Pebblebrook Hotel Trust
Form 10-Q
July 25, 2018

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

FORM 10-Q

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

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

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

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

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

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

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

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

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

Class	Outstanding at July 23, 2018
Common shares of beneficial interest ($0.01 par value per share)	69,039,917

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Investment in hotel properties, net	$2,439,140	$2,456,450
Investment in marketable securities	369,999	—
Ground lease asset, net	28,742	29,037
Cash and cash equivalents	17,253	25,410
Restricted cash	8,263	7,123
Hotel receivables (net of allowance for doubtful accounts of $211 and $245, respectively)	34,971	29,206
Prepaid expenses and other assets	55,762	43,642
Total assets	$2,954,130	$2,590,868
LIABILITIES AND EQUITY		
Unsecured revolving credit facilities	$383,000	$45,000
Term loans, net of unamortized deferred financing costs	670,888	670,406
Senior unsecured notes, net of unamortized deferred financing costs	99,422	99,374
Mortgage debt, net of unamortized deferred financing costs	69,304	70,457
Accounts payable and accrued expenses	138,750	141,290
Deferred revenues	26,433	26,919
Accrued interest	2,270	2,073
Distribution payable	31,429	31,823
Total liabilities	1,421,496	1,087,342
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred shares of beneficial interest, $.01 par value (liquidation preference $250,000 at June 30, 2018 and at December 31, 2017), 100,000,000 shares authorized; 10,000,000 shares issued and outstanding at June 30, 2018 and December 31, 2017	100	100
Common shares of beneficial interest, $.01 par value, 500,000,000 shares authorized; 68,912,185 issued and outstanding at June 30, 2018 and 68,812,575 issued and outstanding at December 31, 2017	689	688
Additional paid-in capital	1,684,638	1,685,437
Accumulated other comprehensive income (loss)	11,527	3,689
Distributions in excess of retained earnings	(169,600)	(191,013)
Total shareholders' equity	1,527,354	1,498,901
Non-controlling interests	5,280	4,625
Total equity	1,532,634	1,503,526
Total liabilities and equity	$2,954,130	$2,590,868

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenues:				
Room	$142,018	$142,522	$264,489	$268,092
Food and beverage	49,210	48,387	93,778	92,019
Other operating	15,273	14,808	29,289	27,784
Total revenues	206,501	205,717	387,556	387,895
Expenses:				
Hotel operating expenses:				
Room	33,157	34,640	64,865	67,623
Food and beverage	32,328	32,202	62,924	61,490
Other direct and indirect	54,523	54,281	106,362	106,449
Total hotel operating expenses	120,008	121,123	234,151	235,562
Depreciation and amortization	24,562	25,950	49,464	52,246
Real estate taxes, personal property taxes, property insurance, and ground rent	12,488	12,038	24,603	25,750
General and administrative	8,569	6,427	11,179	12,578
Impairment and other losses	583	—	1,378	1,049
Gain on insurance settlement	(8,190)	—	(13,088)	—
Total operating expenses	158,020	165,538	307,687	327,185
Operating income (loss)	48,481	40,179	79,869	60,710
Interest income	59	96	122	96
Interest expense	(10,816)	(9,705)	(20,627)	(19,046)
Other	22,909	(64)	25,356	—
Gain on sale of hotel properties	—	14,587	—	14,587
Income (loss) before income taxes	60,633	45,093	84,720	56,347
Income tax (expense) benefit	(2,338)	(1,423)	(1,909)	1,412
Net income (loss)	58,295	43,670	82,811	57,759
Net income (loss) attributable to non-controlling interests	192	158	299	213
Net income (loss) attributable to the Company	58,103	43,512	82,512	57,546
Distributions to preferred shareholders	(4,024)	(4,024)	(8,047)	(8,047)
Net income (loss) attributable to common shareholders	$54,079	$39,488	$74,465	$49,499
Net income (loss) per share available to common shareholders, basic	$0.78	$0.57	$1.08	$0.70
Net income (loss) per share available to common shareholders, diluted	$0.78	$0.57	$1.07	$0.70
Weighted-average number of common shares, basic	68,912,185	69,168,788	68,894,413	70,383,149
Weighted-average number of common shares, diluted	69,204,571	69,468,354	69,227,098	70,706,802

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Comprehensive Income:				
Net income (loss)	$58,295	$43,670	$82,811	$57,759
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments	2,012	(1,293)	7,290	811
Other	579	—	—	—
Comprehensive income (loss)	60,886	42,377	90,101	58,570
Comprehensive income (loss) attributable to non-controlling interests	201	154	324	216
Comprehensive income (loss) attributable to the Company	$60,685	$42,223	$89,777	$58,354

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

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

	Preferred Shares		Common Shares							
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non-Controlling Interests	Total Equit
Balance at December 31, 2016	10,000,000	$100	71,922,904	$719	$1,776,404	$(2,312)	$(169,227)	$1,605,684	$3,432	$1,609,116
Issuance of shares, net of offering costs	—	—	—	—	(62)	—	—	(62)	—	(62
Issuance of common shares for Board of Trustees compensation	—	—	16,711	1	502	—	—	503	—	503
Repurchase of common shares	—	—	(3,331,478)	(33)	(95,830)	—	—	(95,863)	—	(95,863
Share-based compensation	—	—	208,238	1	2,633	—	—	2,634	552	3,186
Distributions on common shares/units	—	—	—	—	—	—	(52,862)	(52,862)	(180)	(53,042
Distributions on preferred shares	—	—	—	—	—	—	(8,047)	(8,047)	(16)	(8,063
Net contribution from non-controlling interests	—	—	—	—	—	—	—	—	106	106
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	811	—	811	—	811
Net income (loss)	—	—	—	—	—	—	57,546	57,546	213	57,759
Balance at June 30, 2017	10,000,000	$100	68,816,375	$688	$1,683,647	$(1,501)	$(172,590)	$1,510,344	$4,107	$1,514,451
	10,000,000	$100	68,812,575	$688	$1,685,437	$3,689	$(191,013)	$1,498,901	$4,625	$1,503,526

Balance at December 31, 2017										
Issuance of common shares for Board of Trustees compensation	—	—	17,410	1	661	—	—	662	—	662
Repurchase of common shares	—	—	(69,687)	(1)	(2,506)	—	—	(2,507)	—	(2,507
Share-based compensation	—	—	151,887	1	1,046	—	—	1,047	552	1,599
Distributions on common shares/units	—	—	—	—	—	—	(52,504)	(52,504)	(180)	(52,684
Distributions on preferred shares	—	—	—	—	—	—	(8,047)	(8,047)	(16)	(8,063
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	7,290	—	7,290	—	7,290
Cumulative effect adjustment from adoption of new accounting standard	—	—	—	—	—	548	(548)	—	—	—
Net income (loss)	—	—	—	—	—	—	82,512	82,512	299	82,811
Balance at June 30, 2018	10,000,000	$100	68,912,185	$689	$1,684,638	$11,527	$(169,600)	$1,527,354	$5,280	$1,532,634

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

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

	For the six months ended June 30, 2018	2017
Operating activities:		
Net income (loss)	$82,811	$57,759
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	49,464	52,246
Share-based compensation	1,599	3,186
(Gain) loss on marketable securities	(20,477)	—
Amortization of deferred financing costs and mortgage loan premiums	1,043	704
Gain on sale of hotel properties	—	(14,587)
Impairment and other losses	—	1,049
Non-cash ground rent	1,350	1,467
Other	1,146	1,438
Changes in assets and liabilities:		
Hotel receivables	(5,731)	(7,180)
Prepaid expenses and other assets	(11,355)	(3,891)
Accounts payable and accrued expenses	3,140	1,755
Deferred revenues	(501)	(444)
Net cash provided by (used in) operating activities	102,489	93,502
Investing activities:		
Improvements and additions to hotel properties	(35,301)	(47,364)
Proceeds from sale of hotel properties	—	203,189
Investment in marketable securities	(356,180)	—
Sale of marketable securities	6,658	—
Purchase of corporate office equipment, software, and furniture	(26)	(10)
Property insurance proceeds	2,648	—
Net cash provided by (used in) investing activities	(382,201)	155,815
Financing activities:		
Payment of offering costs — common and preferred shares	—	(62)
Payment of deferred financing costs	(42)	(85)
Contributions from non-controlling interest	—	106
Borrowings under revolving credit facilities	465,373	194,922
Repayments under revolving credit facilities	(127,373)	(233,922)
Repayments of mortgage debt	(1,175)	(71,170)
Repurchase of common shares	(2,507)	(95,862)
Distributions — common shares/units	(53,078)	(54,747)
Distributions — preferred shares	(8,047)	(8,047)
Proceeds from refundable membership deposits	30	264
Repayments of refundable membership deposits	(486)	(501)
Net cash provided by (used in) financing activities	272,695	(269,104)
Net change in cash and cash equivalents and restricted cash	(7,017)	(19,787)
Cash and cash equivalents and restricted cash, beginning of year	32,533	40,829
Cash and cash equivalents and restricted cash, end of period	$25,516	$21,042

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

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

Note 1. Organization

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

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

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

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial information. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements include all adjustments considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and comprehensive income, consolidated statements of equity and consolidated statements of cash flows for the periods presented. Interim results are not necessarily indicative of full-year performance, as a result of the impact of seasonal and other short-term variations and the acquisitions and or dispositions of hotel properties. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The Company and its subsidiaries are separate legal entities and maintain records and books of account separate and apart from each other. The consolidated financial statements include all of the accounts of the Company and its subsidiaries and are presented in accordance with U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

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

Use of Estimates

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

Fair Value Measurements

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

1. Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
2. Level 2 – Inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-derived valuations whose inputs are observable.
3. Level 3 – Model-derived valuations with unobservable inputs.

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

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

Investment in Hotel Properties

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

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

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

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

The Company reviews its investments in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, when a hotel property experiences a current or projected loss from operations, when it becomes more likely than not that a hotel property will be sold before the end of its useful life, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, the Company performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying value of the asset, an adjustment to reduce the carrying value to the related hotel’s estimated fair market value is recorded and an impairment loss is recognized. In the evaluation of impairment of its hotel properties, the Company makes many assumptions and estimates including projected cash flows both from operations and eventual disposition, expected useful life and holding period, future required capital expenditures, and fair values, including consideration of capitalization rates, discount rates, and comparable selling prices. The Company will adjust its assumptions with respect to the remaining useful life of the hotel property when circumstances change or it is more likely than not that the hotel property will be sold prior to its previously expected useful life.

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

Investment in Marketable Securities

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

As of June 30, 2018, the Company owned 10,809,215 common shares of LaSalle Hotel Properties. For the six months ended June 30, 2018 and 2017, unrealized gains on these marketable securities were $20.2 million and zero, respectively.

Revenue Recognition

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

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

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

The Company collects sales, use, occupancy and similar taxes at its hotels which are presented on a net basis on the consolidated statements of operations and comprehensive income. Accounts receivable primarily represents receivables from hotel guests who occupy hotel rooms and utilize hotel services. The Company maintains an allowance for doubtful accounts sufficient to cover estimated potential credit losses.

Income Taxes

To qualify as a REIT for federal income tax purposes, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90 percent of its adjusted taxable income to its shareholders. As a REIT, the Company generally is not subject to federal corporate income tax on that portion of its taxable income that is currently distributed to shareholders. The Company is subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. In addition, PHL, which leases the Company’s hotels from the Operating Partnership, is subject to federal and state income taxes. The Company accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Share-based Compensation

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

Earnings Per Share

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

Recent Accounting Standards

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

In February 2016, the FASB issued ASU 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases today. This guidance is effective for the Company on January 1, 2019, however, early adoption is permitted. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. This ASU is expected to result in the recognition of right-to-use assets and related liabilities to account for the Company's future obligations under the ground lease arrangements for which the Company is the lessee. The Company will continue to evaluate the potential effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

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

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

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

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

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

Note 3. Acquisition and Disposition of Hotel Properties

The Company had no acquisitions and dispositions during the six months ended June 30, 2018.

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

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

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

For the three and six months ended June 30, 2017, the Company's consolidated statements of operations included operating income of $2.8 million and $4.2 million, respectively, related to the sale of the Dumont NYC and the parking garage at the Revere Hotel Boston Common.

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

Note 4. Investment in Hotel Properties

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

	June 30, 2018	December 31, 2017
Land	$448,401	$448,401
Buildings and improvements	2,227,616	2,205,315
Furniture, fixtures and equipment	250,831	240,842
Construction in progress	8,921	9,514
Investment in hotel properties	$2,935,769	$2,904,072
Less: Accumulated depreciation	(496,629)	(447,622)
Investment in hotel properties, net	$2,439,140	$2,456,450

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

The Company’s insurance policies provide coverage for property damage, business interruption, and reimbursement for other costs that were incurred relating to damages sustained during Hurricane Irma. Insurance proceeds are subject to deductibles. As of June 30, 2018, the Company reached a final agreement with the insurance carriers totaling $20.5 million, and the Company recognized a gain of $8.2 million and $13.1 million for the three and six months ended

June 30, 2018, respectively.
Note 5. Debt
Senior Unsecured Revolving Credit Facilities

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

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

As of June 30, 2018 and December 31, 2017, the Company had $383.0 million and $45.0 million, respectively, in outstanding borrowings under the revolving credit facility. As of June 30, 2018, the Company had $67.0 million borrowing capacity remaining under the revolving credit facility. As of June 30, 2018, the Company was in compliance with the credit agreement debt covenants. For the three and six months ended June 30, 2018, the Company incurred unused commitment fees of $0.2 million and $0.4 million, respectively. For the three and six months ended June 30, 2017, the Company incurred unused commitment fees of $0.1 million and $0.4 million, respectively.

On May 17, 2017, PHL entered into a $10.0 million unsecured revolving credit facility ("PHL Credit Facility") to be used for PHL's working capital and general corporate purposes. On October 13, 2017, PHL amended and restated the credit agreement governing the PHL Credit Facility. The PHL Credit Facility's maturity was extended to January 2022. Borrowings on the PHL Credit Facility bear interest at LIBOR plus 1.45% to 2.25%, depending on the Company's leverage ratio. The PHL Credit Facility is subject to debt covenants substantially similar to the covenants under the Company's amended and restated credit agreement. Additionally, PHL is required to pay an unused commitment fee at an annual rate of 0.20% or 0.30% of the unused portion of the PHL Credit Facility.

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

Unsecured Term Loan Facilities

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

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

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

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

On October 13, 2017, the Company entered into a fourth unsecured term loan facility (the "Fourth Term Loan"). The Fourth Term Loan has a $110.0 million capacity and matures in October 2024. As of June 30, 2018, the Company had $110.0 million outstanding under the Fourth Term Loan. The Fourth Term Loan bears interest at a variable rate of LIBOR plus 1.70%

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to 2.60%, depending on the Company's leverage ratio. The Company has the ability to increase the aggregate borrowing capacity of the Fourth Term Loan to up to $250.0 million subject to lender approval.

As of June 30, 2018 and December 31, 2017, the Company had $675.0 million and $675.0 million, respectively, in aggregate outstanding borrowings under the four unsecured term loan facilities. Each of the term loan facilities is subject to debt covenants substantially similar to the covenants under the credit agreement that governs the revolving credit facility and First Term Loan. As of June 30, 2018, the Company was in compliance with all debt covenants of its term loan facilities. The Company has entered into interest rate swaps to effectively fix the LIBOR rates for all of its unsecured term loan facilities, except for $65.0 million of the Second Term Loan and for $10.0 million of the Fourth Term Loan (see "Derivative and Hedging Activities" below).

Senior Unsecured Notes

On November 12, 2015, the Company issued $60.0 million of senior unsecured notes (the "Series A Notes") bearing a fixed interest rate of 4.70% per annum and maturing in December 2023. On November 12, 2015, the Company issued $40.0 million of senior unsecured notes (the "Series B Notes") bearing a fixed interest rate of 4.93% per annum and maturing in December 2025. The Series A Notes and the Series B Notes are subject to debt covenants substantially similar to the covenants under the credit agreement that governs the revolving credit facility and the First Term Loan. On October 13, 2017, the agreement governing the Series A Notes and the Series B Notes was also amended to match the financial and other covenants in the senior unsecured revolving credit facility, as amended and restated. As of June 30, 2018, the Company was in compliance with all such debt covenants.

Derivative and Hedging Activities

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

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

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

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

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

As of June 30, 2018, the Company's derivative instruments were in an asset position, with aggregate asset fair values of $11.5 million, in the accompanying consolidated balance sheets. For the six months ended June 30, 2018 and 2017, there was $7.3 million and $0.8 million in unrealized gain (loss), respectively, recorded in accumulated other comprehensive income (loss). For the three and six months ended June 30, 2017, the Company recorded a gain (loss) of $(0.1) million and zero, respectively, for the ineffective portion of the change in fair values of the interest rate swaps. There were no ineffectiveness for the three and six months ended June 30, 2018. For the three and six months ended June 30, 2018, the Company reclassified $(0.2) million and $0.1 million, respectively, from accumulated other comprehensive income (loss) to interest expense. For the three and six months ended June 30, 2017, the Company reclassified $0.7 million and $1.8 million, respectively, from

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accumulated other comprehensive income (loss) to interest expense. The Company expects approximately $3.6 million will be reclassified from accumulated other comprehensive income (loss) to interest expense in the next 12 months.

Mortgage Debt

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

Debt Summary

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

	Interest Rate	Maturity Date	Balance Outstanding as of June 30, 2018	Balance Outstanding as of December 31, 2017
Revolving credit facilities				
Senior unsecured revolving credit facility	Floating [1]	January 2022	$383,000	$ 45,000
PHL unsecured revolving credit facility	Floating [2]	January 2022	—	—
Total revolving credit facilities			$383,000	$ 45,000
Term loans				
First Term Loan	Floating [3]	January 2023	300,000	300,000
Second Term Loan	Floating [3]	April 2022	65,000	65,000
Third Term Loan	Floating [3]	January 2021	200,000	200,000
Fourth Term Loan	Floating [3]	October 2024	110,000	110,000
Total term loans at stated value			675,000	675,000
Deferred financing costs, net			(4,112)	(4,594)
Total term loans			$670,888	$ 670,406
Senior unsecured notes				
Series A Notes	4.70%	December 2023	60,000	60,000
Series B Notes	4.93%	December 2025	40,000	40,000
Total senior unsecured notes at stated value			100,000	100,000
Deferred financing costs, net			(578)	(626)
Total senior unsecured notes			$99,422	$ 99,374
Mortgage loans				
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	69,398	70,573
Mortgage loans at stated value			69,398	70,573
Deferred financing costs, net			(94)	(116)
Total mortgage loans			$69,304	$ 70,457
Total debt			$1,222,614	$ 885,237

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

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

(3) Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. At June 30, 2018 and December 31, 2017, the Company had interest rate swaps to effectively fix the interest rate for the First Term Loan, the Third Term Loan and a portion

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of the Fourth Term Loan. The Company had interest rate swaps on the full amounts outstanding, except for $65.0 million on the Second Term Loan and $10.0 million on the Fourth Term Loan. See "Derivative and Hedging Activities" above.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates, taking into consideration general market conditions and maturity of the debt with similar credit terms and is classified within level 2 of the fair value hierarchy. The estimated fair value of the Company's fixed rate debt (unsecured senior notes and mortgage loans) as of June 30, 2018 and December 31, 2017 was $163.3 million and $167.1 million, respectively.

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

Note 6. Revenue

The Company presents revenue on a disaggregated basis on the consolidated statements of operations and comprehensive income. The following table presents revenues by geographic location for the three and 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
San Francisco, CA	$48,285	$40,666	$92,733	$84,650
Los Angeles, CA	32,736	33,679	62,465	62,499
San Diego, CA	16,995	17,831	34,124	35,934
Boston, MA	21,770	23,240	34,088	34,944
Seattle, WA	9,104	8,668	15,525	14,583
Portland, OR	26,492	26,629	44,905	45,296
Other [1]	51,119	55,004	103,716	109,989
	$206,501	$205,717	$387,556	$387,895

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

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

Note 7. Equity

Common Shares

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

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

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

On July 27, 2017, the Company announced that the Board of Trustees authorized a new share repurchase program of up to $100.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common

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shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. This $100.0 million share repurchase program will commence upon completion of the Company's $150.0 million share repurchase program.

Common Dividends

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

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

Preferred Shares

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

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

The Series C Preferred Shares and Series D Preferred Shares (collectively, the “Preferred Shares”) rank senior to the common shares and on parity with each other with respect to payment of distributions. The Preferred Shares are cumulative redeemable preferred shares, do not have any maturity date and are not subject to mandatory redemption. The Company could not redeem the Series C Preferred Shares prior to March 18, 2018 and may not redeem the Series D Preferred Shares prior to June 9, 2021, except in limited circumstances relating to the Company’s continuing qualification as a REIT or as discussed below. On or after June 9, 2021, the Company may, at its option, redeem the Series D Preferred Shares, and at any time the Company may, at its option, redeem the Series C Preferred Shares, in each case in whole or from time to time in part, by payment of $25.00 per share, plus any accumulated, accrued and unpaid distributions through the date of redemption. Upon the occurrence of a change of control, as defined in the Company's declaration of trust, the result of which the Company’s common shares and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE MKT or NASDAQ, or any successor exchanges, the Company may, at its option, redeem the Preferred Shares in whole or in part within 120 days following the change of control by paying $25.00 per share, plus any accrued and unpaid distributions through the date of redemption. If the Company does not exercise its right to redeem the Preferred Shares upon a change of control, the holders of the Preferred Shares have the right to convert some or all of their shares into a number of the Company’s common shares based on a defined formula subject to a share cap. The share cap on each Series C Preferred Share is 2.0325 common shares and each Series D Preferred Share is 1.9794 common shares.

Preferred Dividends

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

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

Non-controlling Interest of Common Units in Operating Partnership

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

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

Note 8. Share-Based Compensation Plan

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

Service Condition Share Awards

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

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

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

The fair value of each of these service condition restricted share awards is determined based on the closing price of the Company’s common shares on the grant date and compensation expense is recognized on a straight-line basis over the vesting period. For the three and six months ended June 30, 2018, the Company recognized approximately $0.5 million and $0.9 million, respectively, of share-based compensation expense related to these service condition restricted shares in the consolidated statement of operations. For the three and six months ended June 30, 2017, the Company recognized approximately $0.5 million and $0.9 million, respectively, of share-based compensation expense related to these service condition restricted shares in the consolidated statements of operations. As of June 30, 2018, there was $3.2 million of total unrecognized share-based compensation expense related to unvested restricted shares. The unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 1.9 years.

Performance-Based Equity Awards

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

On December 13, 2013, the Board of Trustees approved a target award of 252,088 performance-based equity awards to officers and employees of the Company. The awards vest ratably on January 1, 2016, 2017, 2018, 2019 and 2020. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined on each vesting date based upon the two performance criteria as defined in the award agreements for the period of performance beginning on the grant date and ending on the applicable vesting date. In January 2016, the Company issued 25,134 of common shares which represented achieving 49% of the 50,418 target number of shares for that measurement period. In January 2017, the Company issued 12,285 of common shares which represented achieving 25% of the 49,914 target number of shares for that measurement period. In January 2018, the Company issued 72,236 of common shares which represented achieving 145% of the 49,914 target number of shares for that measurement period.

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

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

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

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

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

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

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

Performance Award Grant Date	Percentage of Total Award	Grant Date Fair Value by Component ($ in millions)		Volatility	Interest Rate	Dividend Yield
January 30, 2013						
Relative Total Shareholder Return	30.00%	$0.7		31.00%	0.41%	2.20%
Absolute Total Shareholder Return	30.00%	$0.5		31.00%	0.41%	2.20%
EBITDA Comparison	40.00%	$0.7		31.00%	0.41%	2.20%
December 13, 2013						
Relative Total Shareholder Return	50.00%	$4.7		29.00%	0.34% - 2.25%	2.40%
Absolute Total Shareholder Return	50.00%	$2.9		29.00%	0.34% - 2.25%	2.40%
February 4, 2014						
Relative Total Shareholder Return	30.00%	$0.7		29.00%	0.62%	2.40%
Absolute Total Shareholder Return	30.00%	$0.5		29.00%	0.62%	2.40%
EBITDA Comparison	40.00%	$0.8		29.00%	0.62%	2.40%
February 11, 2015						
Relative Total Shareholder Return	30.00%	$0.9		22.00%	1.02%	2.50%
Absolute Total Shareholder Return	40.00%	$0.7		22.00%	1.02%	2.50%
EBITDA Comparison	30.00%	$0.7		22.00%	1.02%	2.50%
July 27, 2015						
Relative Total Shareholder Return	30.00%	—	(1)	22.00%	0.68%	2.50%
Absolute Total Shareholder Return	40.00%	—	(1)	22.00%	0.68%	2.50%
EBITDA Comparison	30.00%	—	(1)	22.00%	0.68%	2.50%
February 10, 2016						
Relative Total Shareholder Return						