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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2018

OR

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

For the transition period from   to   .

Commission file number 1-14045

LASALLE HOTEL PROPERTIES
(Exact name of registrant as specified in its charter)

Maryland	36-4219376
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
7550 Wisconsin Avenue, 10th Floor Bethesda, Maryland	20814
(Address of principal executive offices)	(Zip Code)

(301) 941-1500
(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 x   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 x   No ¨

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

Large accelerated filer x   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 x

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

Class	Outstanding at August 9, 2018
Common Shares of Beneficial Interest ($0.01 par value)	110,397,737
6.375% Series I Cumulative Redeemable Preferred Shares ($0.01 par value)	4,400,000
6.3% Series J Cumulative Redeemable Preferred Shares ($0.01 par value)	6,000,000

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PART I. Financial Information

Item 1. Financial Statements
LASALLE HOTEL PROPERTIES
Consolidated Balance Sheets
(in thousands, except share and per share data)

	June 30, 2018 (unaudited)	December 31, 2017
Assets:		
Investment in hotel properties, net (Note 3)	$3,288,558	$3,265,615
Property under development	14,781	49,459
Cash and cash equivalents	220,771	400,667
Restricted cash reserves (Note 5)	14,025	14,262
Hotel receivables (net of allowance for doubtful accounts of $357 and $404, respectively)	43,904	35,916
Debt issuance costs for borrowings under credit facilities, net	2,729	3,274
Deferred tax assets	2,136	2,136
Prepaid expenses and other assets	64,634	43,612
Total assets	$3,651,538	$3,814,941
Liabilities:		
Borrowings under credit facilities (Note 4)	$0	$0
Term loans, net of unamortized debt issuance costs (Note 4)	853,488	853,195
Bonds payable, net of unamortized debt issuance costs (Note 4)	0	42,494
Mortgage loan, net of unamortized debt issuance costs (Note 4)	224,915	224,432
Accounts payable and accrued expenses	147,953	134,216
Advance deposits	32,084	26,625
Accrued interest	2,295	2,383
Distributions payable	28,984	55,135
Total liabilities	1,289,719	1,338,480
Commitments and contingencies (Note 5)		
Equity:		
Shareholders' Equity:		
Preferred shares of beneficial interest, $0.01 par value (liquidation preference of $260,000), 40,000,000 shares authorized; 10,400,000 shares issued and outstanding (Note 6)	104	104
Common shares of beneficial interest, $0.01 par value, 200,000,000 shares authorized; 113,251,427 shares issued and 110,382,519 shares outstanding, and 113,251,427 shares issued and 113,209,392 shares outstanding, respectively (Note 6)	1,132	1,132
Treasury shares, at cost (Note 6)	(71,658)	(1,181)
Additional paid-in capital, net of offering costs of $82,865 and $82,842, respectively	2,766,809	2,767,924
Accumulated other comprehensive income (Note 4)	22,042	10,880
Distributions in excess of retained earnings	(359,894)	(305,708)
Total shareholders' equity	2,358,535	2,473,151

Noncontrolling Interests:		
Noncontrolling interests in consolidated entities	16	18
Noncontrolling interests of common units in Operating Partnership (Note 6)	3,268	3,292
Total noncontrolling interests	3,284	3,310
Total equity	2,361,819	2,476,461
Total liabilities and equity	$ 3,651,538	$ 3,814,941

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

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LASALLE HOTEL PROPERTIES
Consolidated Statements of Operations and Comprehensive Income
(in thousands, except share and per share data)
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenues:				
Hotel operating revenues (Note 8):				
Room	$219,666	$222,385	$375,088	$400,750
Food and beverage	56,977	59,308	100,609	111,612
Other operating department	24,521	22,118	44,628	42,485
Total hotel operating revenues	301,164	303,811	520,325	554,847
Other income	3,445	3,233	7,307	6,602
Total revenues	304,609	307,044	527,632	561,449
Expenses:				
Hotel operating expenses:				
Room	55,885	55,271	105,071	107,594
Food and beverage	39,265	40,132	74,081	79,280
Other direct	3,439	2,654	6,372	6,838
Other indirect (Note 9)	71,053	73,177	133,247	142,833
Total hotel operating expenses	169,642	171,234	318,771	336,545
Depreciation and amortization	46,857	44,066	92,172	91,329
Real estate taxes, personal property taxes and insurance	16,308	14,089	32,336	30,204
Ground rent (Note 5)	4,245	3,823	8,074	7,208
General and administrative	6,667	6,917	13,183	13,471
Costs related to the Mergers and unsolicited takeover offers (Note1)	8,680	0	11,331	0
Other expenses	1,589	1,559	2,809	3,477
Total operating expenses	253,988	241,688	478,676	482,234
Operating income	50,621	65,356	48,956	79,215
Interest income	569	315	1,403	457
Interest expense	(10,458)	(9,423)	(20,618)	(19,250)
Loss from extinguishment of debt (Note 4)	0	0	0	(1,706)
Income before income tax expense	40,732	56,248	29,741	58,716
Income tax expense (Note 10)	(4,993)	(5,003)	(966)	(230)
Income before gain on sale of properties	35,739	51,245	28,775	58,486
Gain on sale of properties (Note 3)	0	11,156	0	85,514
Net income	35,739	62,401	28,775	144,000
Net income attributable to noncontrolling interests:				
Noncontrolling interests in consolidated entities	(8)	(8)	(8)	(8)
Noncontrolling interests of common units in Operating Partnership (Note 6)	(61)	(83)	(59)	(193)

Net income attributable to noncontrolling interests	(69)	(91)	(67)	(201)
Net income attributable to the Company	35,670	62,310	28,708	143,799
Distributions to preferred shareholders	(4,115)	(4,387)	(8,231)	(9,792)
Issuance costs of redeemed preferred shares (Note 6)	0	(2,401)	0	(2,401)
Net income attributable to common shareholders	$31,555	$55,522	$20,477	$131,606

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LASALLE HOTEL PROPERTIES
Consolidated Statements of Operations and Comprehensive Income - Continued
(in thousands, except share and per share data)
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Earnings per Common Share - Basic (Note 12):				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.29	$ 0.49	$0.18	$ 1.16
Earnings per Common Share - Diluted (Note 12):				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.28	$ 0.49	$0.18	$ 1.16
Weighted average number of common shares outstanding:				
Basic	110,115,770	112,951,714	111,134,064	112,937,794
Diluted	110,552,220	113,342,151	111,552,469	113,347,580
Comprehensive Income:				
Net income	$35,739	$ 62,401	$28,775	$ 144,000
Other comprehensive income:				
Unrealized gain (loss) on interest rate derivative instruments (Note 4)	3,677	(1,675)	11,886	(551)
Reclassification adjustment for amounts recognized in net income (Note 4)	(703)	498	(709)	1,483
	38,713	61,224	39,952	144,932
Comprehensive income attributable to noncontrolling interests:				
Noncontrolling interests in consolidated entities	(8)	(8)	(8)	(8)
Noncontrolling interests of common units in Operating Partnership (Note 6)	(65)	(82)	(74)	(194)
Comprehensive income attributable to noncontrolling interests	(73)	(90)	(82)	(202)
Comprehensive income attributable to the Company	$38,640	$ 61,134	$39,870	$ 144,730

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

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LASALLE HOTEL PROPERTIES
Consolidated Statements of Equity
(in thousands, except per share/unit data)
(unaudited)

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Treasury Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests in Consolidated Entities	Noncontrolling Interests of Common Units in Operating Partnership	Total Noncontrolling Interests	Total Equ
Balance, December 31, 2016	$132	$1,131	$(739)	$2,830,740	$2,365	$(275,564)	$2,558,065	$17	$3,277	$3,294	$2,561,3
Issuance of shares, net of offering costs	0	0	2,397	(1,157)	0	0	1,240	0	0	0	1,240
Redemption of preferred shares	(28)	0	0	(66,341)	0	(2,401)	(68,770)	0	0	0	(68,770
Repurchase of common shares into treasury	0	0	(2,314)	0	0	0	(2,314)	0	0	0	(2,314
Deferred compensation, net	0	1	640	2,990	0	0	3,631	0	0	0	3,631
Distributions on earned shares from share awards with market conditions	0	0	0	0	0	(190)	(190)	0	0	0	(190
Distributions on common shares/units ($0.90 per share/unit)	0	0	0	0	0	(101,980)	(101,980)	0	(131)	(131)	(102,111
Distributions on preferred shares	0	0	0	0	0	(9,792)	(9,792)	(8)	0	(8)	(9,800
Net income	0	0	0	0	0	143,799	143,799	8	193	201	144,000
Other comprehensive											

income:											
Unrealized loss on interest rate derivative instruments	0	0	0	0	(550)	0	(550)	0	(1)	(1)	(551
Reclassification adjustment for amounts recognized in net income	0	0	0	0	1,481	0	1,481	0	2	2	1,483
Balance, June 30, 2017	$104	$1,132	$(16)	$2,766,232	$3,296	$(246,128)	$2,524,620	$17	$3,340	$3,357	$2,527,9
Balance, December 31, 2017	$104	$1,132	$(1,181)	$2,767,924	$10,880	$(305,708)	$2,473,151	$18	$3,292	$3,310	$2,476,4
Issuance of shares, net of offering costs	0	0	999	(465)	0	0	534	0	0	0	534
Repurchase of common shares into treasury	0	0	(75,370)	0	0	0	(75,370)	0	0	0	(75,370
Deferred compensation, net	0	0	3,894	(650)	0	0	3,244	0	0	0	3,244
Distributions on earned shares from share awards with market conditions	0	0	0	0	0	(87)	(87)	0	0	0	(87
Distributions on common shares/units ($0.68 per share/unit)	0	0	0	0	0	(74,576)	(74,576)	0	(98)	(98)	(74,674
Distributions on preferred shares	0	0	0	0	0	(8,231)	(8,231)	(10)	0	(10)	(8,241
Net income	0	0	0	0	0	28,708	28,708	8	59	67	28,775
Other comprehensive income:											
Unrealized gain on interest rate derivative instruments	0	0	0	0	11,870	0	11,870	0	16	16	11,886
Reclassification adjustment for amounts recognized in	0	0	0	0	(708)	0	(708)	0	(1)	(1)	(709

net income										
Balance, June 30, 2018	$104	$1,132	$(71,658)	$2,766,809	$22,042	$(359,894)	$2,358,535	$16	$3,268	$3,284	$2,361,8

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

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LASALLE HOTEL PROPERTIES
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	For the six months ended June 30, 2018	2017 As Adjusted (Note 2)
Cash flows from operating activities:		
Net income	$28,775	$144,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	92,172	91,329
Amortization of debt issuance costs	1,341	1,429
Loss from extinguishment of debt	0	1,706
Gain on sale of properties	0	(85,514)
Amortization of deferred compensation	3,244	3,631
Deferred income tax benefit	0	(228)
Allowance for doubtful accounts	(47)	130
Other	164	1,133
Business interruption insurance proceeds	2,586	525
Changes in assets and liabilities:		
Assets held for sale	0	(1,500)
Hotel receivables	(7,941)	(12,983)
Prepaid expenses and other assets	(13,843)	(13,274)
Accounts payable and accrued expenses	15,046	9,800
Advance deposits	5,459	7,841
Accrued interest	(88)	(73)
Net cash provided by operating activities	126,868	147,952
Cash flows from investing activities:		
Additions to properties	(79,248)	(37,492)
Improvements to properties	(1,891)	0
Purchase of office furniture and equipment	(61)	(11)
Proceeds from sale of properties	0	402,282
Insurance proceeds received for damage of property	1,190	947
Net cash (used in) provided by investing activities	(80,010)	365,726
Cash flows from financing activities:		
Repayment of bonds payable	(42,500)	0
Payment of debt issuance costs	(14)	(4,534)
Purchase of treasury shares	(75,370)	(2,314)

Payment of common offering costs	(24)	0
Distributions on earned shares from share awards with market conditions	(87)	(190)
Redemption of preferred shares	0	(68,750)
Distributions on preferred shares	(8,241)	(11,090)
Distributions on common shares/units	(100,755)	(101,970)
Net cash used in financing activities	(226,991)	(188,848)
Net change in cash and cash equivalents and restricted cash reserves	(180,133)	324,830
Cash and cash equivalents and restricted cash reserves, beginning of period	414,929	149,687
Cash and cash equivalents and restricted cash reserves, end of period	$234,796	$474,517

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

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LASALLE HOTEL PROPERTIES
Notes to Consolidated Financial Statements
(in thousands, except share/unit and per share/unit data)
(unaudited)

1. Organization

LaSalle Hotel Properties (the "Company"), a Maryland real estate investment trust organized on January 15, 1998, primarily buys, owns, redevelops and leases upscale and luxury full-service hotels located in convention, resort and major urban business markets. The Company is a self-administered and self-managed real estate investment trust ("REIT") as defined in the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, the Company is generally not subject to federal corporate income tax on that portion of its net income that is currently distributed to its shareholders. The income of LaSalle Hotel Lessee, Inc. (together with its wholly owned subsidiaries, "LHL"), the Company's wholly owned taxable REIT subsidiary, is subject to taxation at normal corporate rates.

As of June 30, 2018, the Company owned interests in 41 hotels with approximately 10,450 guest rooms located in seven states and the District of Columbia. Each hotel is leased to LHL (see Note 9) under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a participating rent based on hotel revenues. The LHL leases expire between December 2018 and December 2020. Lease revenue from LHL is eliminated in consolidation. A third-party non-affiliated hotel operator manages each hotel pursuant to a hotel management agreement.

Substantially all of the Company's assets are held directly or indirectly by, and all of its operations are conducted through, LaSalle Hotel Operating Partnership, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. The Company owned, through a combination of direct and indirect interests, 99.9% of the common units of the Operating Partnership at June 30, 2018. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at June 30, 2018. See Note 6 for additional disclosures related to common units of the Operating Partnership.

Agreement and Plan of Merger

On May 20, 2018, the Company, the Operating Partnership, BRE Landmark Parent L.P. ("Parent"), BRE Landmark L.P. ("Merger Sub") and BRE Landmark Acquisition L.P. ("Merger OP"), entered into an Agreement and Plan of Merger (the "Merger Agreement"). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger OP will merge with and into the Operating Partnership (the "Partnership Merger"), and, immediately following the Partnership Merger, the Company will merge with and into Merger Sub (the "Company Merger" and, together with the Partnership Merger, the "Mergers"). Upon completion of the Partnership Merger, the Operating Partnership will survive and the separate existence of Merger OP will cease. Upon completion of the Company Merger, Merger Sub will survive and the separate existence of the Company will cease. The Mergers and the other transactions contemplated by the Merger Agreement were unanimously approved by the Company's Board of Trustees. Parent, Merger Sub and Merger OP are affiliates of Blackstone Real Estate Partners VIII L.P., an affiliate of The Blackstone Group L.P. ("Blackstone").

Pursuant to the terms and conditions in the Merger Agreement, at the effective time of the Company Merger (the "Company Merger Effective Time"), each common share of beneficial interest, par value $0.01 per share, of the Company, other than shares held by the Company in the Company's treasury or owned by Parent, Merger Sub, Merger OP or any of their respective subsidiaries and any outstanding restricted common shares, that is issued and outstanding immediately prior to the Company Merger Effective Time will be automatically cancelled and converted into the right to receive an amount in cash equal to $33.50 (the "Merger Consideration"), without interest.

At Parent's request, the Company will deliver notices of redemption to the holders of the Company's 6.375% Series I Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $0.01 per share (the "Series I Preferred Shares"), and the holders of the Company's 6.3% Series J Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $0.01 per share (the "Series J Preferred Shares" and, together with the Series I Preferred Shares, the "Preferred Shares"), in accordance with the Articles Supplementary related to such Preferred Shares. The redemption notices will state that each Preferred Share held by such holder immediately prior to the Company Merger Effective

Time will be redeemed in the Company Merger through the payment of an amount, without interest, equal to $25.00 plus accrued and unpaid dividends.

Pursuant to the terms and conditions in the Merger Agreement, at the effective time of the Partnership Merger (the “Partnership Merger Effective Time”), each common unit of the Operating Partnership, other than common units held by the Company, that is issued and outstanding immediately prior to the Partnership Merger Effective Time will be converted into, and will be cancelled in exchange for, the right to receive an amount in cash equal to the Merger Consideration, without interest.

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Pursuant to the terms and conditions in the Merger Agreement, each restricted share award that is outstanding immediately prior to the Company Merger Effective Time will become fully vested and will be cancelled in exchange for a cash payment in an amount equal to (i) the number of common shares subject to the restricted share award immediately prior to the Company Merger Effective Time multiplied by (ii) the Merger Consideration, less any applicable withholding taxes. Each performance-based share award that is outstanding immediately prior to the Company Merger Effective Time will automatically become earned and vested with respect to 150% of the target number of common shares subject to such performance-based share award and thereafter will be cancelled in exchange for a cash payment in an amount equal to (i) the number of earned performance shares subject to such award immediately prior to the Company Merger Effective Time multiplied by (ii) the Merger Consideration, less any applicable withholding taxes. Each award of deferred shares that is outstanding immediately prior to the Company Merger Effective Time will be cancelled in exchange for a cash payment in an amount equal to (i) the number of deferred shares subject to such award, including any shares attributable to dividend equivalent rights accrued with respect thereto, without interest, multiplied by (ii) the Merger Consideration.

The Merger Agreement contains customary representations, warranties and covenants, including, among others, covenants by the Company to, in all material respects, use commercially reasonable efforts to carry on its business in the ordinary course of business consistent with past practice, subject to certain exceptions, during the period between the execution of the Merger Agreement and the consummation of the Mergers. The obligations of the parties to consummate the Mergers are not subject to any financing condition or the receipt of any financing by Parent, Merger Sub or Merger OP.

The consummation of the Mergers is subject to certain customary closing conditions, including, among others, approval of the Company Merger and the other transactions contemplated by the Merger Agreement by the affirmative vote of the holders of at least sixty-six and two-thirds (66 2/3%) percent of the outstanding common shares entitled to vote on the matter at a special meeting of shareholders, which will be held on September 6, 2018.

The Company has agreed not to solicit or enter into an agreement regarding an Acquisition Proposal (as defined in the Merger Agreement), and, subject to certain exceptions, is not permitted to enter into discussions or negotiations concerning, or provide non-public information to a third party in connection with, any Acquisition Proposal. However, the Company may, prior to obtaining shareholder approval, engage in discussions or negotiations and provide non-public information to a third party which has made an unsolicited bona fide written Acquisition Proposal if the Board of Trustees determines in good faith, after consultation with the Company’s outside legal counsel and financial advisors, that such Acquisition Proposal constitutes, or could reasonably be expected to lead to, a Superior Proposal (as defined in the Merger Agreement).

Prior to the approval of the Company Merger and the other transactions contemplated by the Merger Agreement by the Company’s shareholders, the Board of Trustees may, in certain circumstances, effect a Change in Recommendation (as defined in the Merger Agreement), subject to complying with specified notice and other conditions set forth in the Merger Agreement.

The Merger Agreement may be terminated under certain circumstances by the Company, including prior to obtaining shareholder approval, if, after following certain procedures and adhering to certain restrictions, the Board of Trustees effects a Change in Recommendation in connection with a Superior Proposal and the Company enters into a definitive agreement providing for the implementation of a Superior Proposal. In addition, Parent may terminate the Merger Agreement under certain circumstances and subject to certain restrictions, including if the Board of Trustees effects a Change in Recommendation.

Upon a termination of the Merger Agreement, under certain circumstances, the Company will be required to pay a termination fee to Parent of $112,000. In certain other circumstances, Parent will be required to pay the Company a

termination fee of $336,000 upon termination of the Merger Agreement. Blackstone Real Estate Partners VIII L.P. has guaranteed certain payment obligations of Parent under the Merger Agreement up to $336,000.
On June 29, 2018, a purported class action complaint, Erie County Employees Retirement System v. LaSalle Hotel Properties, et al., No. 24-C-18-003922, was filed in the Circuit Court for Baltimore City, Maryland by purported Company shareholder Erie County Employees Retirement System in connection with the proposed Mergers. An amended complaint was filed on July 11, 2018. The amended complaint names as defendants the Company and the members of the Company’s Board of Trustees. The amended complaint alleges that the Board of Trustees breached its duties in agreeing to the Merger Agreement, in not agreeing to a transaction with Pebblebrook Hotel Trust, and in failing to disclose certain supposedly material information to shareholders in the preliminary proxy statement filed in connection with the Mergers. The amended complaint also alleges that Michael D. Barnello breached his duties owed to the shareholders in supposedly favoring a transaction with Blackstone to a transaction with Pebblebrook Hotel Trust due to self interest. The amended complaint seeks declaratory and injunctive relief, including a preliminary injunction of the shareholder vote on the Mergers, as well as damages and attorneys’ fees and costs. The Company is unable to predict the developments in, outcome of, and/or economic or other consequences of this litigation or predict the developments in, outcome of, and/or other consequences arising out of any potential future litigation or government inquiries related to the Mergers.

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2. Summary of Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles ("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 disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and comprehensive income (loss), consolidated statements of equity and consolidated statements of cash flows for the periods presented. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 due to seasonal and other factors. 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.

Basis of Presentation

The consolidated financial statements include the accounts of the Company, the Operating Partnership, LHL and their subsidiaries in which they have a controlling interest, including joint ventures. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, the amounts of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Substantially all of the Company's revenues and expenses are generated by the operations of the individual hotels. The Company records revenues and expenses that are estimated by the hotel operators and reviewed by the Company to produce quarterly financial statements because the management contracts do not require the hotel operators to submit actual results within a time frame that permits the Company to use actual results when preparing its Quarterly Reports on Form 10-Q for filing by the deadline prescribed by the SEC. Generally, the Company records actual revenue and expense amounts for the first two months of each quarter and estimated revenue and expense amounts for the last month of each quarter. Each quarter, the Company reviews the estimated revenue and expense amounts provided by the hotel operators for reasonableness based upon historical results for prior periods and internal Company forecasts. The Company records any differences between recorded estimated amounts and actual amounts in the following quarter; historically, these differences have not been material. The Company believes the quarterly revenues and expenses, recorded on the Company's consolidated statements of operations and comprehensive income (loss) based on an aggregate estimate, are fairly stated.

Investment in Hotel Properties

Upon acquisition, the Company determines the fair value of the acquired long-lived assets, assumed debt and intangible assets and liabilities. The Company's investments in hotel properties are carried at cost and depreciated using the straight-line method over an estimated useful life of 30 to 40 years for buildings, 15 years for building improvements, the shorter of the useful life of the improvement or the term of the related tenant lease for tenant improvements, seven years for land improvements, 20 years for swimming pool assets and three to five years for furniture, fixtures and equipment. For investments subject to land and building leases that qualify as capital leases, assets are recorded at the estimated fair value of the right to use the leased property at acquisition and depreciated over the shorter of the useful lives of the assets or the term of the respective lease. Renovations and/or replacements that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives.

The Company is required to make subjective assessments as to the useful lives and classification of its properties for purposes of determining the amount of depreciation expense to reflect each year with respect to those properties. These assessments have a direct impact on the Company’s net income. Should the Company change the expected useful life or classification of particular assets, it would result in a change in depreciation expense and annual net income.

Revenue Recognition

The Company recognizes hotel operating revenues when obligations under the terms of the contracts with hotel guests have been satisfied. Room revenue is recognized when the Company’s hotels satisfy their performance obligations of providing a hotel room. The hotel reservation defines the terms of the agreement including an agreed-upon rate and length of stay. Food and beverage

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services, including restaurant, outlet, and banquet and catering, are also provided by the Company's hotels and revenue is recognized at a point in time once food and beverage has been provided. Other operating department revenue, including parking fees, spa services, daily fees and other incidental fees, is recognized at a point in time when the goods and services are provided to the customer. Payment is due at the time that goods or services are rendered or billed. For room revenue, payment is typically due and paid in full at the end of the stay with some guests prepaying for their rooms prior to the stay. For package revenue, where ancillary guest services are included with the guests' hotel reservations in a package arrangement, the Company allocates revenue based on the stand-alone selling price for each of the components of the package. The Company presents revenue net of taxes and excludes any amounts collected on behalf of third parties. For rental income from retail leases, revenue is recognized on a straight-line basis over the lives of the retail leases and is included in other income in the consolidated statements of operations and comprehensive income (loss). The recognition of revenue from retail leases will be subject to the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), which will take effect January 1, 2019 for the Company. See "Recently Issued Accounting Pronouncements" below for further discussion of revenue recognition.

Share-Based Compensation

From time to time, the Company awards shares under the 2014 Equity Incentive Plan, as amended ("2014 Plan"), which has approximately six years remaining, as compensation to executives, employees and members of the Board of Trustees (see Note 7). The shares issued to executives and employees generally vest over three years. The shares issued to members of the Board of Trustees vest immediately upon issuance. The Company recognizes compensation expense for nonvested shares with service conditions or service and market conditions on a straight-line basis over the vesting period based upon the fair value of the shares on the date of issuance, adjusted for forfeitures. Compensation expense for nonvested shares with service and performance conditions is recognized based on the fair value of the estimated number of shares expected to vest, as revised throughout the vesting period, adjusted for forfeitures. The Company estimates forfeiture amounts for the first three quarters of the year and adjusts for actual forfeiture amounts at year end. The 2014 Plan replaced the 2009 Equity Incentive Plan ("2009 Plan") in May 2014.

Noncontrolling Interests

The Company's consolidated financial statements include entities in which the Company has a controlling financial interest. Noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. On the consolidated statements of operations and comprehensive income (loss), revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to the Company and noncontrolling interests. Income or loss is allocated to noncontrolling interests based on their weighted average ownership percentage for the applicable period. Consolidated statements of equity include beginning balances, activity for the period and ending balances for shareholders' equity, noncontrolling interests and total equity.

However, the Company's noncontrolling interests that are redeemable for cash or other assets at the option of the holder, not solely within the control of the issuer, must be classified outside of permanent equity. The Company makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions. Additionally, with respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company evaluates whether the Company controls the actions or events necessary to issue the maximum number of shares that could be required to be delivered under share settlement of the contract.

As of June 30, 2018, the consolidated results of the Company include the following ownership interests held by owners other than the Company: (i) the common units in the Operating Partnership held by third parties, (ii) the

outside preferred ownership interests in a subsidiary and (iii) the outside ownership interest in a joint venture.
Variable Interest Entities
The Operating Partnership is a variable interest entity. The Company’s only significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company’s assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Company’s debt is an obligation of the Operating Partnership.
Recently Issued Accounting Pronouncements
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), 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. ASU No. 2014-09 replaced most existing revenue recognition guidance in GAAP. Given the short-term, day-to-day

nature of the Company’s hotel operating revenues, the pattern of revenue recognition did not change significantly, and therefore, the adoption of this standard did not have a material impact on the Company’s consolidated financial statements. Under ASU No. 2014-09, there was a recharacterization of certain revenue streams affecting both gross and net revenue reporting due to changes in principal versus agency guidance, which presentation is deemed immaterial for the Company and did not affect net income. The Company adopted ASU No. 2014-09 on its effective date of January 1, 2018 under the cumulative effect transition method. No adjustment was recorded to the Company’s opening balance of retained earnings on January 1, 2018 as there was no impact to net income for the Company.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to record operating and financing leases as assets and liabilities on the balance sheet and lessors to expense costs that are not initial direct leasing costs. The standard requires either a modified retrospective or proposed cumulative effect approach. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company anticipates adopting the standard on January 1, 2019 under the proposed cumulative effect approach. In evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures, the Company believes the impact will be minimal to its consolidated statements of operations and comprehensive income. The Company will recognize a lease liability and right of use asset on its consolidated balance sheets due to the change in accounting treatment of the Company’s operating ground leases and corporate office lease. The Company is analyzing its current lease obligations and, based on revised current assumptions of discount rates and lease terms, expects to record a right of use asset and a related liability between $150,000 and $200,000 on its consolidated balance sheets, which may change significantly by the date of adoption based on changes to the discount rate, lease terms and other variables.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This standard is effective for the first annual reporting period beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. As a result, the classification of certain insurance proceeds changed from investing activities to operating activities on the Company’s consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. The Company adopted this standard on January 1, 2018. As a result, restricted cash reserves are included with cash and cash equivalents on the Company’s consolidated statements of cash flows. The adoption did not change the presentation of the Company’s consolidated balance sheets.

In February 2017, the FASB issued ASU No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies the scope of asset derecognition and adds further guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. ASU No. 2017-05 will impact the recognition of gains and losses from hotel sales. The Company does not sell hotel properties to customers as defined by the FASB, but has historically disposed of hotel properties for cash and with no contingencies and no future involvement in the hotel operations. This standard is effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. The Company adopted this standard on January 1, 2018.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The Company adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it does not have a material effect on the Company’s consolidated financial statements.

Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform with the 2018 presentation.

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3. Investment in Hotel Properties

Investment in hotel properties as of June 30, 2018 and December 31, 2017 consists of the following:

	June 30, 2018	December 31, 2017
Land	$624,922	$624,843
Buildings and improvements	3,306,441	3,271,473
Furniture, fixtures and equipment	841,881	762,150
Investment in hotel properties, gross	4,773,244	4,658,466
Accumulated depreciation	(1,484,686)	(1,392,851)
Investment in hotel properties, net	$3,288,558	$3,265,615

As of June 30, 2018 and December 31, 2017, buildings and improvements included capital lease assets of $147,322 and accumulated depreciation included amounts related to capital lease assets of $29,107 and $26,973, respectively. Depreciation of the capital lease assets is included in depreciation and amortization expense in the accompanying consolidated statements of operations and comprehensive income for all periods presented.

Depreciation expense was $46,695 and $91,849 for the three and six months ended June 30, 2018, respectively, and $43,928 and $91,059 for the three and six months ended June 30, 2017, respectively.

Dispositions

During the six months ended June 30, 2017, the Company sold Hotel Deca, Lansdowne Resort, Alexis Hotel, Hotel Triton and Westin Philadelphia. These dispositions do not represent a strategic shift in the Company’s business plan or primary markets, and therefore, do not qualify as discontinued operations. The sale of each property was recorded on the full accrual method.

On January 19, 2017, the Company sold Hotel Deca for $55,000. The Company recognized a gain of $49 and $30,656 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017, respectively.

On March 22, 2017, the Company sold Lansdowne Resort for $133,000. The Company actualized a decrease in the gain of$148 and recognized a gain of $10,253 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017, respectively.

On March 31, 2017, the Company sold Alexis Hotel for $71,625. The Company recognized a gain of $70 and $33,420 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017, respectively.

On April 11, 2017, the Company sold Hotel Triton for $14,250. The Company recognized a gain of $6,739 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017.

On June 29, 2017, the Company sold Westin Philadelphia for $135,000. The Company recognized a gain of $4,446 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017.

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4. Long-Term Debt

Debt Summary

Debt as of June 30, 2018 and December 31, 2017 consisted of the following:

Debt	Interest Rate	Maturity Date	Balance Outstanding as of June 30, 2018	Balance Outstanding as of December 31, 2017
Credit facilities				
Senior unsecured credit facility	Floating [(a)]	January 2021 [(a)]	$0	$0
LHL unsecured credit facility	Floating [(b)]	January 2021 [(b)]	0	0
Total borrowings under credit facilities			0	0
Term loans				
First Term Loan	Floating/Fixed [(c)]	January 2022	300,000	300,000
Second Term Loan	Floating/Fixed [(c)]	January 2021	555,000	555,000
Debt issuance costs, net			(1,512)	(1,805)
Total term loans, net of unamortized debt issuance costs			853,488	853,195
Massport Bonds				
Hyatt Regency Boston Harbor (taxable)	Floating [(d)]	- [(d)]	0	5,400
Hyatt Regency Boston Harbor (tax exempt)	Floating [(d)]	- [(d)]	0	37,100
Debt issuance costs, net			0	(6)
Total bonds payable, net of unamortized debt issuance costs			0	42,494
Mortgage loan				
Westin Copley Place	Floating [(e)]	August 2019 [(e)]	225,000	225,000
Debt issuance costs, net			(85)	(568)
Total mortgage loan, net of unamortized debt issuance costs			224,915	224,432
Total debt			$1,078,403	$1,120,121

(a) 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 credit agreement) plus an applicable margin. There were no borrowings outstanding at June 30, 2018 and December 31, 2017. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

(b) Borrowings bear interest at floating rates equal to, at LHL’s option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at June 30, 2018 and December 31, 2017. LHL has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

(c) Term loans bear interest at floating rates equal to LIBOR plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rates for the First Term Loan (as defined below) and the Second Term Loan (as defined below). At June 30, 2018 and December 31, 2017, the Company had interest rate swaps on the full amounts outstanding. See “Derivative and Hedging Activities” below. At June 30, 2018 and December 31, 2017, the fixed all-in interest rates for the First Term Loan and Second Term Loan were 3.23% and 2.95%, respectively, at the Company’s current leverage ratio (as defined in the swap agreements).

(d) The Company repaid the Massport Bonds on their maturity date, March 1, 2018, with available cash. The bonds bore interest based on weekly floating rates. The interest rates as of December 31, 2017 were 1.70% and 1.78% for the $5,400 and $37,100 bonds, respectively.

(e) On June 11, 2018, the Company exercised its first available option to extend the maturity date to August 14, 2019. There are two remaining options to extend the maturity date to January 5, 2021, pursuant to certain terms and conditions. The interest-only mortgage loan bears interest at a variable rate ranging from LIBOR plus 1.75% to LIBOR plus 2.00%, depending on Westin Copley Place’s net cash flow (as defined in the loan agreement). Effective the second quarter of 2018 through August 14, 2019, the mortgage loan bears interest at a variable rate of LIBOR plus 1.75%. The interest rate as of June 30, 2018 was LIBOR plus 1.75%, which equaled 3.83%. The interest rate as of December 31, 2017 was LIBOR plus 1.75%, which equaled 3.23%. The mortgage loan allows for prepayments without penalty, subject to certain terms and conditions.

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Future scheduled debt principal payments as of June 30, 2018 (refer to previous table for extension options) are as follows:

2018	$0
2019	225,000
2020	0
2021	555,000
2022	300,000
Total debt	$1,080,000

A summary of the Company's interest expense and weighted average interest rates for unswapped variable rate debt for the three and six months ended June 30, 2018 and 2017 is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Interest Expense:				
Interest incurred	$9,862	$8,852	$19,530	$17,992
Amortization of debt issuance costs	669	664	1,341	1,429
Capitalized interest	(73)	(93)	(253)	(171)
Interest expense	$10,458	$9,423	$20,618	$19,250
Weighted Average Interest Rates for Unswapped Variable Rate Debt:				
Senior unsecured credit facility	N/A	N/A	N/A	N/A
LHL unsecured credit facility	N/A	N/A	N/A	N/A
Massport Bonds [1]	N/A	0.87 %	1.25 %	0.79 %
Mortgage loan (Westin Copley Place)	3.67 %	2.76 %	3.51 %	2.65 %

[1] The Massport Bonds were repaid on March 1, 2018.

Credit Facilities

The Company has a $750,000 senior unsecured credit facility with a syndicate of banks. The credit facility matures on January 8, 2021, subject to two six-month extensions that the Company may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. The credit facility, with a current commitment of $750,000, includes an accordion feature which, subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to $1,250,000. Borrowings under the credit facility 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 credit agreement) plus an applicable margin. Additionally, the Company is required to pay a variable unused commitment fee of 0.20% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility.

LHL has a $25,000 unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. The LHL credit facility matures on January 10, 2021, subject to two six-month extensions that LHL may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. Borrowings under the LHL credit facility bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, LHL is required to pay a variable unused commitment fee of 0.20% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the LHL unsecured credit facility.

The Company's senior unsecured credit facility and LHL's unsecured credit facility contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders.

The Company and certain of its subsidiaries guarantee the obligations under the Company's senior unsecured credit facility. While the senior unsecured credit facility did not initially include any pledges of equity interests in the Company's subsidiaries, such pledges and additional subsidiary guarantees would be required in the event that the Company's leverage ratio later exceeds

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6.50:1.00 for two consecutive fiscal quarters. In the event that such pledge and guarantee requirement is triggered, the pledges and additional guarantees would ratably benefit the Company's senior unsecured credit facility, the First Term Loan and the Second Term Loan. If at any time the Company's leverage ratio falls below 6.50:1.00 for two consecutive fiscal quarters, such pledges and additional guarantees may be released.

Term Loans

The Company has a $300,000 unsecured term loan (the "First Term Loan") that matures on January 10, 2022. The First Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to $500,000. The First Term Loan bears interest at variable rates.

The Company has a $555,000 unsecured term loan (the "Second Term Loan") that matures on January 29, 2021. The Second Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to $700,000. The Second Term Loan bears interest at variable rates.

The Company has entered into interest rate swap agreements to effectively fix the LIBOR rates for the term loans (see "Derivative and Hedging Activities" below).

The Company's term loans contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders.

The Company and certain of its subsidiaries guarantee the obligations under the Company's term loans. While the term loans did not initially include any pledges of equity interests in the Company's subsidiaries, such pledges and additional subsidiary guarantees would be required in the event that the Company's leverage ratio later exceeds 6.50:1.00 for two consecutive fiscal quarters. In the event that such pledge and guarantee requirement is triggered, the pledges and additional guarantees would ratably benefit the Company's senior unsecured credit facility, the First Term Loan and the Second Term Loan. If at any time the Company's leverage ratio falls below 6.50:1.00 for two consecutive fiscal quarters, such pledges and additional guarantees may be released.

Derivative and Hedging Activities

The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Unrealized gains and losses of hedging instruments are reported in other comprehensive income (loss) ("OCI"). Amounts reported in accumulated other comprehensive income (loss) ("AOCI") related to currently outstanding derivatives are recognized as an adjustment to income (loss) as interest payments are made on the Company's variable rate debt. As of June 30, 2018, the Company has interest rate swap agreements with an aggregate notional amount of $300,000 to hedge the variable interest rate on the First Term Loan through January 10, 2022, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 3.23%. As of June 30, 2018, the Company has interest rate swaps with an aggregate notional amount of $555,000 to hedge the variable interest rate on the Second Term Loan and, as a result, the fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements) is 2.95% through May 16, 2019. From May 16, 2019 through the term of the Second Term Loan, the Company has interest rate swaps with an aggregate notional amount of $377,500 to hedge a portion of the variable interest rate debt on the Second Term Loan. The Company has designated its pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. The interest rate swaps were entered into with the intention of eliminating the variability of the terms loans, but can also limit the exposure to any amendments, supplements, replacements or refinancings of the Company’s debt.

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The following tables present the effect of derivative instruments on the Company's accompanying consolidated statements of operations and comprehensive income, including the location and amount of unrealized gain (loss) on outstanding derivative instruments in cash flow hedging relationships, for the three and six months ended June 30, 2018 and 2017:

	Amount of Gain (Loss) Recognized in OCI on Derivative Instruments		Location of (Gain) Loss Reclassified from AOCI into Net Income	Amount of (Gain) Loss Reclassified from AOCI into Net Income		Total Amount of Interest Expense Line Item Presented in the Statement of Operations	
	For the three months ended			For the three months ended		For the three months ended	
	June 30,			June 30,		June 30,	
	2018	2017		2018	2017	2018	2017
Derivatives in cash flow hedging relationships:							
Interest rate swaps	$3,677	$(1,675)	Interest expense	$(703)	$498	$10,458	$9,423

	Amount of Gain (Loss) Recognized in OCI on Derivative Instruments		Location of (Gain) Loss Reclassified from AOCI into Net Income	Amount of (Gain) Loss Reclassified from AOCI into Net Income		Total Amount of Interest Expense Line Item Presented in the Statement of Operations	
	For the six months ended			For the six months ended		For the six months ended	
	June 30,			June 30,		June 30,	
	2018	2017		2018	2017	2018	2017
Derivatives in cash flow hedging relationships:							
Interest rate swaps	$11,886	$(551)	Interest expense	$(709)	$1,483	$20,618	$19,250

As of June 30, 2018, there was $22,070 in cumulative unrealized gain of which $22,042 was included in AOCI and $28 was attributable to noncontrolling interests. As of December 31, 2017, there was $10,893 in cumulative unrealized gain of which $10,880 was included in AOCI and $13 was attributable to noncontrolling interests. The Company expects that approximately $4,006 will be reclassified from AOCI and noncontrolling interests and recognized as an increase to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of June 30, 2018.

Extinguishment of Debt

On January 10, 2017, the Company refinanced its senior unsecured credit facility and First Term Loan and LHL refinanced its unsecured revolving credit facility. The refinancing arrangements for the senior unsecured credit facility and First Term Loan were considered substantial modifications. The Company recognized a loss from extinguishment of debt of zero and $1,706, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017, respectively. The loss from extinguishment of debt represents a portion of the unamortized debt issuance costs incurred for the senior unsecured credit facility when the original agreement was executed and the debt issuance costs incurred in connection with the refinancing of the First Term Loan.

Mortgage Loan

The Company’s mortgage loan is secured by the property. The mortgage is non-recourse to the Company except for fraud or misapplication of funds.

The Company’s mortgage loan contains debt service coverage ratio tests related to the mortgaged property. If the debt service coverage ratio for the property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel may automatically be directed to the lender to (i) satisfy required payments, (ii) fund certain reserves required by the mortgage and (iii) fund additional cash reserves for future required payments, including final payment. Cash flows may be directed to the lender (“cash trap”) until such time as the property again complies with the specified debt service coverage ratio or the mortgage is paid off.

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Financial Covenants

Failure of the Company to comply with financial and other covenants contained in its credit facilities, term loans and non-recourse secured mortgage could result from, among other things, changes in its results of operations, the incurrence of additional debt or changes in general economic conditions.

If the Company violates financial and other covenants contained in any of its credit facilities or term loans described above, the Company may attempt to negotiate waivers of the violations or amend the terms of the applicable credit facilities or term loans with the lenders thereunder; however, the Company can make no assurance that it would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to the Company. If a default under the credit facilities or term loans were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If the Company is unable to refinance its debt on acceptable terms, including at maturity of the credit facilities and term loans, it may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increases in interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to its shareholders.

A cash trap associated with a mortgage loan may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to the Company.

As of June 30, 2018, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans and mortgage loan.

5. Commitments and Contingencies

Ground, Land and Building, and Air Rights Leases

A summary of the Company's hotels subject to non-cancelable operating leases as of June 30, 2018 is as follows:

Lease Properties	Lease Type	Lease Expiration Date
Southernmost Beach Resort Key West (Restaurant facility)	Ground lease	April 2019 (1)
Hyatt Regency Boston Harbor	Ground lease	April 2077
The Hilton San Diego Resort and Spa	Ground lease	December 2045
San Diego Paradise Point Resort and Spa	Ground lease	May 2050
Hotel Vitale	Ground lease	March 2056 (2)
Viceroy Santa Monica	Ground lease	September 2065
Westin Copley Place (3)	Air rights lease	December 2077
The Liberty Hotel	Ground lease	May 2080
Hotel Solamar	Ground lease	December 2102

(1) The Company is currently in discussions to renew the lease.

(2) The Company has the option, subject to certain terms and conditions, to extend the ground lease for 14 years to 2070.

(3) No payments are required through maturity.

The ground leases at Viceroy Santa Monica, The Liberty Hotel and Hotel Vitale are subject to minimum annual rent increases, resulting in noncash straight-line rent expense of $449 and $903 for the three and six months ended June 30, 2018, respectively, and $460 and $925 for the three and six months ended June 30, 2017, respectively, which is included in total ground rent expense. Total ground rent expense, which is included in the accompanying consolidated statements of operations and comprehensive income, was $4,245 and $8,074 for the three and six months ended June 30, 2018, respectively, and $3,823 and $7,208 for the three and six months ended June 30, 2017, respectively. Certain rent payments are based on the hotel's performance. Actual payments of rent may exceed the minimum required rent due to meeting specified thresholds.

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A summary of the Company's hotels subject to capital leases of land and building as of June 30, 2018 is as follows:

Lease Properties	Estimated Present Value of Remaining Rent Payments [(1)]	Lease Expiration Date
The Roger	$ 4,892	December 2044
Harbor Court Hotel	$ 18,603	August 2052

(1) At acquisition or as amended, the estimated present value of the remaining rent payments was recorded as capital lease obligations. These obligations, net of amortization, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Actual base and participating ground rent payments related to The Roger and Harbor Court Hotel were $100 and $330 for the three months ended June 30, 2018, respectively, and $199 and $565 for the six months ended June 30, 2018, respectively. Actual base and participating ground rent payments related to The Roger and Harbor Court Hotel were $100 and $298 for the three months ended June 30, 2017, respectively, and $199 and $586 for the six months ended June 30, 2017, respectively.

As of June 30, 2018, future minimum rent payments, including capital lease payments, (without reflecting future applicable Consumer Price Index increases) are as follows:

2018	$5,777
2019	11,475
2020	11,779
2021	11,875
2022	11,940
Thereafter	518,686
	$571,532

Reserve Funds for Future Capital Expenditures

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 4.0% of hotel revenues, sufficient to cover the cost of (i) certain non-routine repairs and maintenance to the hotels and (ii) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company reserve this cash in separate accounts. As of June 30, 2018, $12,295 was available in restricted cash reserves for future capital expenditures. The Company has sufficient cash on hand and availability on its credit facilities to cover capital expenditures under agreements that do not require that the Company separately reserve cash.

Restricted Cash Reserves

At June 30, 2018, the Company held $14,025 in restricted cash reserves. Included in such amounts are $12,295 of reserve funds for future capital expenditures and $1,730 held by insurance and management companies on the Company's behalf to be refunded or applied to future liabilities.

Litigation

The nature of hotel operations exposes the Company and its hotels to the risk of claims and litigation in the ordinary course of business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company, 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 the liquidity, results of operations, business or financial condition of the Company.

On June 29, 2018, a purported class action complaint, Erie County Employees Retirement System v. LaSalle Hotel Properties, et al., No. 24-C-18-003922, was filed in the Circuit Court for Baltimore City, Maryland by purported Company shareholder Erie County Employees Retirement System in connection with the proposed Mergers. An amended complaint was filed on July 11, 2018. The amended complaint names as defendants the Company and the members of the Company’s Board of Trustees. The amended complaint alleges, among other things, that the Board of Trustees breached its duties in agreeing to the Merger Agreement, in not agreeing to a transaction with Pebblebrook Hotel Trust, and in failing to disclose certain supposedly material information

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to shareholders in the preliminary proxy statement filed in connection with the Mergers. The amended complaint seeks declaratory and injunctive relief, including a preliminary injunction of the shareholder vote on the Mergers, as well as damages and attorneys' fees and costs. The Company is unable to predict the developments in, outcome of, and/or economic or other consequences of this litigation or predict the developments in, outcome of, and/or other consequences arising out of any potential future litigation or government inquiries related to the Mergers.

6. Equity

Common Shares of Beneficial Interest

On January 1, 2018, the Company issued 19,125 common shares and authorized an additional 5,832 deferred shares to the independent members of its Board of Trustees for their 2017 compensation. These common shares were issued under the 2014 Plan. Pursuant to the terms and conditions of the Merger Agreement, each award of deferred shares that is outstanding immediately prior to the Company Merger Effective Time will be cancelled in exchange for a cash payment in an amount equal to (i) the number of deferred shares subject to such award, including any shares attributable to dividend equivalent rights accrued with respect thereto, without interest, multiplied by (ii) the Merger Consideration.

On March 2, 2018, the Company issued 16,410 common shares to executives related to the nonvested share awards with either market or performance conditions granted on March 19, 2015. These common shares were issued under the 2014 Plan. See Note 7 for additional details, including vesting information.

On March 21, 2018, the Company issued 148,591 nonvested shares with service conditions to the Company's executives and employees. The nonvested shares will vest in three annual installments starting January 1, 2019, subject to continued employment. These common shares were issued under the 2014 Plan. See Note 7 for additional details, including vesting information.

Common Dividends

The Company paid the following dividends on common shares/units during the six months ended June 30, 2018:

Dividend per Share/Unit	For the Quarter Ended	Record Date	Date Paid
$0.45	December 31, 2017	December 29, 2017	January 16, 2018
$0.45	March 31, 2018	March 29, 2018	April 16, 2018

Under the terms of the Merger Agreement, the Company may not declare or pay any future dividends (other than the regular quarterly dividend of $0.225 per common share for the quarter ended June 30, 2018, which has already been declared on June 15, 2018 and paid on July 16, 2018 to shareholders of record at the close of business on June 29, 2018) to the holders of the Company's common shares during the term of the Merger Agreement without the prior written consent of Parent, subject to certain exceptions.

Treasury Shares

Treasury shares are accounted for under the cost method. During the six months ended June 30, 2018, the Company received 36,055 common shares related to employees surrendering shares to pay minimum withholding taxes on the vesting date and forfeiting nonvested shares upon resignation.

The Company's Board of Trustees has authorized an expanded share repurchase program (the "Repurchase Program") to acquire up to $600,000 of the Company's common shares, with repurchased shares recorded at cost in treasury. During the six months ended June 30, 2018, the Company repurchased 2,982,800 common shares under the Repurchase Program for a total of $74,515, including commissions of $60. As of June 30, 2018, the Company has availability under the Repurchase Program to acquire up to $495,351 of common shares. Subject to the restrictions under the Merger Agreement, the timing, manner, price and actual number of shares repurchased, if any, will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to repurchase any specific dollar amount or acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

During the six months ended June 30, 2018, the Company re-issued 19,125 treasury shares related to earned 2017 compensation for the Board of Trustees, 16,410 treasury shares related to the earned share awards with either market or performance conditions and 156,447 treasury shares related to the grants of nonvested shares with service conditions.
At June 30, 2018, there were 2,868,908 common shares in treasury.
Preferred Shares
The following Preferred Shares were outstanding as of June 30, 2018:

Security Type	Number of Shares
6.375% Series I Preferred Shares	4,400,000
6.3% Series J Preferred Shares	6,000,000

On May 4, 2017, the Company redeemed all of the outstanding 7.5% Series H Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $0.01 per share (the “Series H Preferred Shares”), for $68,750 ($25.00 per share) plus $272 of accrued and unpaid dividends through the redemption date. The redemption value of the Series H Preferred Shares exceeded their carrying value by $2,401, which is included in the determination of net income attributable to common shareholders for the three and six months ended June 30, 2017. The $2,401 represents the offering costs related to the redeemed Series H Preferred Shares.
The Preferred Shares rank senior to the common shares and on parity with each other with respect to payment of distributions. The Company will not pay any distributions, or set aside any funds for the payment of distributions, on its common shares unless it has also paid (or set aside for payment) the full cumulative distributions on the Preferred Shares for all past dividend periods. The outstanding Preferred Shares do not have any maturity date, and are not subject to mandatory redemption. The difference between the carrying value and the redemption amount of the Preferred Shares is the offering costs. In addition, the Company is not required to set aside funds to redeem the Preferred Shares.
As of March 4, 2018, the Company may optionally redeem the Series I Preferred Shares, in whole or from time to time in part, by payment of $25.00 per share, plus any accumulated, accrued and unpaid distributions to and including the redemption date. The Company may not optionally redeem the Series J Preferred Shares prior to May 25, 2021, except in limited circumstances relating to the Company’s continuing qualification as a REIT or as discussed below. After May 25, 2021, the Company may, at its option, redeem the Series J Preferred Shares, in whole or from time to time in part, by payment of $25.00 per share, plus any accumulated, accrued and unpaid distributions to, but not including, the redemption date. In addition, 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 American LLC or the NASDAQ Stock Market, or any successor exchanges, the Company may, at its option, redeem the Series J Preferred Shares in whole or in part within 120 days after the change of control occurred, by paying $25.00 per share, plus any accrued and unpaid distributions to, but not including, the redemption date. If the Company does not exercise its right to redeem the Preferred Shares upon such a change of control, the holders of Series I Preferred Shares and Series J 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 cap of 8,835,200 common shares and 12,842,400 common shares, respectively.
At Parent’s request, the Company will deliver notices of redemption to the holders of the Preferred Shares in accordance with the Articles Supplementary related to such Preferred Shares. The redemption notices will state that each Preferred Share held by such holder immediately prior to the Company Merger Effective Time will be redeemed in the Company Merger through the payment of an amount, without interest, equal to $25.00 plus accrued and unpaid

dividends.

Preferred Dividends

The Company paid the following dividends on the Preferred Shares during the six months ended June 30, 2018:

Security Type	Dividend per Share (1)	For the Quarter Ended	Record Date	Date Paid
6.375% Series I	$ 0.40	December 31, 2017	December 29, 2017	January 16, 2018
6.3% Series J	$ 0.39	December 31, 2017	December 29, 2017	January 16, 2018
6.375% Series I	$ 0.40	March 31, 2018	March 29, 2018	April 16, 2018
6.3% Series J	$ 0.39	March 31, 2018	March 29, 2018	April 16, 2018

(1) Amounts are rounded to the nearest whole cent for presentation purposes.

Noncontrolling Interests of Common Units in Operating Partnership

As of June 30, 2018, the Operating Partnership had 145,223 common units of limited partnership interest outstanding, representing a 0.1% partnership interest, held by the limited partners. As of June 30, 2018, approximately $4,971 of cash or the equivalent value in common shares, at the Company's option, would be paid to the limited partners of the Operating Partnership if the partnership were terminated. The approximate value of $4,971 is based on the Company's closing common share price of $34.23 on June 30, 2018, which is assumed to be equal to the value provided to the limited partners upon liquidation of the Operating Partnership. Subject to certain limitations, the outstanding common units of limited partnership interest are redeemable for cash, or at the Company's option, for a like number of common shares of the Company.

Pursuant to the terms and conditions in the Merger Agreement, at the Partnership Merger Effective Time, each common unit of the Operating Partnership, other than common units held by the Company, that is issued and outstanding immediately prior to the Partnership Merger Effective Time will be converted into, and will be cancelled in exchange for, the right to receive an amount in cash equal to the Merger Consideration, without interest.

7. Equity Incentive Plan

The 2014 Plan permits the Company to issue equity-based awards to executives, employees, non-employee members of the Board of Trustees and any other persons providing services to or for the Company and its subsidiaries. The 2014 Plan provides for a maximum of 2,900,000 common shares to be issued in the form of share options, share appreciation rights, restricted or unrestricted share awards, phantom shares, performance awards, incentive awards, other share-based awards, or any combination of the foregoing. In addition, the maximum number of common shares subject to awards of any combination that may be granted under the 2014 Plan during any fiscal year to any one individual is limited to 500,000 shares. The 2014 Plan terminates on February 17, 2024. The 2014 Plan authorized, among other things: (i) the grant of share options that qualify as incentive options under the Code, (ii) the grant of share options that do not so qualify, (iii) the grant of common shares in lieu of cash for trustees' fees, (iv) grants of common shares in lieu of cash compensation and (v) the making of loans to acquire common shares in lieu of compensation (to the extent permitted by law and applicable provisions of the Sarbanes Oxley Act of 2002). The exercise price of share options is determined by the Compensation Committee of the Board of Trustees, but may not be less than 100% of the fair value of the common shares on the date of grant. Restricted share awards and options under the 2014 Plan vest over a period determined by the Compensation Committee of the Board of Trustees, generally a three year period. The duration of each option is also determined by the Compensation Committee, subject to applicable laws and regulations. At June 30, 2018, there were 2,321,003 common shares available for future grant under the 2014 Plan. The 2014 Plan replaced the 2009 Plan. The Company will no longer make any grants under the 2009 Plan (although awards previously made under the 2009 Plan that are outstanding will remain in effect in accordance with the terms of that plan and the applicable award agreements).

Nonvested Share Awards with Service Conditions

From time to time, the Company awards nonvested shares under the 2014 Plan to executives, employees and members of the Board of Trustees. The nonvested shares issued to executives and employees generally vest over three years based on continued employment. The shares issued to the members of the Board of Trustees vest immediately upon issuance. The Company determines the grant date fair value of the nonvested shares based upon the closing price of its common shares on the New York Stock Exchange on the date of grant and number of shares per the award agreements. Compensation costs are recognized on a straight-line basis over the requisite service period and are included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income.

A summary of the Company's nonvested share awards with service conditions as of June 30, 2018 is as follows:

	Number of Shares	Weighted - Average Grant Date Fair Value
Nonvested at January 1, 2018	170,414	$ 28.95
Granted	156,447	25.46
Vested	(55,380)	31.08
Forfeited	(4,732)	26.73
Nonvested at June 30, 2018	266,749	$ 26.50

As of June 30, 2018 and December 31, 2017, there were $5,431 and $3,214, respectively, of total unrecognized compensation costs related to nonvested share awards with service conditions. As of June 30, 2018 and December 31, 2017, these costs were expected to be recognized over a weighted-average period of 1.4 years. The total intrinsic value of shares vested (calculated as number of shares multiplied by vesting date share price) during the three and six months ended June 30, 2018 was zero and $1,555, respectively, and during the three and six months ended June 30, 2017 was $1,736 and $4,417, respectively. Compensation costs

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(net of forfeitures) related to nonvested share awards with service conditions that have been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income were $839 and $1,639 for the three and six months ended June 30, 2018, respectively, and $835 and $1,683 for the three and six months ended June 30, 2017, respectively.

Pursuant to the terms and conditions in the Merger Agreement, each restricted share award that is outstanding immediately prior to the Company Merger Effective Time will become fully vested and will be cancelled in exchange for a cash payment in an amount equal to (i) the number of common shares subject to the restricted share award immediately prior to the Company Merger Effective Time multiplied by (ii) the Merger Consideration, less any applicable withholding taxes.

Nonvested Share Awards with Market or Performance Conditions

On March 19, 2015, the Company’s Board of Trustees granted a target of 49,225 nonvested share awards, exclusive of the 12,435 shares granted to the former Chief Financial Officer, with either market or performance conditions to executives (the “March 19, 2015 Awards”). On March 2, 2018, the executives earned 66.7% of the 24,612 target number of shares with a performance period through December 31, 2017, or 16,410 shares, and all of the earned shares vested immediately. The portion of the share awards representing the difference between 66.7% and 100% of the target number of shares, or 8,202 shares, was forfeited on March 2, 2018. The executives also received a cash payment of $87 on the earned shares equal to the value of all dividends paid on common shares from January 1, 2015 until the determination date, March 2, 2018. As of March 3, 2018, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares. The actual number of shares earned with respect to the remaining 24,613 of the 49,225 target number of shares with a performance period from July 1, 2015 through June 30, 2018 will be determined during the latter half of the third quarter 2018, in accordance with the terms of the award agreements. The actual number of shares awarded will range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the award agreements, and none of the shares are outstanding until issued in accordance with award agreements based on performance. After the actual number of shares are determined (or earned) at the end of the performance measurement period, all of the earned shares will be issued and outstanding on the date. The executives will receive cash payments on the earned shares equal to the value of all dividends paid on common shares from the grant date through the determination date. Such amounts will be paid to the awardees during the latter half of the third quarter 2018. Thereafter, the executives will be entitled to receive dividends as declared and paid on the earned shares and to vote the shares. With respect to 24,612 shares, amortization commenced on March 19, 2015, the beginning of the requisite service period, and, with respect to 24,613 shares, amortization commenced on July 1, 2015, the beginning of the requisite service period.

On March 21, 2018, the Company’s Board of Trustees granted a target of 152,024 nonvested share awards with either market or performance conditions to executives (the “March 21, 2018 Awards”). The actual number of shares awarded with respect to 76,013 of the 152,024 target number of shares will be determined during the latter half of the first quarter 2021, based on the performance measurement period of January 1, 2018 through December 31, 2020, in accordance with the terms of the agreements. The actual number of shares awarded with respect to the remaining 76,011 of the 152,024 shares will be determined during the latter half of the third quarter 2021, based on the performance measurement period of July 1, 2018 through June 30, 2021, in accordance with the terms of the agreements. The actual number of shares awarded will range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the agreements, and none of the shares are outstanding until issued in accordance with award agreements based on performance. After the actual number of shares are determined (or earned) at the end of the respective performance measurement period, all of the earned shares will be issued and outstanding on those dates. The executives will receive cash payments on the earned shares equal to the value of all dividends paid on common shares from the grant date through the respective determination date. Such amounts will be paid to the awardees during the latter half of the first quarter 2021 and during the latter half of the third quarter 2021, respectively. Thereafter, the executives will be entitled to receive dividends as declared and paid on the earned shares and to vote the shares. With respect to 76,013 shares, amortization commenced on March 21, 2018, the beginning of the requisite service period, and, with respect to 76,011 shares, amortization will commence on July 1, 2018, the beginning of the requisite service period.

The terms stipulated in the March 21, 2018 Awards used to determine the total number of shares consist of the following three tranches: (1) a comparison of the Company's total return to the total returns' of up to 10 companies in a designated peer group of the Company, (2) the Company's actual total return as compared to a Board-established total return goal and (3) a comparison of the Company's return on invested capital to the return on invested capital of up to 10 companies in a designated peer group of the Company.

The tranches described in (1) and (2) are nonvested share awards with market conditions. For the March 21, 2018 Awards, the grant date fair value of the awards with market conditions were estimated by the Company using historical data under the Monte Carlo valuation method provided by a third party consultant. The final values were determined during the second quarter of 2018 with an insignificant cumulative adjustment to compensation cost recorded. The third tranche is based on "return on

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invested capital" discussed below, which is a performance condition. The grant date fair values of the tranches with performance conditions were calculated based on the targeted awards, and the valuation is adjusted on a periodic basis.

The capital market assumptions used in the valuations consisted of the following:

- Factors associated with the underlying performance of the Company's share price and shareholder returns over the term of the awards including total share return volatility and risk-free interest.
- Factors associated with the relative performance of the Company's share price and shareholder returns when compared to those companies which compose the index including beta as a means to breakdown total volatility into market-related and company specific volatilities.
- The valuation has been performed in a risk-neutral framework.
- Return on invested capital is a performance condition award measurement. The estimated value was calculated based on the initial face value at the date of grant. The valuation will be adjusted on a periodic basis as the estimated number of awards expected to vest is revised.

The assumptions used were as follows for each performance measure:

	Volatility	Interest Rates	Dividend Yield	Stock Beta	Fair Value of Components of Award	Weighting of Total Awards
March 21, 2018 Awards (performance period starting January 1, 2018)						
Target amounts	27.70 %	2.46 %	N/A	N/A	$ 20.00	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	$ 25.46	33.30 %
Peer companies	27.70 %	2.46 %	N/A	1.105	$ 21.43	33.30 %
March 21, 2018 Awards (performance period starting July 1, 2018)						
Target amounts	27.70 %	2.46 %	N/A	N/A	$ 24.11	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	$ 25.46	33.30 %
Peer companies	27.70 %	2.46 %	N/A	1.105	$ 23.67	33.30 %

A summary of the Company's nonvested share awards with either market or performance conditions as of June 30, 2018 is as follows:

	Share Awards (Target Number of Shares)	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2018	263,948	$ 27.04
Granted	152,024	23.35
Vested	(16,410)	36.26
Forfeited	(8,202)	36.26
Nonvested at June 30, 2018	391,360	$ 25.24

As of June 30, 2018 and December 31, 2017, there were $6,584 and $4,941, respectively, of total unrecognized compensation costs related to nonvested share awards with market or performance conditions. As of June 30, 2018 and December 31, 2017, these costs were expected to be recognized over a weighted-average period of 2.2 years and

2.0 years, respectively. As of June 30, 2018 and December 31, 2017, there were 626,177 and 609,767 share awards with market or performance conditions vested, respectively. Compensation costs (net of forfeitures) related to nonvested share awards with market or performance conditions that have been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income were $708 and $1,606 for the three and six months ended June 30, 2018, respectively, and $980 and $1,840 for the three and six months ended June 30, 2017, respectively.

Pursuant to the terms and conditions of the Merger Agreement, each performance-based share award that is outstanding immediately prior to the Company Merger Effective Time will automatically become earned and vested with respect to 150% of the target number of common shares subject to such performance-based share award and thereafter will be cancelled in exchange for a cash payment in an amount equal to (i) the number of earned performance shares subject to such award immediately prior to the Company Merger Effective Time multiplied by (ii) the Merger Consideration, less any applicable withholding taxes.

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8. Revenues

The following tables set forth the Company's disaggregated hotel operating revenues by the geographic location of its hotels for the three and six months ended June 30, 2018 and 2017:

	For the three months ended June 30, 2018			
	Room	Food and beverage	Other operating department	Total hotel operating revenues
Boston	$39,054	$ 15,477	$ 2,955	$57,486
Chicago	18,908	4,621	1,163	$24,692
Key West	9,721	2,785	1,488	$13,994
Los Angeles	16,244	2,277	1,636	$20,157
New York	28,065	1,760	3,752	$33,577
San Diego Downtown	9,600	1,744	864	$12,208
San Francisco	35,377	6,046	3,880	$45,303
Washington, DC	37,240	8,388	2,730	$48,358
Other [(1)]	25,457	13,879	6,053	$45,389
	$219,666	$56,977	$ 24,521	$301,164

	For the six months ended June 30, 2018			
	Room	Food and beverage	Other operating department	Total hotel operating revenues
Boston	$59,310	$25,101	$ 5,414	$89,825
Chicago	26,918	6,855	1,990	$35,763
Key West	21,142	5,470	2,824	$29,436
Los Angeles	31,227	4,660	3,175	$39,062
New York	44,319	2,975	7,415	$54,709
San Diego Downtown	18,195	3,611	1,524	$23,330
San Francisco	68,304	11,444	7,286	$87,034
Washington, DC	60,278	14,184	4,717	$79,179
Other [(1)]	45,395	26,309	10,283	$81,987
	$375,088	$100,609	$ 44,628	$520,325

(1) For the three and six months ended June 30, 2018, other includes Chaminade Resort and Conference Center in Santa Cruz, CA, Embassy Suites Philadelphia - Center City in Philadelphia, PA, L'Auberge Del Mar in Del Mar, CA, San Diego Paradise Point Resort and Spa and The Hilton San Diego Resort and Spa in San Diego, CA and The Heathman Hotel in Portland, OR.

	For the three months ended June 30, 2017			
	Room	Food and beverage	Other operating department	Total hotel operating revenues
Boston	$39,730	$ 15,681	$ 2,455	$57,866

Chicago	18,691	5,009	1,275	$24,975
Key West	10,085	2,552	1,375	$14,012
Los Angeles	17,717	2,661	1,518	$21,896
New York	26,460	1,706	3,220	$31,386
San Diego Downtown	9,298	1,994	718	$12,010
San Francisco (1)	31,463	4,842	3,366	$39,671
Washington, DC	37,539	8,771	2,222	$48,532
Other (2)	31,402	16,092	5,969	$53,463
	$222,385	$59,308	$ 22,118	$303,811

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	For the six months ended June 30, 2017			
	Room	Food and beverage	Other operating department	Total hotel operating revenues
Boston	$61,483	$26,129	$ 4,649	$92,261
Chicago	26,481	7,286	2,314	$36,081
Key West	22,720	5,195	2,658	$30,573
Los Angeles	34,006	5,277	2,672	$41,955
New York	42,236	2,926	6,235	$51,397
San Diego Downtown	18,222	3,889	1,369	$23,480
San Francisco (1)	68,465	10,941	6,323	$85,729
Washington, DC	68,435	15,886	4,079	$88,400
Other (2)	58,702	34,083	12,186	$104,971
	$400,750	$111,612	$ 42,485	$554,847

(1) Includes Hotel Triton which was sold on April 11, 2017.

(2) For the three and six months ended June 30, 2017, other includes Chaminade Resort and Conference Center in Santa Cruz, CA, Embassy Suites Philadelphia - Center City in Philadelphia, PA, L'Auberge Del Mar in Del Mar, CA, San Diego Paradise Point Resort and Spa and The Hilton San Diego Resort and Spa in San Diego, CA and The Heathman Hotel in Portland, OR. Other also includes the disposition properties of Alexis Hotel (sold on March 31, 2017) and Hotel Deca (sold on January 19, 2017) in Seattle, WA, Westin Philadelphia (sold on June 29, 2017) in Philadelphia, PA and Lansdowne Resort (sold on March 22, 2017) in Lansdowne, VA.

The Company's contract liabilities primarily relate to advance deposits received from guests and groups for future stays or events to be held at the hotels. The contract liabilities are transferred to revenue as room nights are provided and events are held. The Company recognized $4,900 and $22,875, for the three and six months ended June 30, 2018, respectively, and $5,098 and $27,048 for the three and six months ended June 30, 2017, respectively, in revenue from the contract liabilities balance at the beginning of the year and expects the remaining contract liabilities to be recognized, generally, over the next 12 months.

9. LHL

Substantially all of the Company's revenues are derived from operating revenues generated by the hotels, all of which are leased by LHL.

Other indirect hotel operating expenses consist of the following expenses incurred by the hotels:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
General and administrative	$24,470	$24,969	$46,733	$49,560
Sales and marketing	17,103	17,623	32,999	35,567
Repairs and maintenance	8,905	9,200	17,833	18,958
Management and incentive fees	10,635	10,943	16,589	18,169
Utilities and insurance	7,078	7,262	14,242	15,105
Franchise fees	2,161	2,501	3,809	4,338
Other expenses	701	679	1,042	1,136

Total other indirect expenses	$71,053	$73,177	$133,247	$142,833

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As of June 30, 2018, LHL leased all 41 hotels owned by the Company as follows:

	Hotel Properties	Location
1.	Hotel Amarano Burbank	Burbank, CA
2.	L'Auberge Del Mar	Del Mar, CA
3.	Hilton San Diego Gaslamp Quarter	San Diego, CA
4.	Hotel Solamar	San Diego, CA
5.	San Diego Paradise Point Resort and Spa	San Diego, CA
6.	The Hilton San Diego Resort and Spa	San Diego, CA
7.	Harbor Court Hotel	San Francisco, CA
8.	Hotel Vitale	San Francisco, CA
9.	Park Central San Francisco	San Francisco, CA
10.	Hotel Spero (formerly Serrano Hotel)	San Francisco, CA
11.	The Marker San Francisco	San Francisco, CA
12.	Villa Florence	San Francisco, CA
13.	Chaminade Resort and Conference Center	Santa Cruz, CA
14.	Viceroy Santa Monica	Santa Monica, CA
15.	Chamberlain West Hollywood	West Hollywood, CA
16.	Montrose West Hollywood (formerly Le Montrose Suite Hotel)	West Hollywood, CA
17.	Le Parc Suite Hotel	West Hollywood, CA
18.	The Grafton on Sunset	West Hollywood, CA
19.	Hotel George	Washington, DC
20.	Hotel Madera	Washington, DC
21.	Hotel Palomar, Washington, DC	Washington, DC
22.	Hotel Rouge	Washington, DC
23.	Mason & Rook Hotel	Washington, DC
24.	Sofitel Washington, DC Lafayette Square	Washington, DC
25.	The Donovan	Washington, DC
26.	The Liaison Capitol Hill	Washington, DC
27.	Topaz Hotel	Washington, DC
28.	Southernmost Beach Resort Key West	Key West, FL
29.	The Marker Waterfront Resort	Key West, FL
30.	Hotel Chicago	Chicago, IL
31.	Westin Michigan Avenue	Chicago, IL
32.	Hyatt Regency Boston Harbor	Boston, MA
33.	Onyx Hotel	Boston, MA
34.	The Liberty Hotel	Boston, MA
35.	Westin Copley Place	Boston, MA
36.	Gild Hall	New York, NY
37.	The Roger	New York, NY
38.	Park Central Hotel New York (shared lease with WestHouse Hotel New York)	New York, NY
39.	WestHouse Hotel New York	New York, NY
40.	The Heathman Hotel	Portland, OR
41.	Embassy Suites Philadelphia - Center City	Philadelphia, PA

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10. Income Taxes

Income tax expense was comprised of the following for the three and six months ended June 30, 2018 and 2017:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
LHL's income tax expense (benefit)	$4,815	$4,939	$619	$(132)
Operating Partnership's income tax expense	178	64	347	362
Total income tax expense	$4,993	$5,003	$966	$230

The Company has estimated LHL's income tax expense for the six months ended June 30, 2018 by applying an estimated combined federal and state effective tax rate of 29.5% to LHL's net income of $1,923. From time to time, the Company may be subject to federal, state or local tax audits in the normal course of business.

11. Fair Value Measurements

In evaluating fair value, GAAP outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and a reporting entity's own assumptions about market data (unobservable inputs). The hierarchy ranks the quality and reliability of inputs used to determine fair value, which are then classified and disclosed in one of the three categories. The three levels are as follows:

Level 1—Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2—Observable inputs, other than quoted prices included in level 1, such as interest rates, yield curves, quoted prices in active markets for similar assets and liabilities, and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Unobservable inputs that are supported by limited market activity. This includes certain pricing models, discounted cash flow methodologies and similar techniques when observable inputs are not available.

The Company estimates the fair value of its financial instruments using available market information and valuation methodologies the Company believes to be appropriate for these purposes. Considerable judgment and subjectivity are involved in developing these estimates and, accordingly, such estimates are not necessarily indicative of amounts that would be realized upon disposition.

Recurring Measurements

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosure of their fair value is as follows:

		Fair Value Measurements at	
		June 30, 2018	December 31, 2017
		Using Significant Other Observable Inputs (Level 2)	
Description	Consolidated Balance Sheet Location		
Derivative interest rate instruments	Prepaid expenses and other assets	$22,070	$ 10,893
Derivative interest rate instruments	Accounts payable and accrued expenses	$0	$ 0

The fair value of each derivative instrument is based on a discounted cash flow analysis of the expected cash flows under each arrangement. This analysis reflects the contractual terms of the derivative instrument, including the period to maturity, and utilizes observable market-based inputs, including interest rate curves and implied volatilities, which are classified within level 2 of the fair value hierarchy. The Company also incorporates credit value adjustments to appropriately reflect each parties' nonperformance risk in the fair value measurement, which utilizes level 3 inputs such as estimates of current credit spreads. However, the Company has assessed that the credit valuation adjustments are not significant to the overall valuation of the derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified within level 2 of the fair value hierarchy.

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Financial Instruments Not Measured at Fair Value

The following table represents the fair value, derived using level 2 inputs, of financial instruments presented at carrying value in the Company's consolidated financial statements as of June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Borrowings under credit facilities	$0	$0	$0	$0
Term loans	$855,000	$857,311	$855,000	$857,577
Bonds payable	$0	$0	$42,500	$42,500
Mortgage loan	$225,000	$223,909	$225,000	$224,429

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loan using interest rates ranging from 1.4% to 2.3% as of June 30, 2018 and December 31, 2017 with a weighted average effective interest rate of 1.6%. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company's.

At June 30, 2018 and December 31, 2017, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses and distributions payable were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

12. Earnings Per Common Share

The limited partners' outstanding common units in the Operating Partnership (which may be converted to common shares) have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts since the limited partners' share of income or loss would also be added back to net income or loss. Any anti-dilutive shares have been excluded from the diluted earnings per share calculation. Unvested share-based payment awards expected to vest that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Accordingly, distributed and undistributed earnings attributable to unvested restricted shares (participating securities) have been excluded, as applicable, from net income or loss attributable to common shareholders used in the basic and diluted earnings per share calculations. Net income or loss figures are presented net of noncontrolling interests in the earnings per share calculations.

The computation of basic and diluted earnings per common share is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income attributable to common shareholders	$31,555	$ 55,522	$20,477	$ 131,606
Dividends paid on unvested restricted shares	(60)	(120)	(179)	(242)
Undistributed earnings attributable to unvested restricted shares	(16)	(11)	0	(57)
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$31,479	$ 55,391	$20,298	$ 131,307
Denominator:				
Weighted average number of common shares - basic	110,115,770	112,951,714	111,134,064	112,937,794

Effect of dilutive securities:				
Compensation-related shares	436,450	390,437	418,405	409,786
Weighted average number of common shares - diluted	110,552,220	113,342,151	111,552,469	113,347,580
Earnings per Common Share - Basic:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.29	$ 0.49	$0.18	$ 1.16
Earnings per Common Share - Diluted:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$0.28	$ 0.49	$0.18	$ 1.16

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13. Supplemental Information to Statements of Cash Flows

	For the six months ended June 30,	
	2018	2017
Interest paid, net of capitalized interest	$19,365	$17,894
Interest capitalized	253	171
Income taxes (refunded) paid, net	(3,007)	1,044
(Decrease) increase in distributions payable on common shares	(26,151)	58
Decrease in distributions payable on preferred shares	0	(1,289)
Write-off of fully amortized debt issuance costs	669	5,119
(Decrease) increase in accrued capital expenditures	(849)	1,280
Grant of nonvested shares and awards to employees and executives, net	7,105	7,698
Issuance of common shares for Board of Trustees compensation	557	1,240
In conjunction with the sale of properties, the Company disposed of the following assets and liabilities:		
Sale proceeds, net of closing costs	$0	$398,147
Other assets	0	10,760
Liabilities	0	(6,625)
Proceeds from sale of properties	$0	$402,282

14. Subsequent Events

The Company paid the following common and preferred dividends subsequent to June 30, 2018:

Security Type	Dividend per Share/Unit [(1)]	For the Quarter Ended	Record Date	Date Paid
Common Shares/Units	$ 0.23	June 30, 2018	June 29, 2018	July 16, 2018
6.375% Series I Preferred Shares	$ 0.40	June 30, 2018	June 29, 2018	July 16, 2018
6.3% Series J Preferred Shares	$ 0.39	June 30, 2018	June 29, 2018	July 16, 2018

(1) Amounts are rounded to the nearest whole cent for presentation purposes.

On August 7, 2018, pursuant to the terms of the March 19, 2015 Awards, the executives earned 29,044 shares, or 118.0% of the 24,613 target number of shares with a three-year performance period beginning with the closing price of the Company’s common shares on June 30, 2015 and ending with the closing price of the Company’s common shares on June 30, 2018. The executives also will receive a cash payment of $174 on the earned shares equal to the value of all dividends paid on common shares from July 1, 2015 until the determination date, August 7, 2018. All of the earned shares vested immediately on August 7, 2018 and, as of August 8, 2018, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares. These common shares were issued under the 2014 Plan.

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

The following should be read in conjunction with the consolidated financial statements and notes thereto appearing in Part I - Item 1 of this report.

Forward-Looking Statements

This report, together with other statements and information publicly disseminated by LaSalle Hotel Properties (the “Company”), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends 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 includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe the Company’s future plans, strategies and expectations, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “may,” “plan,” “seek,” “should,” “will” or similar expressions. Forward-looking s in this report include, among others, statements about the proposed Mergers (as defined below), the Company’s business strategy, including its acquisition and development strategies,

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industry trends, estimated revenues and expenses, estimated costs and durations of renovation or restoration projects, estimated insurance recoveries, ability to realize deferred tax assets, expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital) and the amount and timing of future cash distributions. 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 the Company's control and which could materially affect actual results, performances or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- the Company's ability to obtain the shareholder approval required to consummate the Mergers;
- the satisfaction or waiver of other conditions to closing in the Merger Agreement (as defined below) or the failure of the Mergers to close for any other reason;
- the occurrence of any change, effect, event, circumstance, occurrence or state of facts that could give rise to the termination of the Merger Agreement;
- the outcome of the legal proceedings that have been, or may be, instituted against the Company and others related to the Mergers and the Merger Agreement;
- unanticipated difficulties or expenditures relating to the Mergers, the response of business partners, hotel operators and competitors to the announcement and pendency of the Mergers, and potential difficulties in employee retention as a result of the announcement and pendency of the Mergers;
- the Company's exclusive remedy against the counterparties to the Merger Agreement with respect to any breach of the Merger Agreement being to seek payment of the parent termination fee, which may not be adequate to cover the Company's damages;
- the Company's restricted ability to pay dividends to its common shareholders pursuant to the Merger Agreement;
- the response of activist investors to the Mergers;
- uncertainties regarding future actions that may be taken by Pebblebrook Hotel Trust ("Pebblebrook") in furtherance of its unsolicited proposal and solicitation of proxies;
- risks associated with the hotel industry, including competition for guests and meetings from other hotels and alternative lodging companies, increases in wages, energy costs and other operating costs, potential unionization or union disruption, actual or threatened terrorist attacks, any type of flu or disease-related pandemic and downturns in general and local economic conditions;
- the availability and terms of financing and capital and the general volatility of securities markets;
- the Company's dependence on third-party managers of its hotels, including its inability to implement strategic business decisions directly;
- risks associated with the real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act of 1990, as amended, and similar laws;
- interest rate increases;
- the possible failure of the Company to maintain its qualification as a real estate investment trust ("REIT") as defined in the Internal Revenue Code of 1986, as amended (the "Code") and the risk of changes in laws affecting REITs;
- the possibility of uninsured losses;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns;
- the risk of a material failure, inadequacy, interruption or security failure of the Company's or the hotel managers' information technology networks and systems; and
- the risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as updated elsewhere in this report.

Accordingly, there is no assurance that the Company's expectations will be realized. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for the Company to predict those events or how they may affect the Company. Except as otherwise required by law, the Company disclaims 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 the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Accordingly, investors should use caution in relying on past forward-looking statements, which were based on results and trends at the time they were made, to anticipate future events or trends.

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Overview

The Company, a Maryland real estate investment trust organized on January 15, 1998, primarily buys, owns, redevelops and leases upscale and luxury full-service hotels located in convention, resort and major urban business markets. The Company is a self-administered and self-managed REIT as defined in the Code. As a REIT, the Company is generally not subject to federal corporate income tax on that portion of its net income that is currently distributed to its shareholders. The income of LaSalle Hotel Lessee, Inc. (together with its wholly owned subsidiaries, "LHL"), the Company's wholly owned taxable REIT subsidiary, is subject to taxation at normal corporate rates.

As of June 30, 2018, the Company owned interests in 41 hotels with approximately 10,450 guest rooms located in seven states and the District of Columbia. Each hotel is leased to LHL under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a participating rent based on hotel revenues. The LHL leases expire between December 2018 and December 2020. A third-party non-affiliated hotel operator manages each hotel pursuant to a hotel management agreement.

Substantially all of the Company's assets are held directly or indirectly by, and all of its operations are conducted through, LaSalle Hotel Operating Partnership, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. The Company owned, through a combination of direct and indirect interests, 99.9% of the common units of the Operating Partnership at June 30, 2018. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at June 30, 2018.

In addition to measuring the Company's net income (loss), the Company also measures hotel performance by evaluating financial metrics such as room revenue per available room ("RevPAR"), funds from operations ("FFO"), earnings before interest, taxes, depreciation and amortization ("EBITDA") and EBITDA for real estate ("EBITDAre"). The Company evaluates the hotels in its portfolio and potential acquisitions using these metrics to determine each hotel's contribution or potential contribution toward reaching the Company's goals of providing income to its shareholders through increases in distributable cash flow and increasing long-term total returns to shareholders through appreciation in the value of its common shares. The Company invests in capital improvements throughout the portfolio to continue to increase the competitiveness of its hotels and improve their financial performance. The Company actively seeks to acquire hotel properties, but continues to face significant competition for acquisitions that meet its investment criteria.

During the second quarter of 2018, the Company's hotels continued to operate within a generally positive environment. All of the economic indicators the Company tracks were encouraging throughout the quarter. On the more positive side, consumer confidence remains at an elevated level and corporate profits reported thus far for the second quarter have been strong. Unemployment remains low at 3.9% and enplanements have been steady, with airline capacity increases expected to continue in 2018. Similarly, U.S. GDP growth estimates for 2018 have been stable. The U.S. lodging industry benefited from a positive economic landscape overall. The industry RevPAR grew at a rate of 4.0% during the quarter, with lodging industry demand up by 3.1% and supply increasing by 2.0%. Industry-wide pricing was moderate, leading to average daily rate ("ADR") growth of 2.9%. The Company's portfolio benefited from the operating environment, with portfolio-wide occupancy of 88.6% for the quarter. The Company's RevPAR increased during the quarter by 1.7% due to higher ADR and occupancy.

For the second quarter of 2018, the Company had net income attributable to common shareholders of $31.6 million, or $0.28 per diluted share. FFO attributable to common shareholders and unitholders was $78.4 million, or $0.71 per diluted share/unit (based on 110,697,443 weighted average shares and units outstanding during the three months ended June 30, 2018) and EBITDAre was $98.0 million. RevPAR for the hotel portfolio was $230.96, which was an increase of 1.7% compared to the same period in 2017. Occupancy increased by 0.6% and ADR was up by 1.1%.

Please refer to “Non-GAAP Financial Measures” for a detailed discussion of the Company’s use of FFO, EBITDA and EBITDAre and a reconciliation of FFO, EBITDA and EBITDAre to net income or loss, a measurement computed in accordance with U.S. generally accepted accounting principles (“GAAP”).

Unsolicited Takeover Offers and Pending Mergers

On March 6, 2018, the Company received an unsolicited proposal from Pebblebrook to acquire all of the Company’s outstanding common shares in an all-stock transaction. In consultation with its financial and legal advisors, the Company’s Board of Trustees unanimously determined that the Pebblebrook proposal was insufficient from both price and mix of consideration perspectives and was therefore not in the best interests of the Company’s shareholders. Subsequently, the Company received a revised unsolicited proposal from Pebblebrook on April 13, 2018 and a further revised unsolicited proposal from Pebblebrook on April 20, 2018.

On May 20, 2018, the Company, the Operating Partnership, BRE Landmark Parent L.P. (“Parent”), BRE Landmark L.P. (“Merger Sub”) and BRE Landmark Acquisition L.P. (“Merger OP”), entered into an Agreement and Plan of Merger (the “Merger Agreement”). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger OP will merge with and into the Operating Partnership (the “Partnership Merger”), and, immediately following the Partnership Merger, the Company will merge with and into Merger Sub (the “Company Merger” and, together with the Partnership Merger, the “Mergers”). Upon completion of the Partnership Merger, the Operating Partnership will survive and the separate existence of Merger OP will cease. Upon completion of the Company Merger, Merger Sub will survive and the separate existence of the Company will cease. See “Part I—Financial Information—Item 1. Financial Statements—1. Organization—Agreement and Plan of Merger” of this report for a more detailed discussion of the pending Mergers.

Following the announcement of the execution of the Merger Agreement, the Company received another unsolicited proposal from Pebblebrook on June 11, 2018. In consultation with its financial and legal advisors, the Company’s Board of Trustees determined that the Pebblebrook proposal to acquire the Company received on June 11, 2018 did not constitute, and could not reasonably be expected to lead to, a Superior Proposal (as defined in the Merger Agreement).

On July 20, 2018, the Company received a letter from Pebblebrook reconfirming its previously announced unsolicited proposal to acquire the Company. In consultation with its financial and legal advisors, the Company’s Board of Trustees determined that the unsolicited proposal to acquire the Company received from Pebblebrook on July 20, 2018 did not constitute, and could not reasonably be expected to lead to, a Superior Proposal.

On July 30, 2018, the Company filed a definitive proxy statement with the Securities and Exchange Commission (“SEC”) in connection with the special meeting of shareholders to vote on the proposal to approve the Company Merger and other transactions contemplated by the Merger Agreement, which will be held on September 6, 2018.

Also on July 30, 2018, Pebblebrook filed a definitive proxy statement with the SEC in order to solicit proxies from the Company’s shareholders to vote against each of the proposals to be voted on at the special meeting of shareholders relating to the Mergers.

The Mergers are expected to close in September 2018, although closing is subject to various conditions, including the approval of the Company Merger by the Company’s common shareholders, and therefore, the Company cannot provide any assurance that the Mergers will close in a timely manner or at all. The Company’s ability to execute on its business plan could be adversely impacted by operating restrictions included in the Merger Agreement, including restrictions on acquiring new assets and raising additional capital. The Company has incurred and will incur a variety of merger-related costs which, while not recurring in nature, will not be recoverable if the Mergers are not consummated. See the Company’s definitive proxy statement on Schedule 14A and the risk factors contained below under the heading “Part II—Other Information—Item 1A. Risk Factors” and elsewhere in this report for a description of conditions related to the Mergers that could adversely affect the Company’s results of operations.

Update on Key West Resorts

After both resorts closed on September 6, 2017 to comply with all mandatory evacuations of the island ahead of Hurricane Irma, the Southernmost Beach Resort Key West and The Marker Waterfront Resort were fully open as of the end of December 2017 and operated at full availability throughout the first and second quarter of 2018.

The Company maintains property, flood, fire and business interruption insurance at its two resorts in Key West. For the combined properties, insurance is subject to deductibles of approximately $5.0 million in total which encompasses both property and business interruption coverage. The Company has filed its claim relating to Hurricane Irma lost revenue and property damage, and will continue working with its insurance carriers to finalize the claim for the lost revenue under its business interruption coverage for both the Key West properties and for property damages in excess

of its deductible amounts. The Company has recognized insurance gains of $3.3 million related to its Hurricane Irma claim through June 30, 2018; $2.6 million of business interruption revenue and $0.7 million of property damage revenue, based on the second proof of loss statements agreed to by the insurance carriers.
Critical Accounting Estimates
Substantially all of the Company’s revenues and expenses are generated by the operations of the individual hotels. The Company records revenues and expenses that are estimated by the hotel operators and reviewed by the Company to produce quarterly financial statements because the management contracts do not require the hotel operators to submit actual results within a time frame that permits the Company to use actual results when preparing its Quarterly Reports on Form 10-Q for filing by the deadline prescribed by the SEC. Generally, the Company records actual revenue and expense amounts for the first two months of each quarter and estimated revenue and expense amounts for the last month of each quarter. Each quarter, the Company reviews

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the estimated revenue and expense amounts provided by the hotel operators for reasonableness based upon historical results for prior periods and internal Company forecasts. The Company records any differences between recorded estimated amounts and actual amounts in the following quarter; historically, these differences have not been material. The Company believes the quarterly revenues and expenses, recorded on the Company's consolidated statements of operations and comprehensive income (loss) based on an aggregate estimate, are fairly stated.

The Company's management has discussed the policy of using estimated hotel operating revenues and expenses with the Audit Committee of its Board of Trustees. The Audit Committee has reviewed the Company's disclosure relating to the estimates in this "Management's Discussion and Analysis of Financial Conditions and Results of Operations" section.

See "Critical Accounting Policies" in the "Management's Discussion and Analysis of Financial Conditions and Results of Operations" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for other critical accounting policies and estimates of the Company.

Comparison of the Three Months Ended June 30, 2018 to the Three Months Ended June 30, 2017

Industry travel was stronger during the three months ended June 30, 2018, compared to the same prior year period. Industry demand grew at a faster rate than industry supply grew, which kept industry occupancy at a high level, and led to moderate pricing power and ADR growth during the period. With respect to the Company's hotels, occupancy was higher by 0.6% during the three months ended June 30, 2018 and ADR increased 1.1%, which resulted in RevPAR growth of 1.7% year-over-year. Excluding the Company's hotels managed by IHG/Kimpton and Marriott/Starwood, RevPAR increased 3.7% versus last year. For reference, Kimpton has been working on systems integration with the IHG platform throughout 2018 and Marriott has been doing the same with Starwood's former systems.

Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, decreased a net $2.6 million from $303.8 million in 2017 to $301.2 million in 2018. This decrease is primarily due to the sale of the 2017 hotel dispositions in the second quarter, which consist of the sales of Hotel Triton and Westin Philadelphia (collectively, the "2017 Q2 Disposition Properties"). The 2017 Q2 Disposition Properties, which are not comparable year-over-year, contributed $9.0 million to the decrease in hotel operating revenues. In addition, hotel operating revenues for Westin Copley Place and Montrose West Hollywood (formerly Le Montrose Suite Hotel) decreased $1.6 million and $0.8 million, respectively, as a result of guest room renovations that commenced in the fourth quarter of 2017.

These decreases are partially offset by a $5.8 million increase in hotel operating revenues from the six hotel properties in the San Francisco market, which was attributed to improved market conditions and increased city wide events. Furthermore, stronger market conditions and superior revenue management contributed to increases in hotel operating revenues at Park Central New York and WestHouse Hotel New York and The Liberty Hotel, of $1.9 million and $1.4 million, respectively.

Hotel operating revenues across the remainder of the portfolio remained relatively constant, decreasing a net $0.3 million across the 30 additional hotels in the portfolio.

Other Income

Other income increased $0.2 million from $3.2 million in 2017 to $3.4 million in 2018 primarily due to higher retail lease income, partially offset by overall decreases from insurance proceeds, and miscellaneous revenue. The Company has filed its claim relating to Hurricane Irma lost revenue and property damage, and will continue working with its insurance carriers to finalize the claim for the lost revenue under its business interruption coverage for both the Key West properties and for property damages in excess of its deductible amounts. The Company has recognized insurance gains of $1.5 million related to its Hurricane Irma claim in the second quarter of 2018; $1.3 million of business interruption revenue and $0.2 million of property damage revenue, based on the second proof of loss statements agreed to by the insurance carriers. The Hurricane Irma recoveries were offset in the quarter by other insurance recoveries unrelated to Hurricane Irma that were recognized in 2017.

Hotel Operating Expenses

Hotel operating expenses decreased a net $1.6 million from $171.2 million in 2017 to $169.6 million in 2018. This overall decrease is primarily due to the sales of the 2017 Q2 Disposition Properties, which are not comparable year-over-year. These properties contributed $4.9 million to the decrease in hotel operating expenses. The decreases are partially offset by the six hotel properties in the San Francisco market, which contributed a $2.2 million increase, that corresponds to the increased revenues.

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Hotel operating expenses across the remainder of the portfolio remained relatively constant, increasing a net $1.1 million across the 35 additional hotels in the portfolio.

Depreciation and Amortization

Depreciation and amortization expense increased $2.8 million from $44.1 million in 2017 to $46.9 million in 2018. Depreciation and amortization expense attributable to the 2017 Q2 Disposition Properties, which are not comparable year-over-year, decreased $0.8 million. Depreciation and amortization expense across the remainder of the portfolio increased a net $3.6 million due to the depreciation of new assets placed into service reflecting the Company's recent renovation activity, most notably Westin Copley Place and San Diego Paradise Point Resort and Spa.

Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses increased $2.2 million from $14.1 million in 2017 to $16.3 million in 2018. The 2018 increase is mostly attributable to a $1.1 million decrease in real estate taxes from a property in San Francisco as a result of an assessment finalization in 2017. The increase is partially offset by the 2017 Q2 Disposition Properties, which are not comparable year-over-year, which decreased $0.3 million.

Real estate taxes, and personal property taxes increased by $1.2 million across the remaining hotels in the portfolio due primarily to increased property values or tax rates at certain properties, which were slightly offset by successful real estate tax appeals. Insurance expense increased by $0.2 million reflecting slightly higher premiums throughout the portfolio.

Ground Rent

Ground rent increased $0.4 million from $3.8 million in 2017 to $4.2 million in 2018 primarily due to a $0.3 million credit received in 2017 at a San Diego property as a result of an operational audit. Ground rent at the other subject properties remained relatively constant. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance.

General and Administrative

General and administrative expense remained relatively constant, decreasing by $0.2 million from $6.9 million in 2017 to $6.7 million in 2018.

Costs Related to the Mergers and Unsolicited Takeover Offers

The Company incurred $8.7 million in costs related to the Mergers and the evaluation of unsolicited takeover offers in 2018. See "Unsolicited Takeover Offers and Pending Mergers" above.

Other Expenses

Other expenses remained flat at $1.6 million in 2017 and 2018. An increase in management transition expenses, severance and pre-opening costs were offset by a decrease in losses from property damage, which are largely covered by insurance proceeds.

Interest Income

Interest income increased $0.3 million from $0.3 million in 2017 to $0.6 million in 2018 as a result of interest earned on invested funds.

Interest Expense

Interest expense increased $1.1 million from $9.4 million in 2017 to $10.5 million in 2018 due to an increase in the weighted average interest rate, partially offset by a decrease in the Company's weighted average debt outstanding. The Company's weighted average interest rate, including the effect of capitalized interest, increased from 2.94% in 2017 to 3.49% in 2018. This increase is due in part to an increase in the Westin Copley Place's mortgage loan variable interest rate from a weighted average interest rate of 2.76% for the quarter ended June 30, 2017 to 3.67% for the quarter ended June 30, 2018. Additionally, this increase is attributable to an increase in the fixed all-in interest rate on the First Term Loan (as defined below) due to the Company entering into new interest rate swap agreements in August 2017 to replace the maturing interest rate swap agreements entered into to hedge the variable interest rate on the First Term Loan. The fixed all-in interest rates for the First Term Loan were 2.23% and 3.23% as of June 30, 2017 and 2018, respectively.

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The Company’s weighted average debt outstanding decreased from $1.15 billion in 2017 to $1.10 billion in 2018 primarily due to the repayment of the Massport Bonds on March 1, 2018 (as discussed below) and the sale of Hotel Triton, which was subject to a capital lease obligation, in April 2017. Interest capitalized on renovations was $0.1 million in both periods.

Income Tax Expense

Income tax expense remained flat at $5.0 million for both 2017 and 2018. This is primarily the result of a decrease in LHL’s estimated combined federal and state effective tax rates from 39.2% in 2017 to 29.5% in 2018, partially offset by an increase in LHL’s net income before income tax expense of $3.8 million from $12.4 million in 2017 to $16.2 million in 2018. For the quarter ended June 30, 2018, LHL’s income tax expense was calculated using an estimated combined federal and state effective tax rate of 29.5%.

Gain on Sale of Properties

The gain on sale of properties was $11.2 million in 2017, which includes a net increase of approximately $0.1 million for the actualization of the gain on sale of Hotel Deca, Lansdowne Resort and Alexis Hotel, which were sold in the first quarter of 2017. The gain on sale of properties also includes a $6.7 million gain relating to the sale of Hotel Triton on April 11, 2017 and a $4.4 million gain relating to the sale of Westin Philadelphia on June 29, 2017.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities represent the allocation of income or loss to the outside preferred ownership interests in a subsidiary and the outside ownership interest in a joint venture.

Noncontrolling Interests of Common Units in Operating Partnership

Noncontrolling interests of common units in Operating Partnership represents the allocation of income or loss of the Operating Partnership to the common units held by third parties based on their weighted average percentage ownership throughout the period. At June 30, 2018, third party limited partners held 0.1% of the common units in the Operating Partnership.

Distributions to Preferred Shareholders

Distributions to preferred shareholders decreased $0.3 million from $4.4 million in 2017 to $4.1 million in 2018 due to decreased distributions on the 7.5% Series H Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $0.01 per share (the “Series H Preferred Shares”), which were redeemed on May 4, 2017.

Issuance Costs of Redeemed Preferred Shares

Issuance costs of redeemed preferred shares of $2.4 million in 2017 represent the offering costs related to the Series H Preferred Shares, which were redeemed on May 4, 2017. The excess of fair value over carrying value (i.e. offering costs) is included in the determination of net income attributable to common shareholders.

Comparison of the Six Months Ended June 30, 2018 to the Six Months Ended June 30, 2017

The economic environment was positive during the first half of the year. Industry demand increased during the first half of 2018 and outpaced supply growth. As a result, industry-wide pricing has been moderate. With respect to the Company’s hotels, occupancy decreased by 1.4% during the six months ended June 30, 2018 and ADR was down 1.0%, which resulted in a RevPAR decline of 2.4% year-over-year. Several of the Company’s hotels were more heavily impacted than the overall industry by the comparison to the Presidential Inauguration in January 2017, increased renovation displacement in 2018 and IHG/Kimpton and Marriott/Starwood systems integration in 2018. Excluding these anomalies, the Company’s RevPAR increased 2.3% during the six months ended June 30, 2018.

Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, decreased a net $34.5 million from $554.8 million in 2017 to $520.3 million in 2018. This decrease is primarily due to the sale of the 2017 hotel dispositions, which consist of the sales of Hotel Deca, Lansdowne Resort, Alexis Hotel, Hotel Triton and Westin Philadelphia (collectively, the “2017 Disposition Properties”). The 2017 Disposition Properties, which are not comparable year-over-year, contributed $27.5 million to the decrease in hotel operating revenues. Additionally, two of the Company’s markets experienced significant decreases in hotel operating revenues. The nine Washington, DC hotel properties had a combined $9.2 million decrease primarily due to the 2017 Presidential Inauguration, an overall softer market and certain issues with the IHG and Kimpton reservation system integration; and the two Key West hotel properties experienced a decrease of $1.2 million as the market is slowly recovering from the impact of Hurricane Irma. In addition, hotel operating revenues for Westin Copley Place, Montrose West Hollywood and Chamberlain West Hollywood decreased $4.7 million, $1.8 million and $1.7 million, respectively, as a result of guest room renovations that commenced in the fourth quarter of 2017.

These decreases are partially offset by a net $3.6 million increase in hotel operating revenues from the six hotel properties in the San Francisco market, which was attributed to improved market conditions and increased city wide events. Furthermore, stronger market conditions and superior revenue management contributed to increases in hotel operating revenues at Park Central New York and WestHouse Hotel New York, The Liberty Hotel and L'Auberge Del Mar, of $3.0 million, $2.3 million and $1.3 million, respectively.

Hotel operating revenues across the remainder of the portfolio remained relatively constant, increasing a net $1.4 million across the 17 additional hotels in the portfolio.

Other Income

Other income increased $0.7 million from $6.6 million in 2017 to $7.3 million in 2018 primarily due to higher retail lease income, higher gains from insurance proceeds, and increased miscellaneous revenue. The Company has filed its claim relating to Hurricane Irma lost revenue and property damage, and will continue working with its insurance carriers to finalize the claim for the lost revenue under its business interruption coverage for both the Key West properties and for property damages in excess of its deductible amounts. The Company has recognized insurance gains of $3.3 million related to its Hurricane Irma claim through June 30, 2018; $2.6 million of business interruption revenue and $0.7 million of property damage revenue, based on the second proof of loss statements agreed to by the insurance carriers. The Hurricane Irma recoveries were offset in the period by other insurance recoveries unrelated to Hurricane Irma that were recognized in 2017.

Hotel Operating Expenses

Hotel operating expenses decreased a net $17.7 million from $336.5 million in 2017 to $318.8 million in 2018. This overall decrease is primarily due to the sales of the 2017 Disposition Properties, which are not comparable year-over-year. These properties contributed $19.2 million to the decrease in hotel operating expenses. Additionally, two of the Company's markets, Washington, DC and Key West had decreases of $3.5 million and $0.7 million, respectively, that correspond to the lower revenue in each market. Due to a guest room renovation that commenced in the fourth quarter of 2017, Westin Copley Place further contributed to the decrease by $1.2 million.

These decreases are partially offset by increases from the six hotel properties in the San Francisco market, The Liberty Hotel, Park Central New York and WestHouse Hotel New York, and L'Auberge Del Mar, for $1.9 million, $1.7 million, $1.0 million and $0.6 million, respectively, that corresponds to the increased revenues at these properties.

Hotel operating expenses across the remainder of the portfolio remained relatively constant, increasing a net $1.7 million across the 19 additional hotels in the portfolio.

Depreciation and Amortization

Depreciation and amortization expense increased $0.9 million from $91.3 million in 2017 to $92.2 million in 2018. Depreciation and amortization expense attributable to the 2017 Disposition Properties, which are not comparable year-over-year, decreased $4.2 million. Depreciation and amortization expense across the remainder of the portfolio increased a net $5.1 million due to the depreciation of new assets placed into service reflecting the Company's recent renovation activity, most notably Westin Copley Place and San Diego Paradise Point Resort and Spa.

Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses increased $2.1 million from $30.2 million in 2017 to $32.3 million in 2018. The 2018 increase is mostly attributable to a $1.1 million decrease in real estate taxes from a property in San Francisco as a result of an assessment finalization in 2017, as well as increased assessments at various properties, most notably Westin Michigan Avenue, for $0.6 million.

These increases are partially offset by the 2017 Disposition Properties, which are not comparable year-over-year, which decreased $1.1 million.

Real estate taxes and personal property taxes increased $1.4 million across the remaining hotels in the portfolio primarily due to increased property values or tax rates at certain properties, which were slightly offset by successful real estate tax appeals.

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Insurance expense remained relatively constant, increasing by $0.1 million reflecting slightly higher premiums throughout the portfolio.

Ground Rent

Ground rent increased $0.9 million from $7.2 million in 2017 to $8.1 million in 2018 primarily due to a $0.7 million credit received in 2017 at a San Diego property as a result of an operational audit. Ground rent at the other subject properties remained relatively constant. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance.

General and Administrative

General and administrative expense remained relatively constant, decreasing by $0.3 million from $13.5 million in 2017 to $13.2 million in 2018.

Costs Related to the Mergers and Unsolicited Takeover Offers

The Company incurred $11.3 million in costs related to the Mergers and the evaluation of unsolicited takeover offers in 2018. See "Unsolicited Takeover Offers and Pending Mergers" above.

Other Expenses

Other expenses decreased $0.7 million from $3.5 million in 2017 to $2.8 million in 2018. The overall decrease is primarily due to a $1.8 million decrease in losses from property damage, which are largely covered by insurance proceeds, and a $0.2 million decrease in miscellaneous expense. These decreases are partially offset by $1.0 million net increase in management transition expenses, severance and pre-opening costs and $0.3 million increase in retail expenses.

Interest Income

Interest income increased $0.9 million from $0.5 million in 2017 to $1.4 million in 2018 as a result of interest earned on invested funds.

Interest Expense

Interest expense increased $1.3 million from $19.3 million in 2017 to $20.6 million in 2018 due to an increase in the weighted average interest rate, partially offset by a decrease in the Company's weighted average debt outstanding. The Company's weighted average interest rate, including the effect of capitalized interest, increased from 2.98% in 2017 to 3.40% in 2018. This increase is due in part to an increase in the Westin Copley Place's mortgage loan variable interest rate from a weighted average interest rate of 2.65% for the six months ended June 30, 2017 to 3.51% for the six months ended June 30, 2018. Additionally, this increase is attributable to an increase in the fixed all-in interest rate on the First Term Loan due to the Company entering into new interest rate swap agreements in August 2017 to replace the maturing interest rate swap agreements entered into to hedge the variable interest rate on the First Term Loan. The fixed all-in interest rates for the First Term Loan were 2.23% and 3.23% as of June 30, 2017 and 2018, respectively. The Company's weighted average debt outstanding decreased from $1.16 billion in 2017 to $1.12 billion in 2018 primarily due to the repayment of the Massport Bonds on March 1, 2018 and the sale of Hotel Triton, which was subject to a capital lease obligation, in April 2017. Interest capitalized on renovations increased $0.1 million from $0.2 million in 2017 to $0.3 million in 2018.

Loss from Extinguishment of Debt

Loss from extinguishment of debt of $1.7 million in 2017 related to the January 10, 2017 refinancing of the Company's senior unsecured credit facility and First Term Loan, which were considered substantial modifications. The loss from extinguishment of debt represents a portion of the unamortized debt issuance costs incurred for the senior unsecured credit facility when the original agreement was executed and the debt issuance costs incurred in connection with the refinancing of the First Term Loan.

Income Tax Expense

Income tax expense increased $0.8 million from $0.2 million in 2017 to $1.0 million in 2018. This increase is primarily the result of an increase in LHL's net income before income tax expense of $2.5 million from a net loss before income tax benefit of $0.6 million in 2017 to net income before income tax expense of $1.9 million in 2018, slightly offset by a decrease in LHL's

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estimated combined federal and state effective tax rate from 39.2% in 2017 to 29.5% in 2018. For the six months ended June 30, 2018, LHL's income tax expense was calculated using an estimated combined federal and state effective tax rate of 29.5%.

Gain on Sale of Properties

The gain on sale of properties was $85.5 million in 2017, which consists of a $30.7 million gain relating to the sale of Hotel Deca on January 19, 2017, a $10.3 million gain relating to the sale of Lansdowne Resort on March 22, 2017, a $33.4 million gain relating to the sale of Alexis Hotel on March 31, 2017, a $6.7 million gain relating to the sale of Hotel Triton on April 11, 2017 and a $4.4 million gain relating to the sale of Westin Philadelphia on June 29, 2017.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities represent the allocation of income or loss to the outside preferred ownership interests in a subsidiary and the outside ownership interest in a joint venture.

Noncontrolling Interests of Common Units in Operating Partnership

Noncontrolling interests of common units in Operating Partnership represents the allocation of income or loss of the Operating Partnership to the common units held by third parties based on their weighted average percentage ownership throughout the period. At June 30, 2018, third party limited partners held 0.1% of the common units in the Operating Partnership.

Distributions to Preferred Shareholders

Distributions to preferred shareholders decreased $1.6 million from $9.8 million in 2017 to $8.2 million in 2018 due to decreased distributions on the Series H Preferred Shares, which were redeemed on May 4, 2017.

Issuance Costs of Redeemed Preferred Shares

Issuance costs of redeemed preferred shares of $2.4 million in 2017 represent the offering costs related to the Series H Preferred Shares, which were redeemed on May 4, 2017. The excess of fair value over carrying value (i.e. offering costs) is included in the determination of net income attributable to common shareholders.

Non-GAAP Financial Measures

FFO, EBITDA and EBITDAre

The Company considers the non-GAAP measures of FFO, EBITDA and EBITDAre to be key supplemental measures of the Company's performance and should be considered along with, but not as alternatives to, net income or loss as a measure of the Company's operating performance. 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 real estate industry investors consider FFO, EBITDA and EBITDAre to be helpful in evaluating a real estate company's operations.

The white paper on FFO approved by the National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as net income or loss (computed in accordance with GAAP), excluding gains or losses from sales of properties and items classified by GAAP as extraordinary, plus real estate-related depreciation and amortization and impairment writedowns, and after comparable adjustments for the Company's portion of these items related to unconsolidated entities and joint ventures. The Company computes FFO consistent with the standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company.

With respect to FFO, the Company believes that excluding the effect of extraordinary items, real estate-related depreciation and amortization and impairments, and the portion of these items related to unconsolidated entities, all of which are based on historical cost accounting and which may be of limited significance in evaluating current performance, can facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common shareholders. However, FFO may not be helpful

when comparing the Company to non-REITs.
EBITDA represents net income or loss (computed in accordance with GAAP), excluding interest expense, income tax, 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 loss (computed in accordance with 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 the Company’s portion of these

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items related to unconsolidated affiliates. The Company computes EBITDAre consistent with the standards established by NAREIT, which may not be comparable to EBITDAre reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company.

With respect to EBITDA, the Company believes that excluding the effect of non-operating expenses and non-cash charges, and the portion of these items related to unconsolidated entities, all of which are also based on historical cost accounting and may be of limited significance in evaluating current performance, can help eliminate the accounting effects of depreciation and amortization, and financing decisions and facilitate comparisons of core operating profitability between periods and between REITs, even though EBITDA also does not represent an amount that accrues directly to common shareholders. In addition, the Company believes the presentation of EBITDAre, which adjusts for certain additional items including gains on sale of property, allows for meaningful comparisons with other REITs and between periods and is more indicative of the ongoing performance of its assets.

FFO, EBITDA and EBITDAre do not represent cash generated from operating activities as determined by GAAP and should not be considered as alternatives to net income or loss, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO, EBITDA and EBITDAre are not measures of the Company's liquidity, nor are such measures indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions. These measurements do not reflect cash expenditures for long-term assets and other items that have been or will be incurred. FFO, EBITDA and EBITDAre may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions and other commitments and uncertainties. To compensate for this, management considers the impact of these excluded items to the extent they are material to operating decisions or the evaluation of the Company's operating performance.

The following is a reconciliation between net income and FFO and FFO attributable to common shareholders and unitholders for the three and six months ended June 30, 2018 and 2017 (in thousands, except share and unit data):

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Net income	$35,739	$ 62,401	$28,775	$ 144,000
Depreciation	46,695	43,928	91,849	91,059
Amortization of deferred lease costs	123	91	243	170
Gain on sale of properties	0	(11,156)	0	(85,514)
FFO [1]	$82,557	$ 95,264	$120,867	$ 149,715
Distributions to preferred shareholders	(4,115)	(4,387)	(8,231)	(9,792)
Issuance costs of redeemed preferred shares	0	(2,401)	0	(2,401)
FFO attributable to common shareholders and unitholders [1]	$78,442	$ 88,476	$112,636	$ 137,522
Weighted average number of common shares and units outstanding:				
Basic	110,260,991	113,096,937	111,279,287	113,083,017
Diluted	110,697,443	113,487,374	111,697,692	113,492,803

[1] FFO and FFO attributable to common shareholders and unitholders include $8.7 million and $11.3 million in costs incurred in connection with the Mergers and the evaluation of unsolicited takeover offers during the three and six months ended June 30, 2018, respectively.

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The following is a reconciliation between net income and EBITDA and EBITDAre for the three and six months ended June 30, 2018 and 2017 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Net income	$35,739	$62,401	$28,775	$144,000
Interest expense	10,458	9,423	20,618	19,250
Income tax expense	4,993	5,003	966	230
Depreciation and amortization	46,857	44,066	92,172	91,329
EBITDA [1]	$98,047	$120,893	$142,531	$254,809
Gain on sale of properties	0	(11,156)	0	(85,514)
EBITDAre [1]	$98,047	$109,737	$142,531	$169,295

[1] EBITDA and EBITDAre include $8.7 million and $11.3 million in costs incurred in connection with the Mergers and the evaluation of unsolicited takeover offers during the three and six months ended June 30, 2018, respectively.

Off-Balance Sheet Arrangements

Reserve Funds for Future Capital Expenditures

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 4.0% of hotel revenues, sufficient to cover the cost of (i) certain non-routine repairs and maintenance to the hotels and (ii) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company reserve this cash in separate accounts. As of June 30, 2018, the Company held a total of $14.0 million of restricted cash reserves, $12.3 million of which was available for future capital expenditures. The Company has sufficient cash on hand and availability on its credit facilities to cover capital expenditures under agreements that do not require that the Company separately reserve cash.

The Company has no other off-balance sheet arrangements.

Liquidity and Capital Resources

The Merger Agreement, discussed in "Part I—Financial Information—Item 1. Financial Statements—1. Organization—Agreement and Plan of Merger" and elsewhere within this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, contains provisions which restrict or prohibit certain capital expenditures as well as certain capital transactions typically used to fund the Company's short- and long-term liquidity requirements. In particular, the Company is subject to various restrictions under the Merger Agreement on raising additional capital, issuing additional equity or debt, repurchasing equity or debt, and entering into certain acquisition and disposition transactions, among other restrictions. Until the Mergers close, or the Merger Agreement is terminated, the Company's liquidity requirements will primarily be funded with net cash provided by operating activities and certain other capital activities allowed under the Merger Agreement.

The Company's principal source of cash to meet its cash requirements, including distributions to shareholders, is the operating cash flow from the Company's hotels. Subject to the restrictions under the Merger Agreement, additional sources of cash are the Company's senior unsecured credit facility, LHL's unsecured credit facility, additional unsecured financing, secured financing on one or all of the Company's 40 unencumbered properties (subject to certain terms and conditions of the credit agreement) as of June 30, 2018, the sale of one or more properties (subject to certain conditions of the management agreements at three of the Company's properties), debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership.

LHL is a wholly owned subsidiary of the Operating Partnership. Payments to the Operating Partnership are required pursuant to the terms of the lease agreements between LHL and the Operating Partnership relating to the properties owned by the Operating Partnership and leased by LHL. LHL's ability to make rent payments to the Operating Partnership and the Company's liquidity, including its ability to make distributions to shareholders, are dependent on the lessees' ability to generate sufficient cash flow from the operation of the hotels.

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Debt Summary

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

Debt	Interest Rate	Maturity Date	Balance Outstanding as of June 30, 2018	Balance Outstanding as of December 31, 2017
Credit facilities				
Senior unsecured credit facility	Floating [(a)]	January 2021 [(a)]	$0	$0
LHL unsecured credit facility	Floating [(b)]	January 2021 [(b)]	0	0
Total borrowings under credit facilities			0	0
Term loans				
First Term Loan	Floating/Fixed [(c)]	January 2022	300,000	300,000
Second Term Loan	Floating/Fixed [(c)]	January 2021	555,000	555,000
Debt issuance costs, net			(1,512)	(1,805)
Total term loans, net of unamortized debt issuance costs			853,488	853,195
Massport Bonds				
Hyatt Regency Boston Harbor (taxable)	Floating [(d)]	- [(d)]	0	5,400
Hyatt Regency Boston Harbor (tax exempt)	Floating [(d)]	- [(d)]	0	37,100
Debt issuance costs, net			0	(6)
Total bonds payable, net of unamortized debt issuance costs			0	42,494
Mortgage loan				
Westin Copley Place	Floating [(e)]	August 2019 [(e)]	225,000	225,000
Debt issuance costs, net			(85)	(568)
Total mortgage loan, net of unamortized debt issuance costs			224,915	224,432
Total debt			$1,078,403	$1,120,121

(a) 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 credit agreement) plus an applicable margin. There were no borrowings outstanding at June 30, 2018 and December 31, 2017. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

(b) Borrowings bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at June 30, 2018 and December 31, 2017. LHL has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

(c) Term loans bear interest at floating rates equal to LIBOR plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rates for the First Term Loan (as defined below) and the Second Term Loan (as defined below). At June 30, 2018 and December 31, 2017, the Company had interest rate swaps on the full amounts outstanding. See "Derivative and Hedging Activities" below. At June 30, 2018 and December 31, 2017, the fixed all-in interest rates for the First Term Loan and Second Term Loan were 3.23% and 2.95%, respectively, at the Company's current leverage ratio (as defined in the swap agreements).

(d) The Company repaid the Massport Bonds on their maturity date, March 1, 2018, with available cash. The bonds bore interest based on weekly floating rates. The interest rates as of December 31, 2017 were 1.70% and 1.78% for the $5,400 and $37,100 bonds, respectively.

(e)

On June 11, 2018, the Company exercised its first available option to extend the maturity date to August 14, 2019. There are two remaining options to extend the maturity date to January 5, 2021, pursuant to certain terms and conditions. The interest-only mortgage loan bears interest at a variable rate ranging from LIBOR plus 1.75% to LIBOR plus 2.00%, depending on Westin Copley Place’s net cash flow (as defined in the loan agreement). Effective the second quarter of 2018 through August 14, 2019, the mortgage loan bears interest at a variable rate of LIBOR plus 1.75%. The interest rate as of June 30, 2018 was LIBOR plus 1.75%, which equaled 3.83%. The interest rate as of December 31, 2017 was LIBOR plus 1.75%, which equaled 3.23%. The mortgage loan allows for prepayments without penalty, subject to certain terms and conditions.

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A summary of the Company's interest expense and weighted average interest rates for unswapped variable rate debt for the three and six months ended June 30, 2018 and 2017 is as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Interest Expense:				
Interest incurred	$9,862	$8,852	$19,530	$17,992
Amortization of debt issuance costs	669	664	1,341	1,429
Capitalized interest	(73)	(93)	(253)	(171)
Interest expense	$10,458	$9,423	$20,618	$19,250
Weighted Average Interest Rates for Unswapped Variable Rate Debt:				
Senior unsecured credit facility	N/A	N/A	N/A	N/A
LHL unsecured credit facility	N/A	N/A	N/A	N/A
Massport Bonds [1]	N/A	0.87 %	1.25 %	0.79 %
Mortgage loan (Westin Copley Place)	3.67 %	2.76 %	3.51 %	2.65 %

[1] The Massport Bonds were repaid on March 1, 2018.

Credit Facilities

The Company has a $750.0 million senior unsecured credit facility with a syndicate of banks. The credit facility matures on January 8, 2021, subject to two six-month extensions that the Company may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. The credit facility, with a current commitment of $750.0 million, includes an accordion feature which, subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to $1.25 billion. Borrowings under the credit facility 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 credit agreement) plus an applicable margin. Additionally, the Company is required to pay a variable unused commitment fee of 0.20% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility.

LHL has a $25.0 million unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. The LHL credit facility matures on January 10, 2021, subject to two six-month extensions that LHL may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. Borrowings under the LHL credit facility bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, LHL is required to pay a variable unused commitment fee of 0.20% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the LHL unsecured credit facility.

The Company's senior unsecured credit facility and LHL's unsecured credit facility contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders.

The Company and certain of its subsidiaries guarantee the obligations under the Company's senior unsecured credit facility. While the senior unsecured credit facility did not initially include any pledges of equity interests in the Company's subsidiaries, such pledges and additional subsidiary guarantees would be required in the event that the

Company's leverage ratio later exceeds 6.50:1.00 for two consecutive fiscal quarters. In the event that such pledge and guarantee requirement is triggered, the pledges and additional guarantees would ratably benefit the Company's senior unsecured credit facility, the First Term Loan and the Second Term Loan. If at any time the Company's leverage ratio falls below 6.50:1.00 for two consecutive fiscal quarters, such pledges and additional guarantees may be released.

Term Loans

The Company has a $300.0 million unsecured term loan (the "First Term Loan") that matures on January 10, 2022. The First Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to $500.0 million. The First Term Loan bears interest at variable rates.

The Company has a $555.0 million unsecured term loan (the "Second Term Loan") that matures on January 29, 2021. The Second Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional

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lender commitments, allowing for total commitments of up to $700.0 million. The Second Term Loan bears interest at variable rates.

The Company has entered into interest rate swap agreements to effectively fix the LIBOR rates for the term loans (see “Derivative and Hedging Activities” below).

The Company’s term loans contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders.

The Company and certain of its subsidiaries guarantee the obligations under the Company’s term loans. While the term loans did not initially include any pledges of equity interests in the Company’s subsidiaries, such pledges and additional subsidiary guarantees would be required in the event that the Company’s leverage ratio later exceeds 6.50:1.00 for two consecutive fiscal quarters. In the event that such pledge and guarantee requirement is triggered, the pledges and additional guarantees would ratably benefit the Company’s senior unsecured credit facility, the First Term Loan and the Second Term Loan. If at any time the Company’s leverage ratio falls below 6.50:1.00 for two consecutive fiscal quarters, such pledges and additional guarantees may be released.

Derivative and Hedging Activities

The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Unrealized gains and losses of hedging instruments are reported in other comprehensive income (loss) (“OCI”). Amounts reported in accumulated other comprehensive income (loss) (“AOCI”) related to currently outstanding derivatives are recognized as an adjustment to income (loss) as interest payments are made on the Company’s variable rate debt. As of June 30, 2018, the Company has interest rate swap agreements with an aggregate notional amount of $300.0 million to hedge the variable interest rate on the First Term Loan through January 10, 2022, resulting in a fixed all-in interest rate based on the Company’s current leverage ratio (as defined in the swap agreements), which interest rate was 3.23%. As of June 30, 2018, the Company has interest rate swaps with an aggregate notional amount of $555.0 million to hedge the variable interest rate on the Second Term Loan and, as a result, the fixed all-in interest rate based on the Company’s current leverage ratio (as defined in the swap agreements) is 2.95% through May 16, 2019. From May 16, 2019 through the term of the Second Term Loan, the Company has interest rate swaps with an aggregate notional amount of $377.5 million to hedge a portion of the variable interest rate debt on the Second Term Loan. The Company has designated its pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. The interest rate swaps were entered into with the intention of eliminating the variability of the terms loans, but can also limit the exposure to any amendments, supplements, replacements or refinancings of the Company’s debt.

The following tables present the effect of derivative instruments on the Company’s consolidated statements of operations and comprehensive income, including the location and amount of unrealized gain (loss) on outstanding derivative instruments in cash flow hedging relationships, for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Amount of Gain (Loss) Recognized in OCI on Derivative	Location of (Gain) Loss Reclassified from AOCI into Net	Amount of (Gain) Loss Reclassified from AOCI into Net	Total Amount of Interest Expense Line Item Presented in the Statement

	Instruments		Income	Income		of Operations	
	For the three months ended			For the three months ended		For the three months ended	
	June 30,			June 30,		June 30,	
	2018	2017		2018	2017	2018	2017
Derivatives in cash flow hedging relationships:							
Interest rate swaps	$3,677	$(1,675)	Interest expense	$(703)	$498	$10,458	$9,423

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	Amount of Gain (Loss) Recognized in OCI on Derivative Instruments For the six months ended June 30,		Location of (Gain) Loss Reclassified from AOCI into Net Income	Amount of (Gain) Loss Reclassified from AOCI into Net Income For the six months ended June 30,		Total Amount of Interest Expense Line Item Presented in the Statement of Operations For the six months ended June 30,	
	2018	2017		2018	2017	2018	2017
Derivatives in cash flow hedging relationships:							
Interest rate swaps	$11,886	$(551)	Interest expense	$(709)	$1,483	$20,618	$19,250

As of June 30, 2018, there was $22.1 million in cumulative unrealized gain of which $22.0 million was included in AOCI and an immaterial amount was attributable to noncontrolling interests. As of December 31, 2017, there was $10.9 million in cumulative unrealized gain of which $10.9 million was included in AOCI and an immaterial amount was attributable to noncontrolling interests. The Company expects that approximately $4.0 million will be reclassified from AOCI and noncontrolling interests and recognized as an increase to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of June 30, 2018.

Extinguishment of Debt

On January 10, 2017, the Company refinanced its senior unsecured credit facility and First Term Loan and LHL refinanced its unsecured revolving credit facility. The refinancing arrangements for the senior unsecured credit facility and First Term Loan were considered substantial modifications. The Company recognized a loss from extinguishment of debt of zero and $1.7 million, which is included in the consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017, respectively. The loss from extinguishment of debt represents a portion of the unamortized debt issuance costs incurred for the senior unsecured credit facility when the original agreement was executed and the debt issuance costs incurred in connection with the refinancing of the First Term Loan.

Mortgage Loan

The Company’s mortgage loan is secured by the property. The mortgage is non-recourse to the Company except for fraud or misapplication of funds.

The Company’s mortgage loan contains debt service coverage ratio tests related to the mortgaged property. If the debt service coverage ratio for the property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel may automatically be directed to the lender to (i) satisfy required payments, (ii) fund certain reserves required by the mortgage and (iii) fund additional cash reserves for future required payments, including final payment. Cash flows will be directed to the lender (“cash trap”) until such time as the property again complies with the specified debt service coverage ratio or the mortgage is paid off.

Financial Covenants

Failure of the Company to comply with financial and other covenants contained in its credit facilities, term loans and non-recourse secured mortgage could result from, among other things, changes in its results of operations, the incurrence of additional debt or changes in general economic conditions.

If the Company violates financial and other covenants contained in any of its credit facilities or term loans described above, the Company may attempt to negotiate waivers of the violations or amend the terms of the applicable credit facilities or term loans with the lenders thereunder; however, the Company can make no assurance that it would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to the Company. If a default under the credit facilities or term loans were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If the Company is unable to refinance its debt on acceptable terms, including at maturity of the credit facilities and term loans, it may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increases in interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to its shareholders.

A cash trap associated with a mortgage loan may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to the Company.

As of June 30, 2018, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans and mortgage loan.

Fair Value Measurements

In evaluating fair value, GAAP outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and a reporting entity's own assumptions about market data (unobservable inputs). The hierarchy ranks the quality and reliability of inputs used to determine fair value, which are then classified and disclosed in one of the three categories. The three levels are as follows:

Level 1—Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2—Observable inputs, other than quoted prices included in level 1, such as interest rates, yield curves, quoted prices in active markets for similar assets and liabilities, and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Unobservable inputs that are supported by limited market activity. This includes certain pricing models, discounted cash flow methodologies and similar techniques when observable inputs are not available.

The Company estimates the fair value of its financial instruments using available market information and valuation methodologies the Company believes to be appropriate for these purposes. Considerable judgment and subjectivity are involved in developing these estimates and, accordingly, such estimates are not necessarily indicative of amounts that would be realized upon disposition.

Recurring Measurements

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosure of their fair value is as follows (in thousands):

		Fair Value Measurements at	
		June 30, 2018	December 31, 2017
		Using Significant Other Observable Inputs (Level 2)	
Description	Consolidated Balance Sheet Location		
Derivative interest rate instruments	Prepaid expenses and other assets	$22,070	$ 10,893
Derivative interest rate instruments	Accounts payable and accrued expenses	$0	$ 0

The fair value of each derivative instrument is based on a discounted cash flow analysis of the expected cash flows under each arrangement. This analysis reflects the contractual terms of the derivative instrument, including the period to maturity, and utilizes observable market-based inputs, including interest rate curves and implied volatilities, which are classified within level 2 of the fair value hierarchy. The Company also incorporates credit value adjustments to appropriately reflect each parties' nonperformance risk in the fair value measurement, which utilizes level 3 inputs such as estimates of current credit spreads. However, the Company has assessed that the credit valuation adjustments are not significant to the overall valuation of the derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified within level 2 of the fair value hierarchy.

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Financial Instruments Not Measured at Fair Value

The following table represents the fair value, derived using level 2 inputs, of financial instruments presented at carrying value in the Company’s consolidated financial statements as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Borrowings under credit facilities	$0	$0	$0	$0
Term loans	$855,000	$857,311	$855,000	$857,577
Bonds payable	$0	$0	$42,500	$42,500
Mortgage loan	$225,000	$223,909	$225,000	$224,429

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loan using interest rates ranging from 1.4% to 2.3% as of June 30, 2018 and December 31, 2017 with a weighted average effective interest rate of 1.6%. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company’s.

At June 30, 2018 and December 31, 2017, the carrying amounts of certain of the Company’s financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses and distributions payable were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

Equity Repurchases and Redemptions

On May 4, 2017, the Company redeemed all of the outstanding Series H Preferred Shares for $68.8 million ($25.00 per share) plus $0.3 million of accrued and unpaid dividends through the redemption date. The redemption value of the Series H Preferred Shares exceeded their carrying value by $2.4 million, which is included in the determination of net income attributable to common shareholders for the three and six months ended June 30, 2017. The $2.4 million represents the offering costs related to the redeemed Series H Preferred Shares.

The Company’s Board of Trustees authorized an expanded share repurchase program (the “Repurchase Program”) to acquire up to $600.0 million of the Company’s common shares, with repurchased shares recorded at cost in treasury. During the six months ended June 30, 2018, the Company repurchased 2,982,800 common shares under the Repurchase Program for a total of $74.5 million, including commissions of $0.1 million. As of June 30, 2018, the Company has availability under the Repurchase Program to acquire up to $495.4 million of common shares. Subject to the restrictions under the Merger Agreement, the timing, manner, price and actual number of shares repurchased, if any, will depend on a variety of factors, including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to repurchase any specific dollar amount or acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

Sources and Uses of Cash

As of June 30, 2018, the Company had $220.8 million of cash and cash equivalents and $14.0 million of restricted cash reserves, $12.3 million of which was available for future capital expenditures. Additionally, the Company had $747.9 million available under the Company’s senior unsecured credit facility, with $2.1 million reserved for outstanding letters of credit, and $25.0 million available under LHL’s unsecured credit facility.

Net cash provided by operating activities was $126.9 million for the six months ended June 30, 2018 primarily due to the operations of the hotels, which were partially offset by payments for real estate taxes, personal property taxes, insurance and ground rent.

Net cash used in investing activities was $80.0 million for the six months ended June 30, 2018 primarily due to outflows for improvements and additions at the hotels.

Net cash used in financing activities was $227.0 million for the six months ended June 30, 2018 primarily due to repayment of the Massport Bonds, payment for the repurchase of common shares under the Repurchase Program, payment of distributions to the common shareholders and unitholders and payment of distributions to preferred shareholders.

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The Company has considered its short-term (one year or less) liquidity needs and the adequacy of its estimated cash flow from operations and other expected liquidity sources to meet these needs. The Company believes that its principal short-term liquidity needs are to fund normal recurring expenses, debt service requirements, distributions on the preferred shares and the minimum distribution required to maintain the Company’s REIT qualification under the Code. Under the terms of the Merger Agreement, the Company was permitted to pay a cash dividend of $0.225 per common share on July 16, 2018 for the quarter ended June 30, 2018, but will not be permitted to pay common share dividends for any quarter thereafter, subject to certain exceptions. Subject to the restrictions under the Merger Agreement, the Company anticipates that these needs will be met with available cash on hand, cash flows provided by operating activities, borrowings under the Company’s senior unsecured credit facility or LHL’s unsecured credit facility, additional unsecured financing, secured financing on any of the Company’s 40 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at three of the Company’s properties), debt or equity issuances available under the Company’s shelf registration statement and issuances of common units in the Operating Partnership. The Company also considers capital improvements and property acquisitions as short-term needs that, subject to the restrictions under the Merger Agreement, will be funded either with cash flows provided by operating activities, utilizing availability under the Company’s senior unsecured credit facility or LHL’s unsecured credit facility, additional unsecured financing, secured financing on any of the Company’s 40 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at three of the Company’s properties) or the issuance of additional equity securities.

Subject to the restrictions under the Merger Agreement, the Company expects to meet long-term (greater than one year) liquidity requirements such as property acquisitions, scheduled debt maturities, major renovations, expansions and other nonrecurring capital improvements utilizing availability under the Company’s senior unsecured credit facility or LHL’s unsecured credit facility, additional unsecured financing, secured financing on any of the Company’s 40 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at three of the Company’s properties), estimated cash flows from operations, debt or equity issuances available under the Company’s shelf registration statement and issuances of common units in the Operating Partnership. The Company expects to acquire or develop additional hotel properties only as suitable opportunities arise, and the Company will not undertake acquisition or development of properties unless stringent acquisition or development criteria have been achieved.

Reserve Funds

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of furniture, fixtures and equipment) as determined pursuant to the operating agreements. Please refer to “Off-Balance Sheet Arrangements” for a discussion of the Company’s reserve funds.

Contractual Obligations

The following is a summary of the Company’s obligations and commitments as of June 30, 2018 (in thousands):

Obligations and Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
Mortgage loan	$225,000	$0	$ 225,000	$ 0	$ 0
Mortgage loan interest (1)	10,508	8,737	1,771	0	0
Borrowings under credit facilities	0	0	0	0	0
Credit facilities interest (2)	0	0	0	0	0

Capital and operating leases [3]	571,532	11,555	23,413	23,880	512,684
Term loans	855,000	0	555,000	300,000	0
Term loans interest [4]	79,447	26,572	47,672	5,203	0
Purchase commitments [5]					
Purchase orders and letters of commitment	23,745	23,745	0	0	0
Total obligations and commitments	$1,765,232	$70,609	$ 852,856	$ 329,083	$ 512,684

(1) Interest expense is calculated based on the variable rate as of June 30, 2018 for Westin Copley Place.

(2) Interest expense, if applicable, is calculated based on the variable rate as of June 30, 2018.

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(3) Amounts calculated based on the annual minimum future lease payments that extend through the term of the lease, including available extension options. Rents on ground leases may be subject to adjustments based on future interest rates and hotel performance.

(4) The term loans bear interest at floating rates equal to LIBOR plus applicable margins. The Company entered into separate interest rate swap agreements for the First Term Loan, resulting in a fixed all-in interest rate of 3.23%, at the Company's current leverage ratio (as defined in the agreements) through January 10, 2022, the First Term Loan's maturity date. The Company entered into separate interest rate swap agreements for the Second Term Loan, resulting in a fixed all-in interest rate of 2.95% at the Company's current leverage ratio (as defined in the agreements). The $377.5 million portion of the Second Term Loan is fixed through its maturity date of January 29, 2021 and the $177.5 million portion of the Second Term Loan is fixed through May 16, 2019, the interest rate swaps' maturity date. It is assumed that the outstanding debt as of June 30, 2018 will be repaid upon maturity with fixed interest-only payments through the swapped periods and interest calculated based on the variable rate as of June 30, 2018 for the unswapped period of the Second Term Loan.

(5) As of June 30, 2018, purchase orders and letters of commitment totaling approximately $23.7 million had been issued for renovations at the properties. The Company has committed to these projects and anticipates making similar arrangements in the future with the existing properties or any future properties that it may acquire.

The Hotels

The following table sets forth pro forma historical comparative information with respect to occupancy, ADR and RevPAR for the total hotel portfolio owned as of June 30, 2018 for the three and six months ended June 30, 2018 and 2017:

	For the three months ended June 30,			For the six months ended June 30,		
	2018	2017	Variance	2018	2017	Variance
Occupancy	88.6 %	88.1 %	0.6 %	81.8 %	83.0 %	(1.4 %)
ADR	$260.57	$257.75	1.1 %	$242.39	$244.78	(1.0 %)
RevPAR	$230.96	$227.18	1.7 %	$198.28	$203.13	(2.4 %)

Inflation

The Company relies entirely on the performance of the hotels and their ability to increase revenues to keep pace with inflation. The hotel operators can change room rates quickly, but competitive pressures may limit the hotel operators' abilities to raise rates faster than inflation or even at the same rate.

The Company's expenses (primarily real estate taxes, property and casualty insurance, administrative expenses and hotel operating expenses) are subject to inflation. These expenses are expected to grow at the general rate of inflation, except for energy costs, liability insurance, property taxes (due to increased rates and periodic reassessments), employee benefits and some wages, which are expected to increase at rates higher than inflation.

Seasonality

The Company's hotel operations historically have been seasonal. Taken together, the hotels maintain higher occupancy rates during the second and third quarters of each year. These seasonality patterns can be expected to cause fluctuations in the quarterly hotel operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk refers to the risk of loss from adverse changes in market prices and interest rates. The Company's primary market risk is its exposure to changes in interest rates. The Company seeks to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs by closely monitoring the Company's variable rate debt and converting such debt to fixed rates when the Company deems such conversion advantageous. From time to time, the Company 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 the Company to the risks that the other parties to the agreements will not perform, the Company could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly effective cash flow hedges under GAAP guidance. As of June 30, 2018, $225.0 million of the Company's aggregate indebtedness (20.8% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under the First Term Loan and Second Term Loan since the Company hedged their variable interest rates to fixed interest rates.

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If market rates of interest on the Company’s variable rate long-term debt fluctuate by 0.25%, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows by $0.6 million annually. This assumes that the amount outstanding under the Company’s variable rate debt remains at $225.0 million, the balance as of June 30, 2018.

Item 4. Controls and Procedures

Based on the most recent evaluation, the Company’s Chief Executive Officer and Chief Financial Officer believe the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of June 30, 2018. There were no changes to the Company’s internal control over financial reporting during the second quarter ended June 30, 2018 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The nature of hotel operations exposes the Company and its hotels to the risk of claims and litigation in the ordinary course of business. The Company is not presently subject to any material litigation nor, to the Company’s knowledge, is any litigation threatened against the Company, 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 the liquidity, results of operations, business or financial condition of the Company.

On June 29, 2018, a purported class action complaint, Erie County Employees Retirement System v. LaSalle Hotel Properties, et al., No. 24-C-18-003922, was filed in the Circuit Court for Baltimore City, Maryland by purported Company shareholder Erie County Employees Retirement System in connection with the proposed Mergers. An amended complaint was filed on July 11, 2018. The amended complaint names as defendants the Company and the members of the Company’s Board of Trustees. The amended complaint alleges, among other things, that the Board of Trustees breached its duties in agreeing to the Merger Agreement, in not agreeing to a transaction with Pebblebrook, and in failing to disclose certain supposedly material information to shareholders in the preliminary proxy statement filed in connection with the Mergers. The amended complaint seeks declaratory and injunctive relief, including a preliminary injunction of the shareholder vote on the Mergers, as well as damages and attorneys’ fees and costs. Similar cases may also be filed in connection with the Mergers. The Company believes the lawsuit is without merit. However, the Company is unable to predict the developments in, outcome of, and/or economic or other consequences of this litigation or predict the developments in, outcome of, and/or other consequences arising out of any potential future litigation or government inquiries related to the Mergers.

Item 1A. Risk Factors

The Company’s Annual Report on Form 10-K for the year ended December 31, 2017 includes detailed discussions of the Company’s risk factors under the heading “Risk Factors.” Set forth below are certain changes from the risk factors previously disclosed in the Annual Report on Form 10-K, which the Company is including in this Quarterly Report on Form 10-Q as a result of the unsolicited takeover offers from Pebblebrook and the execution of the Merger Agreement on May 20, 2018, as further described above.

There may be unexpected delays in the completion of the Mergers, or the Mergers may not be completed at all.

The Mergers are currently expected to close during the third quarter of 2018, assuming that all of the conditions in the Merger Agreement are satisfied or waived. The Merger Agreement provides that either the Company or Parent may terminate the Merger Agreement if the Mergers have not occurred by November 20, 2018. Certain events may delay the completion of the Mergers or result in a termination of the Merger Agreement. Some of these events are outside the control of either party. In particular, completion of the Company Merger requires the affirmative vote of the holders of at least sixty-six and two-thirds (66 2/3%) of the Company’s outstanding common shares as of the record date for the special meeting of shareholders. If the required vote is not obtained upon a vote taken at a special meeting (including any adjournment or postponement thereof), either the Company or Parent may terminate the Merger Agreement. The Company may incur significant additional costs in connection with any delay in completing the Mergers or termination of the Merger Agreement, in addition to significant transaction costs, including legal, financial advisory, accounting, and other costs the Company has already incurred. The Company can neither assure you that the conditions to the completion of the Mergers will be satisfied or waived or that any adverse change, effect, event, circumstance, occurrence or state of facts that could give rise to the termination of the Merger Agreement will not occur, and the Company cannot provide any assurances as to whether or when the Mergers will be completed.

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In addition, under the terms of the Merger Agreement, the Company may not declare or pay any future dividends (other than the regular quarterly dividend of $0.225 per common share for the quarter ended June 30, 2018, which has already been declared on June 15, 2018 and paid on July 16, 2018 to shareholders of record at the close of business on June 29, 2018) to the holders of the Company's common shares during the term of the Merger Agreement without the prior written consent of Parent, subject to certain exceptions. Depending on when the Mergers are consummated, these restrictions may prevent holders of the Company's common shares from receiving dividends that they might otherwise have received.

Failure to complete the Mergers in a timely manner or at all could negatively affect the Company's share price and future business and financial results.

Delays in completing the Mergers or the failure to complete the Mergers at all could negatively affect the Company's future business and financial results, and, in that event, the market price of the Company's common shares may decline significantly, particularly to the extent that the current market price reflects a market assumption that the Mergers will be completed. If the Mergers are not completed for any reason, the Company will not achieve the expected benefits thereof and will be subject to several risks, including the diversion of management focus and resources from operational matters and other strategic opportunities while working to implement the Mergers, any of which could materially adversely affect the Company's business, financial condition, results of operations and the value of the Company's securities.

The pendency of the Mergers could adversely affect the Company's business and operations.

In connection with the pending Mergers, some of the Company's current or prospective hotel management companies or lenders may delay or defer decisions, which could negatively impact the Company's revenues, earnings, cash flows and expenses, regardless of whether the Mergers are completed. In addition, under the Merger Agreement, the Company is subject to certain restrictions on the conduct of the Company's business prior to completing the Mergers. These restrictions may prevent the Company from pursuing certain strategic transactions, acquiring and disposing assets, undertaking certain capital projects, undertaking certain financing transactions and otherwise pursuing other actions that are not in the ordinary course of business, even if such actions could prove beneficial. These restrictions may impede the Company's growth, which could negatively impact the Company's revenue, earnings and cash flows. Additionally, the pendency of the Mergers may make it more difficult for the Company to effectively recruit, retain and incentivize key personnel and may cause distractions from the Company's strategy and day-to-day operations for current employees and management.

An adverse judgment in a lawsuit challenging the Mergers may prevent the Mergers from becoming effective within the expected timeframe or at all.

The Company and the members of the Company's Board of Trustees have been named as defendants in a purported class action complaint challenging the Mergers and seeking, among other things, to enjoin the completion of the Mergers. The Company's shareholders may file additional lawsuits challenging the Mergers or the other transactions contemplated by the Merger Agreement, which may name the Company and/or members of the Board of Trustees as defendants. The Company cannot assure you as to the outcome of such lawsuits, including the amount of costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the Mergers on the agreed-upon terms, such an injunction may delay the completion of the Mergers in the expected timeframe, or may prevent the Mergers from being completed altogether. Whether or not any plaintiff's claim is successful, this type of litigation may result in significant costs and divert management's attention and resources, which could adversely affect the operation of the Company's business.

The Company's business could be negatively affected as a result of actions by Pebblebrook or activist shareholders.

Shareholder campaigns to effect changes in publicly-traded companies are sometimes led by activist investors through various corporate actions, including proxy contests. Responding to these actions can disrupt the Company’s operations by diverting the attention of management and employees as well as the Company’s financial resources. Shareholder activism could create perceived uncertainties as to the Company’s future direction, which could result in the loss of potential business opportunities and make it more difficult to attract and retain qualified personnel and business partners. Furthermore, the election of individuals to the Board of Trustees with a specific agenda could adversely affect the Company’s ability to effectively and timely implement its strategic plans.

On July 30, 2018, Pebblebrook filed a definitive proxy statement with the SEC in order to solicit proxies from the Company’s shareholders to vote against each of the proposals to be voted on at the special meeting of shareholders relating to the Mergers. Pebblebrook’s solicitation and other activities that may be taken by Pebblebrook in furtherance of its unsolicited proposal may create uncertainty, delay the completion of the Mergers or result in a termination of the Merger Agreement. In addition, you should

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not assume that the actions taken by Pebblebrook are an indication that Pebblebrook, or any other party, will submit a Superior Proposal to acquire the Company or that any actions or proposed actions described by Pebblebrook in the materials they have filed with the SEC will be taken, and you should not necessarily ascribe incremental value to the Company’s common shares as a result of the possibility of such actions.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of May 20, 2018, by and among BRE Landmark Parent L.P., BRE Landmark L.P., BRE Landmark Acquisition L.P., LaSalle Hotel Properties and LaSalle Hotel Operating Partnership, L.P.(1)
3.1	LaSalle Hotel Properties Fourth Amended and Restated Bylaws(2)
3.2	First Amendment to Fourth Amended and Restated Bylaws(3)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
32.1	Certification of Chief Executive Officer and 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	The following financial statements from LaSalle Hotel Properties' Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, filed on August 9, 2018, formatted in XBRL: (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

(1) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on May 21, 2018 and incorporated herein by reference.
(2) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on January 24, 2018 and incorporated herein by reference.
(3) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on May 2, 2018 and incorporated herein by reference.

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SIGNATURE

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

			LASALLE HOTEL PROPERTIES
Date:	August 9, 2018	BY:	/s/ KENNETH G. FULLER
			Kenneth G. Fuller
			Executive Vice President
			and Chief Financial Officer (Principal Financial Officer
			and Principal Accounting Officer)