debt, if any, is incurred. We paid $15.6 million to secure this commitment.

On September 5, 2018, we entered into a fifth unsecured term loan facility (the "Fifth Term Loan"). The Fifth Term Loan has a $100.0 million capacity and matures in March 2019 with an option to extend the maturity date to September 2019. The Fifth Term Loan bears interest at a variable rate of LIBOR plus 1.40% to 2.20%, depending on our leverage ratio.

The remediation of our 189-room LaPlaya Beach Resort and LaPlaya Beach Club ("LaPlaya") property following damage caused by Hurricane Irma was completed in January 2018 with additional repair work that was completed during the third quarter of 2018. As of September 30, 2018, we reached a final agreement with our insurance carriers totaling $20.5 million, and we recognized a gain of $13.1 million for the nine months ended September 30, 2018.

While we do not operate our hotel properties, both our asset management team and our executive management team monitor and work cooperatively with our hotel managers by advising and making recommendations in all aspects of our hotels' operations, including property positioning and repositioning, revenue and expense management, operations analysis, physical design, renovation and capital improvements, guest experience and overall strategic direction. Through these efforts, we seek to improve property efficiencies, lower costs, maximize revenues and enhance property operating margins, which we expect will enhance returns to our shareholders.

Key Indicators of Financial Condition and Operating Performance

We measure hotel results of operations and the operating performance of our business by evaluating financial and non-financial metrics such as room revenue per available room ("RevPAR"); average daily rate ("ADR"); occupancy rate ("Occupancy"); funds from operations ("FFO"); earnings before interest, income taxes, depreciation and amortization ("EBITDA"); and EBITDA for real estate ("EBITDAre"). We evaluate individual hotel and company-wide performance with comparisons to budgets, prior periods and competing properties. ADR, occupancy and RevPAR may be impacted by

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macroeconomic factors as well as regional and local economies and events. See "Non-GAAP Financial Matters" for further discussion of FFO, EBITDA and EBIDTAre.

Hotel Operating Statistics

The following table represents the key same-property hotel operating statistics for our hotels for the three and nine months ended September 30, 2018 and 2017.

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Same-Property Occupancy	89.5 %	89.5 %	85.7 %	85.7 %
Same-Property ADR	$259.25	$256.56	$253.13	$250.40
Same-Property RevPAR	$231.94	$229.68	$216.97	$214.46

This schedule of hotel results for the three months ended September 30 includes information from all of the hotels we owned as of September 30, 2018, except for LaPlaya Beach Resort & Club in both 2018 and 2017 because it was closed during the third quarter of 2017 due to the impact from Hurricane Irma. This schedule of hotel results for the nine months ended September 30 includes information from all of the hotels we owned as of September 30, 2018, except for LaPlaya Beach Resort & Club for Q3 in both 2018 and 2017 because it was closed during the third quarter of 2017 due to the impact from Hurricane Irma.

Non-GAAP Financial Measures

Non-GAAP financial measures are measures of our historical or future financial performance that are different from measures calculated and presented in accordance with U.S. GAAP. We report FFO, EBITDA and EBITDAre, which are non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance.

We calculate FFO in accordance with standards established by Nareit, which defines FFO as net income (calculated in accordance with U.S. GAAP), excluding real estate related depreciation and amortization, gains (losses) from sales of real estate, impairments of real estate assets (including impairment of real estate related joint ventures), 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 real estate related depreciation and amortization including our share of the joint venture depreciation and amortization, gains (losses) from sales of real estate and impairments of real estate assets (including impairment of real estate related joint ventures), all 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.

The following table reconciles net income (loss) to FFO and FFO available to common share and unit holders for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$29,917	$30,571	$112,728	$88,330
Adjustments:				
Depreciation and amortization	24,713	25,155	74,072	77,284
(Gain) loss on sale of hotel properties	—	(290)	—	(14,877)
Impairment loss	—	2,800	—	3,849

FFO	$54,630	$58,236	$186,800	$154,586
Distribution to preferred shareholders	(4,023)	(4,023)	(12,070)	(12,070)
FFO available to common share and unit holders	$50,607	$54,213	$174,730	$142,516

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. The white paper “Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate” approved by Nareit defines EBITDAre as net income or

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loss (computed in accordance with U.S. GAAP), excluding interest expense, income tax, depreciation and amortization, gains or losses on the disposition of depreciated property (including gains or losses on change of control), impairment write-downs of depreciated property and of investments in unconsolidated affiliates caused by a decrease in value of depreciated property in the affiliate, and after comparable adjustments for our portion of these items related to unconsolidated affiliates. We believe that EBITDA and EBITDAre provide investors useful financial measures to evaluate our operating performance, excluding the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization).

The following table reconciles net income (loss) to EBITDA and EBITDAre for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$29,917	$30,571	$112,728	$88,330
Adjustments:				
Interest expense	12,647	8,969	33,274	28,015
Income tax expense (benefit)	1,719	1,593	3,628	181
Depreciation and amortization	24,765	25,210	74,229	77,456
EBITDA	$69,048	$66,343	$223,859	$193,982
Gain on sale of hotel properties	—	(290)	—	(14,877)
Impairment loss	—	2,800	—	3,849
EBITDAre	$69,048	$68,853	$223,859	$182,954

FFO, EBITDA and EBITDAre do not represent cash generated from operating activities as determined by U.S. GAAP and should not be considered as alternatives to U.S. GAAP net income (loss), as indications of our financial performance, or to U.S. GAAP cash flow from operating activities, as measures of liquidity. In addition, FFO, EBITDA and EBITDAre are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Results of Operations

At September 30, 2018 and 2017, we had 28 wholly owned properties and leasehold interests. All properties owned during these periods have been included in our results of operations during the respective periods since their dates of acquisition and through the dates of disposition, as applicable. Based on when a property was acquired or disposed, operating results for certain properties are not comparable for the three and nine months ended September 30, 2018 and 2017. The properties listed in the table below are hereinafter referred to as "non-comparable properties" for the periods indicated and all other properties are referred to as "comparable properties":

Property	Location	Acquisition/Disposition Date	Non-comparable property for the three months ended September 30, 2018 and 2017	Non-comparable property for the nine months ended September 30, 2018 and 2017
Dumont NYC [(1)]	New York, NY	October 19, 2016		X

(1) We obtained full ownership of this property as a result of the joint venture redemption transaction in October 2016. We subsequently sold this property on June 20, 2017.

Comparison of the three months ended September 30, 2018 to the three months ended September 30, 2017

Revenues — Total hotel revenues increased by $3.7 million, primarily as a result of LaPlaya having been closed in September 2017 due to Hurricane Irma, completion of renovation at Hotel Zoe Fisherman's Wharf that was under renovation for a part of 2017 and increases at our San Francisco properties.

Hotel operating expenses — Total hotel operating expenses increased by $2.8 million, as a result of increases across the portfolio, particularly at our San Francisco properties.

Depreciation and amortization — Depreciation and amortization expense decreased by $0.4 million, which was a result of assets at certain hotels becoming fully depreciated as renovations are performed.

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Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent decreased by $0.1 million due to a decrease in a lower than expected assessment at one of our California properties which resulted in an adjustment in 2018 to reduce the real estate tax accrual. This decrease was offset by higher real estate assessments for some of our properties as a result of renovations and an increase in real estate tax at one of our California properties which had won an appeal causing a lower expense in 2017.

Corporate general and administrative — Corporate general and administrative expenses increased by $5.8 million primarily due to additional costs relating to the pending merger with LaSalle and increased share-based compensation costs. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, acquisition and disposition costs, costs related to strategic transactions, insurance, state franchise taxes and other expenses.

Impairment and other losses — Impairment and other losses decreased by $3.1 million due to the costs related to the property damage sustained by LaPlaya from Hurricane Irma in 2017. There was minimal expense incurred during the same period in 2018.

Gain on insurance settlement — Gain on insurance settlement increased by $0.9 million as a result of the settlement of an insurance claim relating to one of our California properties.

Interest expense — Interest expense increased by $3.7 million as a result of higher borrowings under the revolving credit facility during 2018, primarily related to the investment in marketable securities.

Other — Other income increased by $3.8 million due to the gain from marketable securities.

Gain on sale of hotel properties — Gain on sale of hotel properties was $0.3 million in 2017 as a result of the sale of the Dumont NYC and parking garage at Revere Hotel Boston Common. There were no property sales in 2018.

Income tax (expense) benefit — Income tax expense increased by $0.1 million due primarily to an increase in taxable income of PHL during the quarter compared to the same period in the prior year which was partially offset by the decline in our effective tax rate.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the LTIP unit holders.

Comparison of the nine months ended September 30, 2018 to the nine months ended September 30, 2017

Revenues — Total hotel revenues increased by $3.3 million primarily as a result of the completion of the renovation at Hotel Zoe Fisherman's Wharf and Revere Hotel Boston Common which were under renovation for a part of 2017, an increase in revenue at LaPlaya, which was closed in September 2017 due to Hurricane Irma, an increase in revenue at the InterContinental Buckhead, and increases at our San Francisco properties. These increases were partially offset by the decline in revenues from the sales of the Dumont NYC and the parking garage at the Revere Hotel Boston Common.

Hotel operating expenses — Total hotel operating expenses increased $1.4 million, which was a result of increases in expenses at Revere Hotel Boston Common and Hotel Zoe Fisherman's Wharf which were under renovation in 2017. This was offset by a decline in expenses of $6.1 million from the non-comparable properties.

Depreciation and amortization — Depreciation and amortization expense decreased by $3.2 million primarily due to the reduction in depreciation following the sale of the non-comparable property and assets at certain hotels becoming fully depreciated as renovations are performed.

Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent decreased by $1.3 million primarily due a decline in real estate tax as a result of selling the parking garage at the Revere Hotel Boston Common and the non-comparable property and a lower than expected assessment at one of our California properties. These decreases were partially offset by an increase in real estate tax at one of our California properties which had won an appeal causing a lower expense in 2017.

Corporate general and administrative — Corporate general and administrative expenses increased by $4.4 million due to additional costs related to the pending merger with LaSalle. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, acquisition and disposition costs, costs related to strategic transactions, insurance, state franchise taxes and other expenses.

Impairment and other losses — Impairment and other losses decreased by $2.8 million. In 2017, impairment charges of $4.2 million were recognized related to the Dumont NYC and property damage sustained by LaPlaya from Hurricane

Irma. In 2018,

we incurred $1.5 million in costs related to the property damage sustained by LaPlaya from Hurricane Irma which were recovered through insurance proceeds.

Gain on insurance settlement — Gain on insurance settlement increased by $14.0 million primarily as a result of the settlement of business interruption and property damage insurance claims relating to Hurricane Irma at LaPlaya in 2018.

Interest expense — Interest expense increased by $5.3 million as a result of higher borrowings under the revolving credit facility during 2018, primarily related to the investment in marketable securities.

Other — Other income increased by $29.1 million due to the gain and dividend income from our investment in marketable securities.

Gain on sale of hotel properties — Gain on sale of hotel properties was $14.9 million in 2017 as a result of the sale of the Dumont NYC and parking garage at Revere Hotel Boston Boston Common. There were no property sales in 2018.

Income tax (expense) benefit — Income tax expense increased by $3.4 million due primarily to an increase in taxable income of PHL during 2018 compared to 2017 which was partially offset by the decline in our effective tax rate.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the LTIP unit holders.

Other comprehensive income (loss) — Other comprehensive income increased $6.6 million as a result of an increase in unrealized gain from interest rate swap derivatives.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our 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 significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Recent Accounting Standards

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

Liquidity and Capital Resources

We expect to meet our short-term liquidity requirements through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our senior unsecured revolving credit facilities. We expect our existing cash balances and cash provided by operations will be adequate to fund operating requirements, service debt and fund dividends in accordance with the REIT requirements of the federal income tax laws.

We expect to meet our long-term liquidity requirements, such as hotel property acquisitions, property redevelopment, investments in new joint ventures, and debt principal payments and debt maturities, through the net proceeds from additional issuances of common shares, additional issuances of preferred shares, issuances of units of limited partnership interest in our Operating Partnership, secured and unsecured borrowings, hotel property sales, the sale of marketable securities and cash provided by operations. The success of our business strategy may depend in part on our ability to access additional capital through issuances of debt and equity securities, which is dependent on favorable market conditions.

We strive to maintain prudent debt leverage and intend to opportunistically enhance our capital position.

Unsecured Revolving Credit Facilities, Unsecured Term Loan Facilities and Senior Unsecured Notes

Our $750.0 million unsecured credit facility provides for a $450.0 million unsecured revolving credit facility (the "Revolver") and a $300.0 million unsecured term loan (the "First Term Loan"). On October 13, 2017, we amended and restated

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the credit agreement governing our unsecured revolving credit facility and the First Term Loan. The Revolver matures in January 2022 with options to extend the maturity date to January 2023 and the First Term Loan matures in January 2023.

As of September 30, 2018, we had $394.0 million outstanding under the Revolver and $300.0 million outstanding under the First Term Loan. As of September 30, 2018, we had $56.0 million borrowing capacity remaining under the Revolver. We have the ability to further increase the aggregate borrowing capacity under the credit agreement to up to $1.3 billion, subject to lender approval. We intend to repay indebtedness incurred under the Revolver from time to time out of cash flows from operations and, as market conditions permit, from the net proceeds of issuances of additional equity and debt securities and from the net proceeds of dispositions of hotel properties.

Interest is paid on the periodic advances under the senior unsecured revolving credit facility at varying rates, based upon either LIBOR or the alternate base rate, plus an additional margin amount. The interest rate depends upon our leverage ratio pursuant to the provisions of the credit facility agreement. We entered into interest rate swap agreements to effectively fix the interest rates of the First Term Loan through January 15, 2020. The First Term Loan had a weighted-average effective interest rate of 2.83% through July 13, 2017 and a weighted-average effective interest rate of 3.46% from July 13, 2017 through January 15, 2020, based on our leverage ratio at September 30, 2018.

On April 13, 2015, we entered into a second unsecured term loan facility. This term loan had a $100.0 million capacity, which could have been increased up to $200.0 million, subject to lender approval. On January 5, 2016, we exercised the option to increase the borrowing capacity to $175.0 million and borrowed the additional $75.0 million resulting from such increase. On October 13, 2017, we amended and restated the credit agreement governing this term loan facility and entered into a second credit agreement, in effect separating it into two tranches, consisting of a $65.0 million unsecured term loan maturing in April 2022 (the "Second Term Loan") and a $110.0 million unsecured term loan maturing in October 2024 (the "Fourth Term Loan"). The borrowings under the Second Term Loan bear interest at a rate of LIBOR plus 1.40% to 2.20%, depending on our leverage ratio. We have the ability to increase the aggregate borrowing capacity to up to $150.0 million, subject to lender approval.

On June 10, 2015, we entered into a third unsecured term loan facility (the "Third Term Loan"). The Third Term Loan has a $125.0 million capacity, which may be increased up to $250.0 million, subject to lender approval, and matures in January 2021. On January 5, 2016, we exercised the option to increase the borrowing capacity to $200.0 million and borrowed the additional $75.0 million resulting from such increase. On October 13, 2017, we amended and restated the credit agreement governing the Third Term Loan. The Third Term Loan bears interest at a variable rate of LIBOR plus 1.40% to 2.20%, depending on our leverage ratio. We entered into interest rate swap agreements with an aggregate notional amount of $200.0 million to effectively fix the LIBOR rate through January 2021, resulting in a weighted-average effective interest rate of 3.21%, based on our leverage ratio at September 30, 2018.

The Fourth Term Loan has a $110.0 million capacity and matures in October 2024. As of September 30, 2018, we had $110.0 million outstanding under the Fourth Term Loan. The Fourth Term Loan bears interest at a variable rate of LIBOR plus 1.70% to 2.60% depending on our leverage ratio. We entered into interest rate swap agreements with an aggregate notional amount of $100.0 million to effectively fix the LIBOR rate through April 2022 on $100.0 million of the Fourth Term Loan resulting in a weighted-average effective interest rate of 3.56%, based on our leverage ratio at September 30, 2018. The interest rate on the other $10.0 million of the Fourth Term Loan remains floating at a variable rate of LIBOR plus 1.70% to 2.60%, depending on our leverage ratio. We have the ability to increase the aggregate borrowing capacity to up to $250.0 million, subject to lender approval.

On September 5, 2018, we entered into a fifth unsecured term loan facility (the "Fifth Term Loan"). The Fifth Term Loan has a $100.0 million capacity and matures in March 2019 with an option to extend the maturity date to September 2019. As of September 30, 2018, we had $100.0 million outstanding under the Fifth Term Loan. The Fifth Term Loan bears interest at a variable rate of LIBOR plus 1.40% to 2.20%, depending on our leverage ratio.

We did not make any changes to our interest rate swap agreements.

On November 12, 2015, we issued $60.0 million of senior unsecured notes bearing a fixed interest rate of 4.70% per annum and maturing in December 2023 (the "Series A Notes"). On November 12, 2015, we issued $40.0 million of senior unsecured notes bearing a fixed interest rate of 4.93% per annum and maturing in December 2025 (the "Series

B Notes"). The agreement governing the Series A Notes and the Series B Notes was also amended on October 13, 2017 to match the financial and other covenants in our senior unsecured revolving credit facility, as amended and restated.

On May 17, 2017, PHL entered into another $10.0 million unsecured revolving credit facility (the "PHL Credit Facility") to be used for PHL's working capital and general corporate purposes. On October 13, 2017, we amended the agreement governing the $10.0 million PHL Credit Facility to extend the maturity date to January 2022 on substantially similar terms as our senior unsecured revolving credit facility, as amended and restated. Borrowings under the PHL Credit Facility bear interest at LIBOR plus 1.45% to 2.25%, depending on the Company's leverage ratio. As of September 30, 2018, we had no borrowings under the PHL Credit Facility.

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On September 3, 2018, we secured a commitment for a senior unsecured bridge loan facility of up to $2.4 billion to be used, if needed, for either financing the merger with LaSalle, paying for transactions costs associated with the merger or funding the Company's debt refinancing.

Debt Summary

Debt as of September 30, 2018 and December 31, 2017 consisted of the following (dollars in thousands):

	Interest Rate	Maturity Date	Balance Outstanding as of September 30, 2018	December 31, 2017
Revolving credit facilities				
Senior unsecured revolving credit facility	Floating [1]	January 2022	$394,000	$ 45,000
PHL unsecured revolving credit facility	Floating[2]	January 2022	—	—
Total revolving credit facilities			$394,000	$ 45,000
Term loans				
First Term Loan	Floating [3]	January 2023	300,000	300,000
Second Term Loan	Floating [3]	April 2022	65,000	65,000
Third Term Loan	Floating [3]	January 2021	200,000	200,000
Fourth Term Loan	Floating [3]	October 2024	110,000	110,000
Fifth Term Loan	Floating [3]	March 2019	100,000	—
Total term loans at stated value			775,000	675,000
Deferred financing costs, net			(3,913)	(4,594)
Total term loans			$771,087	$ 670,406
Senior unsecured notes				
Series A Notes	4.70%	December 2023	60,000	60,000
Series B Notes	4.93%	December 2025	40,000	40,000
Total senior unsecured notes at stated value			100,000	100,000
Deferred financing costs, net			(555)	(626)
Total senior unsecured notes			$99,445	$ 99,374
Mortgage loans				
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	68,809	70,573
Mortgage loans at stated value			68,809	70,573
Deferred financing costs, net			(78)	(116)
Total mortgage loans			$68,731	$ 70,457
Total debt			$1,333,263	$ 885,237

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[1] Borrowings bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) an Adjusted Base Rate (as defined in the applicable credit agreement) plus an applicable margin.

[2] Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) an Eurocurrency Rate (as defined in the applicable credit agreement) plus an applicable margin.

[3] Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. At September 30, 2018 and December 31, 2017, we had interest rate swaps to effectively fix the interest rate for $600.0 million of our unsecured term loan facilities. See "Derivative and Hedging Activities" above.

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Issuance of Shares of Beneficial Interest

On March 5, 2014, we entered into equity distribution agreements (collectively, the "Equity Distribution Agreements") with each of Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James & Associates, Inc. (collectively, the "Sales Agents"), providing for our sale from time to time of our common shares having an aggregate offering price of up to $175.0 million, pursuant to a prospectus supplement we filed with the SEC, through any of the Sales Agents, acting as sales agent and/or principal, through an at-the-market offering program (our "ATM program"). At the same time, we terminated our prior $170.0 million ATM program. As of March 1, 2017, $159.8 million in common shares remained available for issuance under the $175.0 million ATM program, and on that date the program was terminated.

On February 22, 2016, we announced that our board of trustees authorized a share repurchase program of up to $150.0 million of the Company's outstanding common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. No common shares were issued or sold under our ATM program during the nine months ended September 30, 2018. As of September 30, 2018, $56.6 million of common shares remained available for repurchase under this program.

On July 27, 2017, we announced that our board of trustees authorized a new share repurchase program of up to $100.0 million of the Company's outstanding common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. This $100.0 million share repurchase program will commence upon the completion of our $150.0 million share repurchase program.

Sources and Uses of Cash

Our principal sources of cash are cash from operations, borrowings under mortgage financings and other debt, draws on our credit facilities, proceeds from offerings of our equity securities and hotel property sales. Our principal uses of cash are asset acquisitions, strategic investments in marketable securities, debt service, capital investments, operating costs, corporate expenses and dividends.

Cash Provided by Operations. Our cash provided by operating activities was $170.8 million for the nine months ended September 30, 2018. Our cash from operations includes the operating activities of the 28 hotels we owned as of September 30, 2018 and investment income. Our cash provided by operating activities was $151.1 million for the nine months ended September 30, 2017. Our cash from operations includes the operating activities of the 28 hotels we wholly owned as of September 30, 2017.

Cash Used in and Provided by Investing Activities. Our cash used in investing activities was $513.4 million for the nine months ended September 30, 2018. During the nine months ended September 30, 2018, we invested $56.9 million in improvements to our hotel properties, purchased $356.2 million in marketable securities, sold $6.7 million in marketable securities, paid the $112.0 million termination fee on LaSalle's behalf related to their previous merger agreement and received $5.1 million in property insurance proceeds. Our cash provided by investing activities was $141.9 million for the nine months ended September 30, 2017. During the nine months ended September 30, 2017, we invested $63.5 million in improvements to our hotel properties and received $203.5 million in proceeds from the sale of one hotel property and a parking garage.

Cash Provided by Financing Activities. Our cash provided by financing activities was $336.6 million for the nine months ended September 30, 2018. During the nine months ended September 30, 2018, we borrowed $500.2 million under the revolving credit facilities (a portion of which was used to purchase the marketable securities described above in "Cash Used in and Provided by Investing Activities"), repaid $151.2 million under the revolving credit facilities, borrowed $100.0 million under our Fifth Term loan, repaid $1.8 million of mortgage debt, repurchased $2.5 million of common shares for tax withholding purposes in connection with vested share-based equity awards, paid $91.5 million in distributions and paid $15.7 million in financing costs. For the nine months ended September 30, 2017, cash used in financing activities was $313.1 million. During the nine months ended September 30, 2017, we borrowed $220.5 million under the revolving credit facilities, repaid $272.5 million under the revolving credit facilities, repaid $71.7 million of mortgage debt, repurchased $96.0 million of common shares under our share repurchase program and for tax withholding purposes in connection with vested share-based equity awards, paid $93.1

million in distributions and paid $0.3 million in other transactions.

Capital Investments

We maintain and intend to continue maintaining all of our hotels, including each hotel that we acquire in the future, in good repair and condition and in conformity with applicable laws and regulations and when applicable, in accordance with the franchisor's standards and the agreed-upon requirements in our management agreements. Routine capital investments will be administered by the hotel management companies. However, we maintain approval rights over the capital investments as part of the annual budget process and as otherwise required from time to time.

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From time to time, certain of our hotel properties may undergo renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, meeting space and restaurants, in order to better compete with other hotels in our markets. In addition, after we acquire a hotel property, we are often required by the franchisor or brand manager, if there is one, to complete a property improvement plan ("PIP") in order to bring the hotel property up to the franchisor's or brand's standards. Generally, we expect to fund renovations and improvements with available cash, restricted cash, borrowings under our credit facility, or proceeds from new mortgage debt or equity offerings.

For the nine months ended September 30, 2018, we invested $56.9 million in capital investments to reposition and improve the properties we own. We expect to invest approximately $10.0 million to $20.0 million in capital investments for our hotels through the remainder of 2018, including an $18.0 million Mondrian Los Angeles renovation which is anticipated to be completed in the first quarter of 2019.

Contractual Obligations and Off-Balance Sheet Arrangements

The table below summarizes our contractual obligations as of September 30, 2018 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Mortgage loans [1]	$72,168	$4,966	$67,202	$—	$—
Term loans [2]	874,415	125,357	243,891	390,257	114,910
Unsecured notes [1]	130,300	4,792	9,584	9,584	106,340
Borrowings under credit facilities [3]	444,586	15,348	30,739	398,499	—
Hotel and ground leases [4]	749,638	7,365	14,839	14,989	712,445
Capital lease obligation	36,251	308	670	746	34,527
Refundable membership initiation deposits [5]	31,491	293	—	—	31,198
Purchase commitments [6]	23,643	23,643	—	—	—
Corporate office lease	2,895	396	825	871	803
Total	$2,365,387	$182,468	$367,750	$814,946	$1,000,223

(1) Amounts include principal and interest.

(2) Amounts include principal and interest. Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. At September 30, 2018, we had interest rate swaps to effectively fix the interest rate for $600.0 million of our unsecured term loan facilities. See "Derivative and Hedging Activities" above.

(3) Amounts include principal and interest under the two revolving credit facilities. Interest expense is calculated based on the weighted-average interest rate for all outstanding credit facility borrowings as of September 30, 2018. It is assumed that the outstanding borrowings will be repaid upon maturity with fixed interest-only payments until then.

(4) The long-term ground leases on the Hotel Monaco Washington DC and Argonaut Hotel provide for the greater of base or percentage rent, adjusted for CPI increases. The long-term hotel lease on the Hotel Zelos San Francisco provides for base rent plus percentage rent, adjusted for CPI increases and contains a base rent floor and ceiling. The long-term leases on the Hotel Zephyr Fisherman's Wharf provide for base plus percentage rent through 2016 and rent as a percentage of revenues and net income, as adjusted and defined in the agreements, in 2017 and thereafter. The long-term hotel lease on Hotel Zeppelin San Francisco was determined to be both an operating and capital lease. The lease contains a fixed base rental increase every year during the lease term. The long-term ground lease on the Hotel Palomar Los Angeles Beverly Hills provides for base rent, adjusted for CPI increases every five years. This lease has 19 five-year renewal options and the table assumes the exercise of all 19 renewal options. The long-term ground lease on the Union Station Hotel Nashville, Autograph Collection provides for annual base rent equal to the greater of $0.1 million or annual real property taxes. The table above reflects only

minimum base rent for all periods presented and does not include assumptions for CPI adjustments.

(5) Represents refundable initiation membership deposits from club members at LaPlaya.

(6) Amounts represent purchase orders and contracts that have been executed for renovation projects at the properties. We are committed to these purchase orders and contracts and anticipate making similar arrangements in the future with the existing properties or any future properties that we may acquire.

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Off-Balance Sheet Arrangements

As of September 30, 2018, we had no off-balance sheet arrangements.

Inflation

We rely on the performance of the hotels to increase revenues to keep pace with inflation. Generally, our hotel operators possess the ability to adjust room rates daily, except for group or corporate rates contractually committed to in advance, although competitive pressures may limit the ability of our operators to raise rates faster than inflation or even at the same rate.

Seasonality

Demand in the lodging industry is affected by recurring seasonal patterns which are greatly influenced by overall economic cycles, geographic locations, weather and customer mix at the hotels. Generally, our hotels have lower revenue, operating income and cash flow in the first quarter of each year and higher revenue, operating income and cash flow in the third quarter of each year.

Derivative Instruments

In the normal course of business, we are exposed to the effects of interest rate changes. We may enter into derivative instruments including interest rate swaps, caps and collars to manage or hedge interest rate risk. Derivative instruments are subject to fair value reporting at each reporting date and the increase or decrease in fair value is recorded in net income (loss) or accumulated other comprehensive income (loss), based on the applicable hedge accounting guidance. Derivatives expose the Company to credit risk in the event of non-performance by the counter parties under the terms of the interest rate hedge agreements. The Company believes it minimizes the credit risk by transacting with major credit-worthy financial institutions.

As of September 30, 2018, the Company had interest rate swap agreements with an aggregate notional amount of $300.0 million to hedge the variable interest rate on the First Term Loan resulting in a weighted-average effective interest rate of 2.83% per annum through July 13, 2017 and a weighted-average effective interest rate of 3.46% from July 13, 2017 through January 15, 2020, based on the Company’s leverage ratio at September 30, 2018.

The Company entered into interest rate swap agreements with an aggregate notional amount of $200.0 million to effectively fix the LIBOR rate on the Third Term Loan through January 2021, resulting in a weighted-average effective interest rate of 3.21% per annum, based on the Company’s leverage ratio at September 30, 2018.

The Company entered into interest rate swap agreements with an aggregate notional amount of $100.0 million to effectively fix the LIBOR rate through April 2022 on a portion of the Fourth Term Loan, resulting in a weighted-average effective interest rate of 3.56% per annum, based on the Company’s leverage ratio at September 30, 2018. The interest rate on the other $10.0 million of the Fourth Term Loan remains floating at a variable rate of LIBOR plus 1.70% to 2.60%, depending on the Company's leverage ratio.

We have designated these pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. For the nine months ended September 30, 2018, there was $8.1 million in unrealized gain (loss) recorded in accumulated other comprehensive income. For the nine months ended September 30, 2017, the Company recorded a gain (loss) of $1.5 million in accumulated other comprehensive income.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Sensitivity

We are exposed to market risk from changes in interest rates. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose us to the risks that the other parties to the agreements will not perform, that we could incur significant costs associated with the settlement of the agreements, or the agreements will be unenforceable and the underlying transactions will fail to qualify as highly effective cash flow hedges under guidance included in ASC 815 "Derivatives and Hedging."

As of September 30, 2018, $569.0 million of the Company's aggregate indebtedness (43% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under the term loan facilities that have been effectively swapped into fixed rates. If interest rates on our variable rate debt increase or decrease by 0.1 percent, our annual interest expense will increase or decrease by approximately $0.6 million, respectively.

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Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have been no changes to our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The nature of the operations of our hotels exposes the hotels and us to the risk of claims and litigation in the normal course of business. We are not presently subject to any material litigation nor, to our knowledge, is any litigation threatened against us, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on our liquidity, results of operations or our financial condition.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2017.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [1]
July 1, 2018 - July 31, 2018	—	$	—	—
August 1, 2018 - August 31, 2018	—	$	—	—
September 1, 2018 - September 30, 2018	—	$	—	—
Total	—	$	—	$56,600,000

[1] On February 22, 2016, the Company announced its Board of Trustees authorized a share repurchase program of up to $150.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. The amount in this column does not include the approximate dollar

value of shares that may yet be purchased under the $100.0 million share repurchase program that was announced on July 27, 2017, which will commence upon the completion of the Company's $150.0 million share repurchase program. See Note 7 to the accompanying financial statements for more information about the $100.0 million share repurchase program.

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Item 3. Defaults Upon Senior Securities.
None.
Item 4. Mine Safety Disclosures.
Not applicable.

Item 5. Other Information.
None.

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of September 6, 2018, by and among Pebblebrook Hotel Trust, Pebblebrook Hotel, L.P., Ping Merger OP, LP, Ping Merger Sub, LLC, LaSalle Hotel Properties and LaSalle Hotel LaSalle OP, L.P. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 7, 2018 (File No. 001 34571)).
2.2	Amendment No. 1 to the Agreement and Plan of Merger, by and among Pebblebrook Hotel Trust, Pebblebrook Hotel, L.P., Ping Merger Sub, LLC, Ping Merger OP, LP, LaSalle Hotel Properties and LaSalle Hotel Operating Partnership, L.P., dated as of September 18, 2018 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 19, 2018 (File No. 001 34571)).
10.1 †	Credit Agreement, dated as of September 5, 2018, among Pebblebrook Hotel L.P., as the borrower, Pebblebrook Hotel Trust, as the parent REIT and a guarantor, certain subsidiaries of the borrower, as guarantors, Bank of America, as administrative agent, and the other lenders party thereto.
10.2*	Waiver Agreement, dated September 5, 2018, between Pebblebrook Hotel Trust and Jon E. Bortz (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 19, 2018 (File No. 001 34571)).
10.3*	Waiver Agreement, dated September 5, 2018, between Pebblebrook Hotel Trust and Raymond D. Martz (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on September 19, 2018 (File No. 001 34571)).
10.4*	Waiver Agreement, dated September 5, 2018, between Pebblebrook Hotel Trust and Thomas C. Fisher (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on September 19, 2018 (File No. 001 34571)).
31.1†	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1††	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2††	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document (1)
101.SCH XBRL	Taxonomy Extension Schema Document (1)
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document (1)
101.LAB XBRL	Taxonomy Extension Label Linkbase Document (1)
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document (1)
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document (1)

*Management agreement or compensatory plan or arrangement.

† Filed herewith.

†† Furnished herewith.

(1) Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations and Comprehensive Income; (iii) Consolidated Statements of Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements.

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SIGNATURES

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

PEBBLEBROOK HOTEL TRUST

Date: November 1, 2018 /s/ JON E. BORTZ
Jon E. Bortz
Chairman, President and Chief Executive Officer