

LaSalle Hotel Properties
Form 10-Q
October 22, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015

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, 10 th Floor	20814
Bethesda, Maryland	(Zip Code)
(Address of principal executive offices)	

(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 ☒ 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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
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Non-accelerated filer ☐ (Do not check if a smaller reporting company) ☐ Smaller reporting company ☐

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 and preferred shares as of the latest practicable date.

Class	Outstanding at October 22, 2015
Common Shares of Beneficial Interest (\$0.01 par value)	112,929,159
7 1/2% Series H Cumulative Redeemable Preferred Shares (\$0.01 par value)	2,750,000
6 % Series I Cumulative Redeemable Preferred Shares (\$0.01 par value)	4,400,000

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PART I. Financial Information

Item 1. Financial Statements

LASALLE HOTEL PROPERTIES

Consolidated Balance Sheets

(in thousands, except share data)

	September 30, 2015 (unaudited)	December 31, 2014
Assets:		
Investment in hotel properties, net (Note 3)	\$3,825,815	\$3,428,556
Note receivable (Note 3)	80,000	0
Property under development	41,157	35,613
Cash and cash equivalents	23,323	114,131
Restricted cash reserves (Note 5)	26,038	21,570
Hotel receivables (net of allowance for doubtful accounts of \$380 and \$300, respectively)	52,550	30,338
Deferred financing costs, net	7,622	6,564
Deferred tax assets	1,855	1,447
Prepaid expenses and other assets	44,010	61,730
Total assets	\$4,102,370	\$3,699,949
Liabilities:		
Borrowings under credit facilities (Note 4)	\$380,000	\$0
Term loans (Note 4)	477,500	477,500
Bonds payable (Note 4)	42,500	42,500
Mortgage loans (Note 4)	512,532	501,090
Accounts payable and accrued expenses	201,953	161,835
Advance deposits	33,883	19,447
Accrued interest	2,809	3,729
Distributions payable	53,926	45,462
Total liabilities	1,705,103	1,251,563
Commitments and contingencies		
Equity:		
Shareholders' Equity:		
Preferred shares of beneficial interest, \$0.01 par value (liquidation preference of \$178,750), 40,000,000 shares authorized; 7,150,000 shares issued and outstanding (Note 6)	72	72
Common shares of beneficial interest, \$0.01 par value, 200,000,000 shares authorized; 113,115,442 shares issued and 112,929,159 shares outstanding, and 112,828,536 shares issued and 112,824,508 shares outstanding, respectively (Note 6)	1,131	1,127
Treasury shares, at cost (Note 6)	(5,753)	(138)
Additional paid-in capital, net of offering costs of \$80,155 and \$80,124, respectively	2,681,859	2,673,888
Accumulated other comprehensive (loss) income (Note 4)	(4,651)	748

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Distributions in excess of retained earnings	(278,633)	(233,988)
Total shareholders' equity	2,394,025	2,441,709
Noncontrolling Interests:		
Noncontrolling interests in consolidated entities	17	17
Noncontrolling interests of common units in Operating Partnership (Note 6)	3,225	6,660
Total noncontrolling interests	3,242	6,677
Total equity	2,397,267	2,448,386
Total liabilities and equity	\$4,102,370	\$3,699,949
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 data)

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Revenues:				
Hotel operating revenues:				
Room	\$233,993	\$222,006	\$647,031	\$587,705
Food and beverage	68,688	63,399	205,083	189,921
Other operating department	24,472	21,291	64,049	56,105
Total hotel operating revenues	327,153	306,696	916,163	833,731
Other income	2,557	1,306	5,736	6,240
Total revenues	329,710	308,002	921,899	839,971
Expenses:				
Hotel operating expenses:				
Room	56,283	52,344	161,002	147,495
Food and beverage	48,268	45,986	142,455	137,830
Other direct	4,960	6,772	13,807	18,500
Other indirect (Note 8)	78,070	69,722	226,949	199,924
Total hotel operating expenses	187,581	174,824	544,213	503,749
Depreciation and amortization	46,208	38,821	135,002	115,887
Real estate taxes, personal property taxes and insurance	17,045	13,878	49,331	43,210
Ground rent (Note 5)	4,491	4,279	12,164	11,019
General and administrative	6,173	6,278	18,941	17,804
Acquisition transaction costs (Note 3)	55	0	499	1,851
Other expenses	9,149	573	12,753	6,830
Total operating expenses	270,702	238,653	772,903	700,350
Operating income	59,008	69,349	148,996	139,621
Interest income	1,294	2	1,301	1,801
Interest expense	(13,250)	(14,499)	(40,790)	(43,043)
Loss from extinguishment of debt (Note 4)	0	0	0	(2,487)
Income before income tax benefit (expense)	47,052	54,852	109,507	95,892
Income tax benefit (expense) (Note 9)	490	(2,997)	(216)	(1,488)
Income before gain on sale of properties	47,542	51,855	109,291	94,404
Gain on sale of properties (Note 3)	0	49,657	0	93,205
Net income	47,542	101,512	109,291	187,609
Net income attributable to noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	(8)	(8)
Noncontrolling interests of common units in Operating Partnership (Note 6)	(75)	(297)	(229)	(557)

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Net income attributable to noncontrolling interests	(75) (297) (237) (565)
Net income attributable to the Company	47,467	101,215	109,054	187,044	
Distributions to preferred shareholders	(3,043	) (3,042	) (9,127	) (11,291)
Issuance costs of redeemed preferred shares (Note 6)	0	(9	) 0	(951)
Net income attributable to common shareholders	\$44,424	\$98,164	\$99,927	\$174,802	

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Operations and Comprehensive Income - Continued

(in thousands, except share data)

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Earnings per Common Share - Basic:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.39	\$0.94	\$0.88	\$1.68
Earnings per Common Share - Diluted:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.39	\$0.94	\$0.88	\$1.67
Weighted average number of common shares outstanding:				
Basic	112,731,358	103,798,853	112,702,693	103,730,007
Diluted	113,137,284	104,133,553	113,113,859	104,059,030
Comprehensive Income:				
Net income	\$47,542	\$101,512	\$109,291	\$187,609
Other comprehensive income:				
Unrealized (loss) gain on interest rate derivative instruments (Note 4)	(4,245	) 1,551	(8,617	) (4,721
Reclassification adjustment for amounts recognized in net income (Note 4)	1,071	1,113	3,210	3,297
	44,368	104,176	103,884	186,185
Comprehensive income attributable to noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	(8	) (8
Noncontrolling interests of common units in Operating Partnership (Note 6)	(71	) (305	) (221	) (553
Comprehensive income attributable to noncontrolling interests	(71	) (305	) (229	) (561
Comprehensive income attributable to the Company	\$44,297	\$103,871	\$103,655	\$185,624
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 (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests in Consolidated Entities	Noncontrolling Interests in Common Operating Partnership	Total Noncontrolling Interests	Total Equity
Balance, December 31, 2013	\$95	\$1,039	\$(14)	\$2,379,246	\$4,603	\$(281,578)	\$2,103,391	\$18	\$6,054	\$6,072	\$2,109,463
Issuance of shares, net of offering costs	0	1	0	560	0	0	561	0	0	0	561
Redemption of preferred shares	(23)	0	0	(57,757)	0	(951)	(58,731)	0	0	0	(58,731)
Repurchase of common shares into treasury	0	0	(2,936)	0	0	0	(2,936)	0	0	0	(2,936)
Deferred compensation, net	0	0	2,238	2,560	0	0	4,798	0	0	0	4,798
Adjustments to noncontrolling interests	0	0	0	24	0	0	24	0	(24)	(24)	0
Distributions on earned shares from share awards with market conditions	0	0	0	0	0	(314)	(314)	0	0	0	(314)
Distributions on common shares/units (\$1.03 per share/unit)	0	0	0	0	0	(107,301)	(107,301)	0	(305)	(305)	(107,606)
Distributions on preferred shares	0	0	0	0	0	(11,291)	(11,291)	(9)	0	(9)	(11,300)

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Net income	0	0	0	0	0	187,044	187,044	8	557	565	187,609
Other comprehensive income:											
Unrealized loss on interest rate derivative instruments	0	0	0	0	(4,708)	0	(4,708)	0	(13)	(13)	(4,721)
Reclassification adjustment for amounts recognized in net income	0	0	0	0	3,288	0	3,288	0	9	9	3,297
Balance, September 30, 2014	\$72	\$1,040	\$(712)	\$2,324,633	\$3,183	\$(214,391)	\$2,113,825	\$17	\$6,278	\$6,295	\$2,120,120
Balance, December 31, 2014	\$72	\$1,127	\$(138)	\$2,673,888	\$748	\$(233,988)	\$2,441,709	\$17	\$6,660	\$6,677	\$2,448,386
Issuance of shares, net of offering costs	0	2	0	660	0	0	662	0	0	0	662
Repurchase of common shares into treasury	0	0	(7,424)	0	0	0	(7,424)	0	0	0	(7,424)
Unit conversion	0	2	0	3,398	0	0	3,400	0	(3,400)	(3,400)	0
Deferred compensation, net	0	0	1,809	3,899	0	0	5,708	0	0	0	5,708
Adjustments to noncontrolling interests	0	0	0	14	0	0	14	0	(14)	(14)	0
Distributions on earned shares from share awards with market conditions	0	0	0	0	0	(334)	(334)	0	0	0	(334)
Distributions on common shares/units (\$1.28 per share/unit)	0	0	0	0	0	(144,238)	(144,238)	0	(242)	(242)	(144,480)
Distributions on preferred shares	0	0	0	0	0	(9,127)	(9,127)	(8)	0	(8)	(9,135)
Net income	0	0	0	0	0	109,054	109,054	8	229	237	109,291
Other comprehensive											

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income:

Unrealized loss

on interest rate

derivative

instruments

Reclassification

adjustment for

amounts

recognized in

net income

Balance,

September 30,	\$72	\$1,131	\$(5,753)	\$2,681,859	\$(4,651)	\$(278,633)	\$2,394,025	\$17	\$3,225	\$3,242	\$2,397,267
2015											

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 nine months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 109,291	\$ 187,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	135,002	115,887
Amortization of deferred financing costs, mortgage premium and note receivable discount	1,799	599
Loss from extinguishment of debt	0	2,487
Gain on sale of properties	0	(93,205)
Amortization of deferred compensation	5,708	4,798
Deferred income tax benefit	(408)	(64)
Allowance for doubtful accounts	80	89
Other	406	404
Changes in assets and liabilities:		
Restricted cash reserves	2,281	(80)
Hotel receivables	(20,921)	(22,893)
Prepaid expenses and other assets	(9,650)	622
Accounts payable and accrued expenses	31,091	4,419
Advance deposits	12,371	5,834
Accrued interest	(920)	(298)
Net cash provided by operating activities	266,130	206,208
Cash flows from investing activities:		
Additions to properties	(83,844)	(57,480)
Improvements to properties	(8,816)	(4,583)
Acquisition of properties	(439,157)	(127,002)
Deposit on acquisition	25,000	0
Purchase of office furniture and equipment	(137)	(94)
Acquisition of note receivable	(80,000)	0
Repayment of note receivable	0	72,000
Restricted cash reserves	(6,749)	(2,838)
Proceeds from sale of properties	0	167,838
Property insurance proceeds	1,134	1,438
Net cash (used in) provided by investing activities	(592,569)	49,279
Cash flows from financing activities:		
Borrowings under credit facilities	789,895	468,820
Repayments under credit facilities	(409,895)	(531,426)
Proceeds from mortgage loan	225,000	0
Repayments of mortgage loans	(213,558)	(12,158)

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Payment of deferred financing costs	(2,857)	(5,138)
Purchase of treasury shares	(7,424)	(2,936)
Payment of common offering costs	(201	)	(20)
Distributions on earned shares from share awards with market conditions	(334	)	(314)
Redemption of preferred shares	0		(58,722)
Distributions on preferred shares	(9,135	)	(12,363)
Distributions on common shares/units	(135,860	)	(97,534)
Net cash provided by (used in) financing activities	235,631		(251,791)
Net change in cash and cash equivalents	(90,808	)	3,696	
Cash and cash equivalents, beginning of period	114,131		13,388	
Cash and cash equivalents, end of period	\$23,323		\$17,084	

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 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 (“TRS”), is subject to taxation at normal corporate rates.

As of September 30, 2015, the Company owned interests in 47 hotels with over 12,000 guest rooms located in 10 states and the District of Columbia. Each hotel is leased to LHL (see Note 8) 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 2015 and December 2017. 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., a Delaware limited partnership (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 September 30, 2015. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at September 30, 2015. See Note 6 for additional disclosures related to common units of the Operating Partnership.

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 nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 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, 2014.

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

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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.

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, 7 years for land improvements, 20 years for golf course land improvements, 20 years for swimming pool assets and 3 to 5 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.

Share-Based Compensation

From time to time, the Company awards shares under the 2014 Equity Incentive Plan ("2014 Plan"), which has approximately eight 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 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 September 30, 2015, 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.

Notes Receivable

Notes receivable are carried at cost, net of any premiums or discounts which are recognized as an adjustment of yield over the remaining life of the note using the effective interest method. Any costs related to notes receivable are expensed as incurred.

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Interest income is recorded on the accrual basis consistent with the terms of the notes receivable. A note is deemed to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all principal and interest contractually due. The Company considers historical payment patterns, general and industry specific economic factors and operating results in determining the probability of default. Interest previously accrued but not collected becomes part of the Company's recorded investment in the note receivable for purposes of assessing impairment. The Company applies interest payments received on non-accrual notes receivable first to accrued interest and then as interest income. Notes receivable return to accrual status when contractually current and the collection of future payments is reasonably assured.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which changes the way reporting enterprises evaluate the consolidation of limited partnerships, variable interests and similar entities. This standard will be effective for the first annual reporting period beginning after December 15, 2015 with early adoption permitted. The Company is evaluating the effect that ASU No. 2015-02 will have on its consolidated financial statements and related disclosures, but believes it will not have a material impact on its financial reporting.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the debt liability. This standard will be effective for the first annual reporting period beginning after December 15, 2015 with early adoption permitted. The adoption of this standard will only affect the presentation of the Company's consolidated balance sheet.

3. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2015 and December 31, 2014 consists of the following:

	September 30, 2015	December 31, 2014
Land	\$730,735	\$601,962
Buildings and improvements	3,603,600	3,295,233
Furniture, fixtures and equipment	691,523	596,879
Investment in hotel properties, gross	5,025,858	4,494,074
Accumulated depreciation	(1,200,043	) (1,065,518
Investment in hotel properties, net	\$3,825,815	\$3,428,556

As of September 30, 2015 and December 31, 2014, buildings and improvements included capital lease assets of \$186,711 and accumulated depreciation included amounts related to capital lease assets of \$19,571 and \$15,513, 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 \$46,080 and \$134,622 for the three and nine months ended September 30, 2015, respectively, and \$38,715 and \$115,573 for the three and nine months ended September 30, 2014, respectively.

Acquisitions

In connection with the acquisition of Hotel Vitale on April 2, 2014, the Company incurred acquisition transaction costs of zero and \$1,787 that were expensed as incurred during the three and nine months ended September 30, 2014, respectively, which expenses are included in the accompanying consolidated statements of operations and comprehensive income.

On April 30, 2014, the Company acquired a parcel of land located adjacent to the Company's Onyx Hotel in Boston, MA. The Company incurred transaction costs of zero and \$64 that were expensed as incurred during the three and nine months ended

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September 30, 2014, respectively, which expenses are included in the accompanying consolidated statements of operations and comprehensive income.

During the first quarter of 2015, the Company acquired 100% interests in two full-service hotels, each of which is leased to LHL. The Company recorded the acquisitions at fair value using model-derived valuations, with the estimated fair value recorded to investment in hotel properties and hotel working capital assets and liabilities. In connection with the acquisitions, the Company incurred acquisition transaction costs that were expensed as incurred. The following is a summary of the acquisitions:

Hotel Name	Acquisition Date	Number of Rooms	Location	Purchase Price	Manager	Acquisition Transaction Costs	
						For the three months ended September 30, 2015	For the nine months ended September 30, 2015
Park Central San Francisco	January 23, 2015	681	San Francisco, CA	\$350,000	Highgate Hotels	\$0	\$230
The Marker Waterfront Resort	March 16, 2015	96	Key West, FL	96,250	Highgate Hotels	0	214
Total for 2015 Acquisitions				\$446,250		0	444
Mezzanine Loan ⁽¹⁾						55	55
Total						\$55	\$499

⁽¹⁾ See “Note Receivable” below.

The sources of the funding for the January 23, 2015 acquisition were cash on hand and borrowings under the Company’s senior unsecured credit facility. The source of funding for the March 16, 2015 acquisition was borrowings under the Company’s senior unsecured credit facility. The Company has not yet finalized its determination of fair value for the 2015 acquisitions. A final determination of required fair value adjustments will be made during 2015. Total revenues and net income from the hotels acquired during 2015 of \$23,645 and \$3,399 for the three months ended September 30, 2015, respectively, and \$60,978 and \$7,841 for the nine months ended September 30, 2015, respectively, are included in the accompanying consolidated statements of operations and comprehensive income.

Dispositions

On June 17, 2014, the Company sold the Hilton Alexandria Old Town for \$93,380. This sale did not represent a strategic shift in the Company’s business plan or primary markets, and therefore, does not qualify as discontinued operations. The Company recognized a gain of zero and \$43,548 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2014, respectively. The sale of the property was recorded on the full accrual method.

On September 10, 2014, the Company sold the Hotel Viking for \$77,000. This sale did not represent a strategic shift in the Company’s business plan or primary markets, and therefore, does not qualify as discontinued operations. The Company recognized a gain of \$49,657 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2014. The sale of the property was recorded on the full accrual method. In conjunction with the sale of Hotel Viking, the Company executed a reverse 1031 exchange with Hotel Vitale, which was purchased on April 2, 2014. The

reverse 1031 exchange has no effect on the Company's GAAP financial reporting and does not have a material impact on the Company's tax positions and expected tax expense.

Note Receivable

On July 20, 2015, the Company provided a junior mezzanine loan (the "Mezzanine Loan") secured by pledges of equity interests in the entities that own the hotel properties, Shutters on the Beach and Casa Del Mar, in Santa Monica, CA. The Company entered into the Mezzanine Loan for a total purchase price of \$80,000 before closing costs. The Mezzanine Loan bears interest at a variable interest rate equal to LIBOR plus 7.75%, which rate was 7.96% as of September 30, 2015. Interest-only payments are to be received monthly with the option of prepayment, pursuant to certain terms and conditions. The Mezzanine Loan matures on August 9, 2017 and has five one-year extension options, subject to conditions. The Mezzanine Loan is subordinate to a \$235,000 first mortgage loan and a \$90,000 senior mezzanine loan secured by the properties that also mature on August 9, 2017.

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4. Long-Term Debt

Debt Summary

Debt as of September 30, 2015 and December 31, 2014 consisted of the following:

Debt	Interest Rate	Maturity Date	Balance Outstanding as of	
			September 30, 2015	December 31, 2014
Credit facilities				
Senior unsecured credit facility	Floating ^(a)	January 2018 ^(a)	\$380,000	\$0
LHL unsecured credit facility	Floating ^(b)	January 2018 ^(b)	0	0
Total borrowings under credit facilities			380,000	0
Term loans				
First Term Loan	Floating ^(c)	May 2019	177,500	177,500
Second Term Loan	Floating ^(c)	January 2019	300,000	300,000
Total term loans			477,500	477,500
Massport Bonds				
Hyatt Boston Harbor (taxable)	Floating ^(d)	March 2018	5,400	5,400
Hyatt Boston Harbor (tax exempt)	Floating ^(d)	March 2018	37,100	37,100
Total bonds payable			42,500	42,500
Mortgage loans				
Westin Copley Place	5.28%	September 2015 ^(e)	0	210,000
Westin Michigan Avenue	5.75%	April 2016 ^(f)	131,800	133,347
Indianapolis Marriott Downtown	5.99%	July 2016 ^(f)	96,467	97,528
The Roger	6.31%	August 2016 ^(f)	59,265	60,215
Westin Copley Place	Floating ^(g)	August 2018 ^(g)	225,000	0
Total mortgage loans			512,532	501,090
Total debt			\$1,412,532	\$1,021,090

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. As of

^(a) September 30, 2015, the rate, including the applicable margin, for the Company's outstanding LIBOR borrowings of \$200,000 and \$180,000 were 1.91% and 1.90%, respectively. There were no borrowings outstanding at December 31, 2014. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

Borrowings bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or ^(b) (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at September 30, 2015 and December 31, 2014. LHL has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

Term loans bear interest at floating rates equal to LIBOR plus an applicable margin. The Company entered into separate interest rate swap agreements for the full seven-year term of the First Term Loan (as defined below) and a ^(c) five-year term ending in August 2017 for the Second Term Loan (as defined below), resulting in fixed all-in interest rates at September 30, 2015 and December 31, 2014 of 3.62% and 2.38%, respectively, at the Company's current leverage ratio (as defined in the swap agreements).

^(d)

The Massport Bonds are secured by letters of credit issued by U.S. Bank National Association (“U.S. Bank”) that expire in September 2016. The letters of credit have two one-year extension options and are secured by the Hyatt Boston Harbor. The letters of credit cannot be extended beyond the Massport Bonds’ maturity date. The bonds bear interest based on weekly floating rates. The interest rates as of September 30, 2015 were 0.15% and 0.03% for the \$5,400 and \$37,100 bonds, respectively. The interest rates as of December 31, 2014 were 0.13% and 0.03% for the \$5,400 and \$37,100 bonds, respectively. The Company incurs an annual letter of credit fee of 1.35%.

- (e) The Company repaid the mortgage loan on June 1, 2015 through borrowings on its senior unsecured credit facility.
- (f) The Company intends to repay the mortgage loan upon maturity through either borrowings on its credit facilities, placement of corporate-level debt or proceeds from a property-level mortgage financing.

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The mortgage loan matures on August 14, 2018 with three 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 (g) 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). The interest rate as of September 30, 2015 was LIBOR plus 2.00%, which equaled 2.21%.

The mortgage loan allows for prepayments without penalty after one year, subject to certain terms and conditions. Future scheduled debt principal payments as of September 30, 2015 are as follows:

2015	\$1,238
2016	286,294
2017	0
2018	647,500
2019	477,500
Total debt	\$1,412,532

A summary of the Company's interest expense and weighted average interest rates for unswapped variable rate debt for the three and nine months ended September 30, 2015 and 2014 is as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Interest Expense:				
Interest incurred	\$12,735	\$14,003	\$39,479	\$41,545
Amortization of deferred financing costs	703	545	1,799	1,626
Capitalized interest	(188)	(49)	(488)	(128)
Interest expense	\$13,250	\$14,499	\$40,790	\$43,043

Weighted Average Interest Rates for Unswapped Variable Rate Debt:

Senior unsecured credit facility	1.89	%	1.86	%	1.89	%	1.86	%
LHL unsecured credit facility	1.90	%	1.85	%	1.88	%	1.86	%
Massport Bonds	0.05	%	0.46	%	0.06	%	0.45	%
Mortgage loan (Westin Copley Place)	2.20	%	N/A		2.20	%	N/A	

Credit Facilities

On January 8, 2014, the Company refinanced its \$750,000 senior unsecured credit facility with a syndicate of banks. The credit facility matures on January 8, 2018, 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 up to \$1,050,000. 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 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility.

On January 8, 2014, LHL also refinanced its \$25,000 unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. The LHL credit facility matures on January 8, 2018, 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 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the LHL credit facility. The Company's senior unsecured credit facility and LHL's unsecured credit facility contain certain financial covenants relating to net worth requirements, debt ratios and fixed charge coverage and other limitations that restrict the Company's ability to make distributions or other payments to its shareholders upon events of default.

Table of Contents**Term Loans**

On May 16, 2012, the Company entered into a \$177,500 unsecured term loan with a seven-year term maturing on May 16, 2019 (the “First Term Loan”). The First Term Loan bears interest at a variable rate, but was hedged to a fixed interest rate through May 16, 2019 based on the Company’s current leverage ratio (as defined in the swap agreements), which interest rate was 3.62% at September 30, 2015, for the full seven-year term (see “Derivative and Hedging Activities” below).

On January 8, 2014, the Company refinanced its \$300,000 unsecured term loan (the “Second Term Loan”). 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 up to \$500,000. The Second Term Loan has a five-year term maturing on January 8, 2019 and bears interest at variable rates, but was hedged to a fixed interest rate based on the Company’s current leverage ratio (as defined in the swap agreements), which interest rate was 2.38% at September 30, 2015, through August 2, 2017 (see “Derivative and Hedging Activities” below).

The Company’s term loans contain certain financial covenants relating to net worth requirements, debt ratios and fixed charge coverage and other limitations that restrict the Company’s ability to make distributions or other payments to its shareholders upon events of default.

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 on the effective portion of hedging instruments are reported in other comprehensive income (loss) (“OCI”). Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. Amounts reported in accumulated other comprehensive income (loss) (“AOCL”) 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. Effective May 16, 2012, the Company entered into three interest rate swap agreements with an aggregate notional amount of \$177,500 for the First Term Loan’s full seven-year term, 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 3.62% at September 30, 2015. Effective August 2, 2012, the Company entered into five interest rate swap agreements with an aggregate notional amount of \$300,000 for the Second Term Loan through August 2, 2017, 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 2.38% at September 30, 2015. 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 (loss) gain on outstanding derivative instruments in cash flow hedging relationships, for the three and nine months ended September 30, 2015 and 2014:

Amount of (Loss) Gain Recognized in OCI on Derivative Instruments	Location of Loss Reclassified from AOCL into Net Income	Amount of Loss Reclassified from AOCL into Net Income
(Effective Portion)	(Effective Portion)	(Effective Portion)

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	For the three months ended September 30,			For the three months ended September 30,	
	2015	2014		2015	2014
Derivatives in cash flow hedging relationships:					
Interest rate swaps	\$(4,245) \$1,551	Interest expense	\$1,071	\$1,113

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	Amount of Loss Recognized in OCI on Derivative Instruments	Location of Loss Reclassified from AOCL into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCL into Net Income (Effective Portion)
	(Effective Portion)	(Effective Portion)	(Effective Portion)
	For the nine months ended September 30, 2015		For the nine months ended September 30, 2015
	2014		2014

Derivatives in cash flow hedging relationships:

Interest rate swaps	\$(8,617)	\$(4,721)	Interest expense	\$3,210	\$3,297
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During the nine months ended September 30, 2015 and 2014, the Company did not have any hedge ineffectiveness or amounts that were excluded from the assessment of hedge effectiveness recorded in earnings.

As of September 30, 2015, there was \$4,657 in cumulative unrealized loss of which \$4,651 was included in AOCL and \$6 was attributable to noncontrolling interests. As of December 31, 2014, there was \$750 in cumulative unrealized gain of which \$748 was included in AOCL and \$2 was attributable to noncontrolling interests. The Company expects that approximately \$4,217 will be reclassified from AOCL and noncontrolling interests and recognized as a reduction to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of September 30, 2015.

Extinguishment of Debt

As discussed above, on January 8, 2014, the Company refinanced its senior unsecured credit facility and Second Term Loan and LHL refinanced its unsecured revolving credit facility. The refinancing arrangements for the senior unsecured credit facility and Second Term Loan were considered substantial modifications. The Company recognized a loss from extinguishment of debt of \$2,487, which is included in the accompanying consolidated statements of operations and comprehensive income. The loss from extinguishment of debt represents a portion of the unamortized deferred financing costs incurred when the original agreements were executed.

Mortgage Loans

The Company's mortgage loans are secured by the respective properties. The mortgages are non-recourse to the Company except for fraud or misapplication of funds.

On June 1, 2015, the Company repaid without fee or penalty the Westin Copley Place mortgage loan in the amount of \$210,000 plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in September 2015. On July 20, 2015, the Company entered into a new \$225,000 mortgage loan secured by the Westin Copley Place. The mortgage loan matures on August 14, 2018 with three 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). The mortgage loan allows for prepayments without penalty after one year, subject to certain terms and conditions.

The mortgage loans contain debt service coverage ratio tests related to the mortgaged properties. If the debt service coverage ratio for a specific property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel will 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.

Financial Covenants

Failure of the Company to comply with the financial covenants contained in its credit facilities, term loans and non-recourse secured mortgages 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 the financial 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

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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 September 30, 2015, 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, bonds payable or mortgage loans.

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 September 30, 2015 is as follows:

Lease Properties	Lease Type	Lease Expiration Date
Southernmost Beach Resort Key West (formerly Southernmost Hotel Collection) (Restaurant facility)	Ground lease	April 2019 ⁽¹⁾
Hyatt Boston Harbor	Ground lease	March 2026 ⁽²⁾
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 ⁽³⁾
Viceroy Santa Monica	Ground lease	September 2065
Westin Copley Place ⁽⁴⁾	Air rights lease	December 2077
The Liberty Hotel	Ground lease	May 2080
Indianapolis Marriott Downtown ⁽⁵⁾	Ground lease	June 2099 ⁽⁵⁾
Hotel Solamar	Ground lease	December 2102

⁽¹⁾ The Company can begin negotiating a renewal one year in advance of the lease expiration date.

⁽²⁾ The Company has options, subject to certain terms and conditions, to extend the ground lease for 51 years to 2077.

⁽³⁾ The Company has the option, subject to certain terms and conditions, to extend the ground lease for 14 years to 2070.

⁽⁴⁾ No payments are required through maturity.

⁽⁵⁾ Requires future ground rent payments of one dollar per year. The Company has options, subject to certain terms and conditions, to extend the ground lease for 50 years to 2149.

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 \$483 and \$1,463 for the three and nine months ended September 30, 2015, respectively, and \$498 and \$1,323 for the three and nine months ended September 30, 2014, respectively, which is included in total ground rent expense below.

The Roger, Harbor Court Hotel and Hotel Triton are subject to capital leases of land and building which expire in December 2044, April 2048 and January 2048, respectively. At acquisition, the estimated fair value of the remaining rent payments of \$4,892, \$18,424 and \$27,752, respectively, were recorded as capital lease obligations. These obligations, net of amortization, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

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Total ground rent expense for the three and nine months ended September 30, 2015 was \$4,491 and \$12,164, respectively. Total ground rent expense for the three and nine months ended September 30, 2014 was \$4,279 and \$11,019, 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.

Future minimum rent payments, including capital lease payments, (without reflecting future applicable Consumer Price Index increases) are as follows:

2015	\$3,120
2016	12,682
2017	12,952
2018	13,138
2019	13,114
Thereafter	602,619
	\$657,625

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 (a) certain non-routine repairs and maintenance to the hotels and (b) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company reserve this cash in separate accounts. As of September 30, 2015, \$20,946 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 September 30, 2015, the Company held \$26,038 in restricted cash reserves. Included in such amounts are (i) \$20,946 of reserve funds for future capital expenditures, (ii) \$2,883 deposited in mortgage escrow accounts pursuant to mortgage obligations to pre-fund a portion of certain operating expenses and debt payments and (iii) \$2,209 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 normal course of their 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.

6. Equity

Common Shares of Beneficial Interest

On January 1, 2015, the Company issued 11,682 common shares of beneficial interest and authorized an additional 4,183 deferred shares to the independent members of its Board of Trustees for their 2014 compensation. These common shares of beneficial interest were issued under the 2014 Plan. Additionally, the Company issued 9,757 common shares of beneficial interest, related to the resignation of a former trustee, for the second of five payouts of his accumulated deferred shares granted as compensation for years 1999 through 2013. These common shares of beneficial interest were issued under the 2009 Plan.

On January 1, 2015, the Company issued 108,779 nonvested shares with service conditions to executives related to the nonvested share awards with market conditions granted on January 26, 2012 (see Note 7 for additional details including vesting information). These common shares of beneficial interest were issued under the 2009 Plan.

On March 19, 2015, the Company issued 62,742 nonvested shares with service conditions to the Company's executives and employees. The nonvested shares will vest in three annual installments starting January 1, 2016, subject to continued employment. These common shares of beneficial interest were issued under the 2014 Plan.

On May 18, 2015, the Company issued 933 nonvested shares with service conditions to an employee of the Company. The nonvested shares will vest in three annual installments starting January 1, 2016, subject to continued employment. These common shares of beneficial interest were issued under the 2014 Plan.

On February 20, 2013, the Company entered into an equity distribution agreement (the “2013 Agreement”) with Raymond James & Associates, Inc. (the “Manager”). Under the terms of the 2013 Agreement, the Company may issue from time to time through or to the Manager, as sales agent or principal, the Company’s common shares of beneficial interest with aggregate gross proceeds totaling up to \$250,000. The offering of the Company’s common shares of beneficial interest under the 2013 Agreement will terminate upon the earlier of (i) the sale of common shares having an aggregate offering price of \$250,000 or (ii) the termination of the 2013 Agreement by the Manager or Company. No shares were sold year-to-date 2015. As of September 30, 2015, the Company had availability under the 2013 Agreement to issue and sell common shares of beneficial interest having an aggregate offering price of up to \$230,057. The Company is not currently authorized by its Board of Trustees to issue and sell common shares under the 2013 Agreement. If authorized by its Board of Trustees, the Company may resume using the 2013 Agreement on a future date.

Common Dividends

The Company paid the following dividends on common shares/units during the nine months ended September 30, 2015:

Dividend per Share/Unit ⁽¹⁾	For the Quarter Ended	Record Date	Payable Date
\$0.38	December 31, 2014	December 31, 2014	January 15, 2015
\$0.38	March 31, 2015	March 31, 2015	April 15, 2015
\$0.45	June 30, 2015	June 30, 2015	July 15, 2015

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

Treasury Shares

Treasury shares are accounted for under the cost method. During the nine months ended September 30, 2015, the Company received 55,577 common shares of beneficial interest related to employees surrendering shares to pay minimum withholding taxes at the time nonvested shares vested and forfeiting nonvested shares upon resignation. The Company’s Board of Trustees previously authorized a share repurchase program (the “Repurchase Program”) to acquire up to \$100,000 of the Company’s common shares of beneficial interest, with repurchased shares recorded at cost in treasury. In August 2015, the Company repurchased 184,742 common shares of beneficial interest under the Repurchase Program for a total of \$5,697, including commissions of \$6. As of September 30, 2015, the Company had availability under the Repurchase Program to acquire up to \$69,807 of common shares of beneficial interest. The Company is currently authorized by its Board of Trustees to repurchase or offer to repurchase any common shares. During the nine months ended September 30, 2015, the Company re-issued 58,064 treasury shares related to the grants of nonvested shares.

At September 30, 2015, there were 186,283 common shares of beneficial interest in treasury.

Preferred Shares

On July 3, 2014, the Company redeemed the remaining 2,348,888 7 ¼% Series G Cumulative Redeemable Preferred Shares (the “Series G Preferred Shares”) for \$58,722 (\$25.00 per share) plus accrued and unpaid dividends through the redemption date, July 3, 2014, of \$1,100. The redemption value of the Series G Preferred Shares exceeded their carrying value by \$951, of which \$9 and \$951 are included in the determination of net income attributable to common shareholders for the three and nine months ended September 30, 2014, respectively. The \$951 represents the offering costs related to the redeemed Series G Preferred Shares.

The following preferred shares of beneficial interest were outstanding as of September 30, 2015:

Security Type	Number of Shares
7 ½% Series H Preferred Shares	2,750,000
6 % Series I Preferred Shares	4,400,000

The 7 ½% Series H Cumulative Redeemable Preferred Shares (the “Series H Preferred Shares”) and the 6 % Series I Cumulative Redeemable Preferred Shares (the “Series I Preferred Shares”) (collectively, the “Preferred Shares”) rank

senior to

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the common shares of beneficial interest 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 of beneficial interest unless it has also paid (or set aside for payment) the full cumulative distributions on the Preferred Shares for all past dividend periods and, with respect to the Series H Preferred Shares, for the current dividend period. 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 are the offering costs. In addition, the Company is not required to set aside funds to redeem the Preferred Shares.

The Company may not optionally redeem the Series H Preferred Shares and Series I Preferred Shares prior to January 24, 2016 and March 4, 2018, respectively, except in limited circumstances relating to the Company's continuing qualification as a REIT or as discussed below. After those dates, the Company may, at its option, redeem the Series H Preferred Shares and 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 date of redemption. In addition, upon the occurrence of a change of control (as defined in the Company's charter), the result of which the Company's common shares of beneficial interest and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE MKT LLC or the NASDAQ Stock Market, or any successor exchanges, the Company may, at its option, redeem the 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 and including 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 Series H Preferred Shares and Series I Preferred Shares have the right to convert some or all of their shares into a number of the Company's common shares of beneficial interest based on a defined formula subject to a cap of 4,680,500 common shares and 8,835,200 common shares, respectively.

Preferred Dividends

The Company paid the following dividends on preferred shares during the nine months ended September 30, 2015:

Security Type	Dividend per Share ⁽¹⁾	For the Quarter Ended	Record Date	Payable Date
7 ½% Series H	\$0.47	December 31, 2014	January 1, 2015	January 15, 2015
6 % Series I	\$0.40	December 31, 2014	January 1, 2015	January 15, 2015
7 ½% Series H	\$0.47	March 31, 2015	April 1, 2015	April 15, 2015
6 % Series I	\$0.40	March 31, 2015	April 1, 2015	April 15, 2015
7 ½% Series H	\$0.47	June 30, 2015	July 1, 2015	July 15, 2015
6 % Series I	\$0.40	June 30, 2015	July 1, 2015	July 15, 2015

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

Noncontrolling Interests of Common Units in Operating Partnership

On May 13, 2015, the Company issued an aggregate of 151,077 common shares of beneficial interest in connection with the redemption of 151,077 common units of limited partnership interest held by certain limited partners of the Operating Partnership. These common shares of beneficial interest were issued in reliance on an exemption from registration provided by Section 4(2) under the Securities Act of 1933, as amended, and Regulation D promulgated thereunder. The Company relied on the exemption under Section 4(2) based upon factual representations given by the limited partners who received the common shares of beneficial interest.

As of September 30, 2015, 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 September 30, 2015, approximately \$4,123 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 \$4,123 is based on the Company's closing common share price of \$28.39 on September 30, 2015, 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 beneficial interest of the Company.

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The following schedule presents the effects of changes in the Company's ownership interest in the Operating Partnership on the Company's equity:

	For the nine months ended September 30,	
	2015	2014
Net income attributable to common shareholders	\$ 99,927	\$ 174,802
Increase in additional paid-in capital from adjustments to noncontrolling interests of common units in Operating Partnership	14	24
Change from net income attributable to common shareholders and adjustments to noncontrolling interests	\$ 99,941	\$ 174,826

7. Equity Incentive Plan

The common shareholders approved the 2014 Plan at the 2014 Annual Meeting of Shareholders held on May 7, 2014, which 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 of beneficial interest 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 September 30, 2015, there were 2,801,294 common shares available for future grant under the 2014 Plan. Upon the approval of the 2014 Plan by the common shareholders on May 7, 2014, 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 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 stock 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 September 30, 2015 is as follows:

	Number of Shares	Weighted - Average Grant Date Fair Value
Nonvested at January 1, 2015	256,379	\$31.00
Granted	63,675	38.82
Vested	(78,483)) 28.60
Forfeited	(12,736)) 27.31

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Nonvested at September 30, 2015 ⁽¹⁾	228,835	\$33.29
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(1) Amount excludes 84,401 share awards with market conditions which were earned but nonvested due to a service condition as of September 30, 2015.

As of September 30, 2015 and December 31, 2014, there were \$4,732 and \$5,113, respectively, of total unrecognized compensation costs related to nonvested share awards with service conditions. As of September 30, 2015 and December 31, 2014,

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these costs were expected to be recognized over a weighted-average period of 1.5 and 1.9 years, respectively. The total intrinsic value of shares vested (calculated as number of shares multiplied by vesting date share price) during the three and nine months ended September 30, 2015 was zero and \$3,152, respectively, and during the three and nine months ended September 30, 2014 was zero and \$5,602, respectively. Compensation costs (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 \$818 and \$2,505 for the three and nine months ended September 30, 2015, respectively, and \$740 and \$2,220 for the three and nine months ended September 30, 2014, respectively.

Nonvested Share Awards with Market or Performance Conditions

On January 26, 2012, the Company's Board of Trustees granted a target of 79,823 nonvested share awards with market conditions to executives. On January 1, 2015, the executives earned 136.3% of their 79,823 target number of shares, or 108,779 shares. Of the shares earned, 36,261 shares vested immediately on January 1, 2015, and the remaining 72,518 shares will vest in equal amounts on January 1, 2016 and January 1, 2017 based on continued employment. The executives received a cash payment of \$334 on the earned shares equal to the value of all dividends paid on common shares from January 1, 2012 until the determination date, January 1, 2015. As of January 1, 2015, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares.

On March 19, 2015, the Company's Board of Trustees granted a target of 61,660 nonvested share awards with either market or performance conditions to executives (the "March 19, 2015 Awards"). The actual amounts of the shares awarded with respect to 30,829 of the 61,660 shares will be determined on January 1, 2018, based on the performance measurement period of January 1, 2015 through December 31, 2017, in accordance with the terms of the agreements.

The actual amounts of the shares awarded with respect to the remaining 30,831 of the 61,660 shares will be determined on July 1, 2018, based on the performance measurement period of July 1, 2015 through June 30, 2018, in accordance with the terms of the agreements. The actual amounts of the 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 amounts of the awards 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 on or about January 1, 2018 and July 1, 2018, 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 30,829 shares, amortization commenced on March 19, 2015, the beginning of the requisite service period, and, with respect to 30,831 shares, amortization commenced on July 1, 2015, the beginning of the requisite service period.

The terms stipulated in the March 19, 2015 Awards used to determine the total amount of the shares consist of the following three tranches: (1) a comparison of the Company's total return to the total returns' of seven 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 seven 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 19, 2015 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 2015 with an insignificant cumulative adjustment to compensation cost recorded. The third tranche is based on "return on 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.

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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 19, 2015 Awards (performance period starting January 1, 2015)						
Target amounts	24.40	% 0.99	% N/A	N/A	\$ 29.25	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 38.84	33.30 %
Peer companies	24.40	% 0.99	% N/A	1.011	\$ 40.69	33.30 %
March 19, 2015 Awards (performance period starting July 1, 2015)						
Target amounts	24.40	% 0.99	% N/A	N/A	\$ 31.86	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 38.84	33.30 %
Peer companies	24.40	% 0.99	% N/A	1.011	\$ 41.00	33.30 %

A summary of the Company's nonvested share awards with either market or performance conditions as of September 30, 2015 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2015	311,625	\$33.62
Granted ⁽¹⁾	90,616	36.38
Vested	(53,654)	) 35.99
Forfeited	0	0.00
Nonvested at September 30, 2015	348,587	\$33.98

⁽¹⁾ Amount includes an additional 28,956 shares issued on January 1, 2015 from the January 26, 2012 grant, which were earned in excess of the target amount.

As of September 30, 2015 and December 31, 2014, there were \$6,496 and \$6,637, respectively, of total unrecognized compensation costs related to nonvested share awards with market or performance conditions. As of September 30, 2015 and December 31, 2014, these costs were expected to be recognized over a weighted-average period of 1.8 and 2.0 years, respectively. As of September 30, 2015 and December 31, 2014, there were 308,069 and 254,415 share awards with market or performance conditions vested, respectively. Additionally, there were 84,401 and 29,276 nonvested share awards with market or performance conditions earned but nonvested due to a service condition as of September 30, 2015 and December 31, 2014, 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 \$1,154 and \$3,205 for the three and nine months ended September 30, 2015, respectively, and \$924 and \$2,578 for the three and nine months ended September 30, 2014, respectively.

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8. 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		For the nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
General and administrative	\$26,066	\$22,270	\$75,795	\$64,965
Sales and marketing	18,445	15,832	56,290	46,740
Repairs and maintenance	10,090	9,417	29,564	27,939
Management and incentive fees	10,570	10,813	29,625	27,961
Utilities and insurance	9,235	8,730	26,341	24,601
Franchise fees	2,802	2,200	7,133	6,441
Other expenses	862	460	2,201	1,277
Total other indirect expenses	\$78,070	\$69,722	\$226,949	\$199,924

As of September 30, 2015, LHL leased all 47 hotels owned by the Company as follows:

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	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.	The Marker San Francisco (formerly Hotel Monaco San Francisco)	San Francisco, CA
9.	Hotel Triton	San Francisco, CA
10.	Hotel Vitale	San Francisco, CA
11.	Park Central San Francisco	San Francisco, CA
12.	Serrano Hotel	San Francisco, CA
13.	Villa Florence	San Francisco, CA
14.	Chaminade Resort and Conference Center	Santa Cruz, CA
15.	Viceroy Santa Monica	Santa Monica, CA
16.	Chamberlain West Hollywood	West Hollywood, CA
17.	Le Montrose Suite Hotel	West Hollywood, CA
18.	Le Parc Suite Hotel	West Hollywood, CA
19.	The Grafton on Sunset	West Hollywood, CA
20.	The Donovan	Washington, D.C.
21.	Hotel George	Washington, D.C.
22.	Hotel Helix	Washington, D.C.
23.	Hotel Madera	Washington, D.C.
24.	Hotel Palomar, Washington, DC	Washington, D.C.
25.	Hotel Rouge	Washington, D.C.
26.	Sofitel Washington, DC Lafayette Square	Washington, D.C.
27.	The Liaison Capitol Hill	Washington, D.C.
28.	Topaz Hotel	Washington, D.C.
29.	Southernmost Beach Resort Key West	Key West, FL
30.	The Marker Waterfront Resort	Key West, FL
31.	Hotel Chicago	Chicago, IL
32.	Westin Michigan Avenue	Chicago, IL
33.	Indianapolis Marriott Downtown	Indianapolis, IN
34.	Hyatt Boston Harbor	Boston, MA
35.	Onyx Hotel	Boston, MA
36.	The Liberty Hotel	Boston, MA
37.	Westin Copley Place	Boston, MA
38.	Gild Hall	New York, NY
39.	The Roger	New York, NY
40.	Park Central Hotel New York (shared lease with WestHouse Hotel New York)	New York, NY
41.	WestHouse Hotel New York	New York, NY
42.	The Heathman Hotel	Portland, OR
43.	Embassy Suites Philadelphia - Center City	Philadelphia, PA
44.	Westin Philadelphia	Philadelphia, PA
45.	Lansdowne Resort	Lansdowne, VA
46.	Alexis Hotel	Seattle, WA

47. Hotel Deca

Seattle, WA

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9. Income Taxes

Income tax (benefit) expense was comprised of the following for the three and nine months ended September 30, 2015 and 2014:

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
LHL's income tax (benefit) expense	\$(463	) \$2,824	\$(231	) \$746
Operating Partnership's income tax (benefit) expense	(27	) 173	447	742
Total income tax (benefit) expense	\$(490	) \$2,997	\$216	\$1,488

The Company has estimated LHL's income tax expense for the nine months ended September 30, 2015 by applying an estimated combined federal and state effective tax rate of 38.3% to LHL's net income of \$567. From time to time, the Company may be subject to federal, state or local tax audits in the normal course of business.

10. 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:

Description	Consolidated Balance Sheet Location	Fair Value Measurements at	
		September 30, 2015	December 31, 2014
		Using Significant Other Observable Inputs (Level 2)	
Derivative interest rate instruments	Prepaid expenses and other assets	\$0	\$1,520
Derivative interest rate instruments	Accounts payable and accrued expenses	\$4,657	\$770

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 September 30, 2015 and December 31, 2014:

	September 30, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Note receivable	\$80,000	\$80,000	\$0	\$0
Borrowings under credit facilities	\$380,000	\$381,219	\$0	\$0
Term loans	\$477,500	\$480,763	\$477,500	\$476,996
Bonds payable	\$42,500	\$42,500	\$42,500	\$42,500
Mortgage loans	\$512,532	\$516,312	\$501,090	\$510,250

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loans using interest rates ranging from 1.5% to 4.4% as of September 30, 2015 and from 1.6% to 4.3% as of December 31, 2014 with a weighted average effective interest rate of 2.2% and 2.9% as of September 30, 2015 and December 31, 2014, respectively. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company's. At September 30, 2015, the carrying amount of the note receivable was representative of its fair value due to the short-term nature and recent acquisition of this instrument. At September 30, 2015 and December 31, 2014, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued expenses were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

11. Earnings Per Common Share

The limited partners' outstanding common units in the Operating Partnership (which may be converted to common shares of beneficial interest) 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 awards 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.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income attributable to common shareholders	\$44,424	\$98,164	\$99,927	\$174,802
Dividends paid on unvested restricted shares	(141	) (101	) (401	) (304
Undistributed earnings attributable to unvested restricted shares	0	(153	) 0	(201
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$44,283	\$97,910	\$99,526	\$174,297
Denominator:				
Weighted average number of common shares - basic	112,731,358	103,798,853	112,702,693	103,730,007
Effect of dilutive securities:				
Compensation-related shares	405,926	334,700	411,166	329,023
Weighted average number of common shares - diluted	113,137,284	104,133,553	113,113,859	104,059,030
Earnings per Common Share - Basic:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.39	\$0.94	\$0.88	\$1.68
Earnings per Common Share - Diluted:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.39	\$0.94	\$0.88	\$1.67

12. Supplemental Information to Statements of Cash Flows

	For the nine months ended September 30,	
	2015	2014
Interest paid, net of capitalized interest	\$39,911	\$41,715
Interest capitalized	488	128
Income taxes paid, net	3,272	894
Increase in distributions payable on common shares	8,464	9,944
Decrease in distributions payable on preferred shares	0	(1,064
Redemption of common units for common shares	3,400	0
Write-off of fully amortized deferred financing costs	131	273
Decrease in accrued capital expenditures	(563	) (2,341
Grant of nonvested shares and awards to employees and executives, net	5,188	6,921
Issuance of common shares for Board of Trustees compensation	691	602
In conjunction with the sale of properties, the Company disposed of the following assets and liabilities:		
Investment in properties, net of closing costs	\$0	\$167,921
Other assets	0	1,397

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Liabilities	0	(1,480)
Sale of properties	\$0	\$167,838	
In conjunction with the acquisition of properties, the Company assumed the following assets and liabilities:			
Investment in properties (after credits at closing)	\$(445,734	) \$(129,916)
Other assets	(1,897) (1,033)
Liabilities	8,474	3,947	
Acquisition of properties	\$(439,157) \$(127,002)

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13. Subsequent Events

The Company paid the following common and preferred dividends subsequent to September 30, 2015:

Security Type	Dividend per Share/Unit ⁽¹⁾	For the Quarter Ended	Record Date	Payable Date
Common Shares/Units	\$0.45	September 30, 2015	September 30, 2015	October 15, 2015
7 ½% Series H Preferred Shares	\$0.47	September 30, 2015	October 1, 2015	October 15, 2015
6 % Series I Preferred Shares	\$0.40	September 30, 2015	October 1, 2015	October 15, 2015

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

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 statements in this report include, among others, statements about the Company's business strategy, including its acquisition and development strategies, industry trends, estimated revenues and expenses, ability to realize deferred tax assets and expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital). You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond 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:

- risks associated with the hotel industry, including competition, increases in wages, energy costs and other operating costs, potential unionization, 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
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the risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and subsequent Quarterly Reports on Form 10-Q, 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

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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.

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 September 30, 2015, the Company owned interests in 47 hotels with over 12,000 guest rooms located in 10 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 2015 and December 2017. 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., a Delaware limited partnership (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 September 30, 2015. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at September 30, 2015.

The Company measures hotel performance by evaluating financial metrics such as room revenue per available room ("RevPAR"), funds from operations attributable to common shareholders and unitholders ("FFO") and earnings before interest, taxes, depreciation and amortization ("EBITDA"). The Company evaluates the hotels in its portfolio and potential acquisitions using these metrics to determine each portfolio hotel's contribution or acquisition hotel's 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.

Third Quarter Overview

During the third quarter of 2015, the Company's hotels continued to operate within a favorable environment. The economic indicators that the Company tracks were generally encouraging. During the quarter, consumer confidence remained at a high level, signifying elevated consumer optimism. Unemployment dropped to 5.1%, which is the lowest point since April 2008. Enplanements have been steady to slightly up thus far during 2015. Only one of the economic indicators that the Company tracks, corporate profits, has weakened this year, as reported for the second quarter and thus far for the third quarter. The U.S. lodging industry performed well during the quarter. Industry demand grew 2.5%, against only an 1.2% supply increase. As a result, industry-wide pricing was strong, leading to average daily rate ("ADR") growth of 4.5%. The Company's portfolio benefited from the operating environment, and RevPAR increased during the third quarter of 2015, excluding the impact from the hotel workers' union (the "Union") disruption at the Park Central Hotel New York and WestHouse Hotel New York, which is discussed below. During the quarter, the Company's FFO per diluted share/unit decreased year-over-year due to the Union disruption at Park

Central Hotel New York and WestHouse Hotel New York. This negative impact was partially offset by improvements in the performance of its hotel portfolio and additional EBITDA generated from hotels acquired during 2014 and 2015. The Company's third quarter EBITDA decreased primarily due to a \$49.7 million gain on the sale of Hotel Viking during the third quarter of 2014. The Company's year-to-date EBITDA also decreased due to a \$43.5 million gain on the sale of Hilton Alexandria Old Town during the second quarter of 2014.

For the third quarter of 2015, the Company had net income attributable to common shareholders of \$44.4 million, or \$0.39 per diluted share. FFO was \$90.7 million, or \$0.80 per diluted share/unit (based on 113,282,507 weighted average shares and units outstanding during the three months ended September 30, 2015) and EBITDA was \$106.5 million.

The Company transitioned management companies at three of its hotels in San Francisco in July 2015. As a result of these transitions, in late August, the Union alleged health and safety violations at two of the Company's hotels in Manhattan: Park Central Hotel New York and WestHouse Hotel New York. The Company believes these allegations were a targeted attack against

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the Company related to the three hotels in San Francisco. Despite the fact that neither hotel has received any New York City or New York State health or safety violations during or since the time the allegations began, both hotels had no choice but to test against all claims.

In order to adequately test for these alleged violations, the Park Central Hotel New York and WestHouse Hotel New York were forced to close many of their available rooms during the final six weeks of the third quarter and for the first three weeks of the fourth quarter. As a result, during September, both hotels combined ran 14.5% occupancy and their RevPAR declined by 85.1% compared to the prior year.

In order to resolve the dispute at the Park Central Hotel New York and WestHouse Hotel New York, the Company reached an agreement with the Union, and as of October 22, both hotels are back to normal operations. Pursuant to the agreement, the Company agreed that two of its hotels in San Francisco are subject to card check neutrality, which will be effective in phases over the next year and a half. In return, the Company received concessions from the Union at both of these hotels as well as certain hotels in other markets.

The temporary interruption at the Park Central Hotel New York and WestHouse Hotel New York negatively impacted the Company's portfolio-wide third quarter results, decreasing RevPAR by 320 basis points based on forecasted occupancy and rate levels at the hotels.

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

On July 20, 2015, the Company provided a junior mezzanine loan (the "Mezzanine Loan") secured by pledges of equity interests in the entities that own the hotel properties, Shutters on the Beach and Casa Del Mar, in Santa Monica, CA. The Company entered into the Mezzanine Loan for a total purchase price of \$80.0 million before closing costs. The Mezzanine Loan bears interest at a variable interest rate equal to LIBOR plus 7.75%, which rate was 7.96% as of September 30, 2015. Interest-only payments are to be received monthly with the option of prepayment, pursuant to certain terms and conditions. The Mezzanine Loan matures on August 9, 2017 and has five one-year extension options, subject to conditions. The Mezzanine Loan is subordinate to a \$235.0 million first mortgage loan and a \$90.0 million senior mezzanine loan secured by the properties that also mature on August 9, 2017.

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 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, 2014 for other critical accounting policies and estimates of the Company.

Comparison of the Three Months Ended September 30, 2015 to the Three Months Ended September 30, 2014

The economic environment was favorable in the third quarter and the U.S. lodging industry produced strong performance, even though the growth during the quarter was more uneven than it was during recent quarters. Industry demand increased during the third quarter of 2015 compared to the same period in 2014, while supply growth was more limited. As a result, industry-wide occupancy increased, enabling operators to increase pricing and grow industry ADR. Within the Company’s hotel portfolio, ADR

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increased by 0.3%, while occupancy declined by 2.7%, which resulted in a RevPAR decline of 2.4% in the quarter compared to the third quarter of 2014. As adjusted to exclude the negative impact from the temporary interruption at the Park Central Hotel and WestHouse Hotel New York discussed above, the Company estimates that pro forma RevPAR for the portfolio increased by 0.8%.

Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, increased \$20.5 million from \$306.7 million in 2014 to \$327.2 million in 2015. This increase is due primarily to the hotel operating revenues generated from the 2014 and 2015 hotel acquisitions, which consist of the acquisitions of The Heathman Hotel, Park Central San Francisco and The Marker Waterfront Resort (collectively, the “Fourth Quarter 2014 and First Quarter 2015 Acquisition Properties”). The Fourth Quarter 2014 and First Quarter 2015 Acquisition Properties, which are not comparable year-over-year, contributed \$27.3 million to the increase in hotel operating revenues. Additionally, the effects of the moderately improving U.S. economy, which resulted in a 1.1% increase in RevPAR across the portfolio excluding the Hotel Viking, which was disposed of on September 10, 2014, and the Park Central Hotel New York and WestHouse Hotel New York, attributable to a 2.0% increase in ADR, partially offset by a 0.8% decrease in occupancy, contributed to the increase in hotel operating revenues.

The following hotels experienced significant increases in total room, food and beverage and other operating department revenues primarily as a result of the effects of the moderately improving economy:

- \$2.0 million increase from Westin Copley Place;
- \$1.3 million increase from Hyatt Boston Harbor;
- \$1.0 million increase from L’Auberge Del Mar;
- \$0.9 million increase from Hotel Chicago; and
- \$0.9 million increase from The Hilton San Diego Resort and Spa.

These increases are partially offset by a \$5.4 million decrease related to the sale of the Hotel Viking. Additionally, total room, food and beverage and other operating department revenues significantly decreased by \$8.0 million at the Park Central Hotel New York and WestHouse Hotel New York due to the disruptive Union activity at the hotels. Hotel operating revenue from Lansdowne Resort decreased by \$1.0 million due to lower group business and slightly lower occupancy for the period.

Hotel operating revenues across the remainder of the portfolio remained relatively constant, increasing a net \$1.5 million across 36 additional hotels in the portfolio.

Other Income

Other income increased \$1.3 million from \$1.3 million in 2014 to \$2.6 million in 2015 primarily due to increased insurance gains from insurance proceeds related to minor property damage at various properties.

Hotel Operating Expenses

Hotel operating expenses increased \$12.8 million from \$174.8 million in 2014 to \$187.6 million in 2015. This overall increase is primarily due to \$15.6 million from the results of the Fourth Quarter 2014 and First Quarter 2015 Acquisition Properties, which are not comparable year-over-year.

The overall increase is partially offset by a \$2.5 million decrease related to the sale of the Hotel Viking. Additionally, total room, food and beverage and other direct and other indirect expenses decreased by \$1.1 million at the Park Central Hotel New York and WestHouse Hotel New York reflecting the decreased revenue due to the disruptive Union activity at the hotels.

Hotel operating expenses across the remainder of the portfolio remained relatively constant, increasing a net \$0.8 million across the 42 additional hotels in the portfolio. Cost saving initiatives throughout the portfolio resulted in

decreased operating expenses at selected properties, which offset any expense increases incurred in the period.

Depreciation and Amortization

Depreciation and amortization expense increased \$7.4 million from \$38.8 million in 2014 to \$46.2 million in 2015. Of the increase, \$3.4 million is attributable to the Fourth Quarter 2014 and First Quarter 2015 Acquisition Properties, which are not comparable year-over-year. Depreciation and amortization expense increased a net \$4.2 million across the remaining hotels in the portfolio due to the depreciation of new assets placed into service reflecting the Company's recent renovation activity. These increases are partially offset by a \$0.2 million decrease related to the sale of the Hotel Viking, which is not comparable year-over-year.

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Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses increased \$3.1 million from \$13.9 million in 2014 to \$17.0 million in 2015. This increase is primarily due to \$1.5 million from the Fourth Quarter 2014 and First Quarter 2015 Acquisition Properties, which are not comparable year-over-year. The increase is partially offset by a \$0.2 million decrease in real estate taxes, personal property taxes and insurance expense attributable to the sale of the Hotel Viking, which is also not comparable year-over-year. Real estate taxes and personal property taxes increased by \$1.9 million across the remaining hotels in the portfolio due primarily to increased property values or tax rates at certain properties, primarily the two Chicago properties, which were slightly offset by successful real estate tax appeals. Insurance expense decreased by \$0.1 million reflecting slightly lower premiums throughout the portfolio.

Ground Rent

Ground rent increased \$0.2 million from \$4.3 million in 2014 to \$4.5 million in 2015. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance. The hotels subject to ground leases increased a net \$0.2 million due to improved operating results at these properties.

General and Administrative

General and administrative expense decreased \$0.1 million from \$6.3 million in 2014 to \$6.2 million in 2015 due primarily to decreased professional fees.

Acquisition Transaction Costs

Acquisition transaction costs of an immaterial amount in 2015 relate to the placing of the Mezzanine Loan.

Other Expenses

Other expenses increased \$8.5 million from \$0.6 million in 2014 to \$9.1 million in 2015 due primarily to an increase of \$4.6 million in one-time expenses associated with the alleged health and safety claims by the Union at the Park Central Hotel New York and WestHouse Hotel New York. These expenses include guest relocation expenses, clean up, legal and payroll. A \$2.7 million increase in management transition expenses, severance and pre-opening costs in 2015 was incurred primarily at four of the Company's San Francisco properties. In addition, losses from property damage, which are largely covered by insurance proceeds, increased \$0.7 million, and retail lease expense and miscellaneous expense increased a combined \$0.5 million.

Interest Income

Interest income increased \$1.3 million from an immaterial amount in 2014 to \$1.3 million in 2015 as a result of the interest income earned on the Mezzanine Loan, which was acquired in July 2015.

Interest Expense

Interest expense decreased \$1.2 million from \$14.5 million in 2014 to \$13.3 million in 2015 due to a decrease in the Company's weighted average interest rate, partly offset by an increase in the weighted average debt outstanding. The Company's weighted average debt outstanding increased from \$1.32 billion in 2014 to \$1.47 billion in 2015 due primarily to borrowings for the following:

- additional borrowings to purchase the Fourth Quarter 2014 and First Quarter 2015 Acquisition Properties;
- additional borrowings to redeem the 7 ¼% Series G Cumulative Redeemable Preferred Shares (the "Series G Preferred Shares") in July 2014; and
- additional borrowings to finance other capital improvements during 2014 and 2015.

The above borrowings were partially offset by paydowns with proceeds from the following:

- the sale of Hotel Viking in September 2014;
- the December 2014 common share offering; and
- positive operating results from the hotel properties.

The Company's weighted average interest rate, including the effect of capitalized interest, decreased from 4.1% in 2014 to 3.3% in 2015. This decrease is due in part to the repayment of the Westin Copley Place 5.28% fixed rate mortgage loan in June 2015 and replacing it with a variable rate mortgage loan on Westin Copley Place in July 2015, which had a rate of 2.21% as of September 30, 2015. Interest capitalized on renovations increased from an immaterial amount in 2014 to \$0.2 million in 2015 primarily due to renovations at various hotels.

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Income Tax Benefit

Income tax changed by \$3.5 million from an income tax expense of \$3.0 million in 2014 to an income tax benefit of \$0.5 million in 2015. This change is the result of a decrease in LHL's net income before income tax expense of \$8.9 million from \$9.0 million in 2014 to \$0.1 million in 2015. The 2015 income tax expense was offset by the impact of the finalization and related adjustments of the 2014 federal and state tax returns during the 2015 period. For the quarter ended September 30, 2015, LHL's income tax expense was calculated using an estimated combined federal and state effective tax rate of 38.3%.

Gain on Sale of Property

The gain on sale of property of \$49.7 million relates to the sale of Hotel Viking on September 10, 2014.

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 September 30, 2015, third party limited partners held 0.1% of the common units in the Operating Partnership.

Distributions to Preferred Shareholders

Distributions to preferred shareholders remain the same at \$3.0 million in 2014 and 2015.

Issuance Costs of Redeemed Preferred Shares

Issuance costs of redeemed preferred shares of an immaterial amount in 2014 represent the offering costs related to the remaining Series G Preferred Shares, which were all redeemed on July 3, 2014. 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 Nine Months Ended September 30, 2015 to the Nine Months Ended September 30, 2014

Industry travel was stronger during the nine months ended September 30, 2015 compared to the same period of the prior year. Demand improvements and limited supply growth led to occupancy gains. The occupancy gains have encouraged operators to increase pricing and resulted in ADR growth during the same period. With respect to the Company's hotels, ADR grew 2.8% during the nine months ended September 30, 2015, while occupancy decreased 0.8%, which resulted in RevPAR improvement of 2.0% year-over-year. As adjusted to exclude the negative impact from the temporary interruption at the Park Central Hotel and WestHouse Hotel New York discussed above, the Company estimates that pro forma RevPAR for the portfolio increased by 3.2%.

Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, increased \$82.5 million from \$833.7 million in 2014 to \$916.2 million in 2015. This increase is due primarily to the hotel operating revenues generated from the 2014 and 2015 hotel acquisitions, which consist of the acquisitions of Hotel Vitale, The Heathman Hotel, Park Central San Francisco and The Marker Waterfront Resort (collectively, the "2014 and 2015 Acquisition Properties"). The 2014 and 2015 Acquisition Properties, which are not comparable year-over-year, contributed \$79.6 million to the increase in hotel operating revenues. Additionally, the effects of the moderately improving U.S. economy, which resulted in a 3.6% increase in RevPAR across the portfolio, excluding the Hilton Alexandria Old Town and Hotel Viking (collectively, the "2014 Disposition Properties") and the Park Central Hotel New York and WestHouse Hotel New York, attributable to a 4.1% increase in ADR, partially offset by a 0.5% decrease in occupancy, contributed to the increase in hotel operating revenues.

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The following hotels experienced significant increases in total room, food and beverage and other operating department revenues primarily as a result of the effects of the moderately improving economy:

- \$4.9 million increase from Westin Copley Place;
- \$3.1 million increase from Hotel Chicago;
- \$2.8 million increase from L'Auberge Del Mar;
- \$2.6 million increase from Southernmost Beach Resort Key West;
- \$2.3 million increase from Hyatt Boston Harbor;

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\$2.2 million increase from The Hilton San Diego Resort and Spa; and

\$1.6 million increase from San Diego Paradise Point Resort and Spa.

These increases are partially offset by a \$19.0 million decrease related to the sale of the 2014 Disposition Properties. Additionally, total room, food and beverage and other operating department revenues significantly decreased by \$7.2 million at the Park Central Hotel New York and WestHouse Hotel New York due to the disruptive Union activity at the hotels. Hotel operating revenue from Westin Philadelphia decreased by \$1.9 million due to the completion of the hotel renovation reflecting the significant number of rooms that were out of service during the renovation period. Hotel operating revenues across the remainder of the portfolio remained relatively constant, increasing a net \$11.5 million across 33 additional hotels in the portfolio.

Other Income

Other income decreased \$0.5 million from \$6.2 million in 2014 to \$5.7 million in 2015 primarily due to lower non-operating miscellaneous income, partially offset by increased insurance gains from insurance proceeds related to minor property damage at various properties.

Hotel Operating Expenses

Hotel operating expenses increased \$40.5 million from \$503.7 million in 2014 to \$544.2 million in 2015. This overall increase is primarily due to \$48.9 million from the results of the 2014 and 2015 Acquisition Properties, which are not comparable year-over-year.

The overall increase is partially offset by a \$11.4 million decrease related to the sale of the 2014 Disposition Properties. Additionally, total room, food and beverage and other direct and other indirect expenses decreased by \$2.5 million at the Park Central Hotel New York and WestHouse Hotel New York reflecting the decreased revenue due to the disruptive Union activity at the hotels.

Hotel operating expenses across the remainder of the portfolio remained relatively constant, increasing a net \$5.5 million across the 41 additional hotels in the portfolio. Cost savings initiatives throughout the portfolio resulted in decreased operating expenses at selected properties which partially offset overall increases in hotel operating expenses.

Depreciation and Amortization

Depreciation and amortization expense increased \$19.1 million from \$115.9 million in 2014 to \$135.0 million in 2015. Of the increase, \$9.9 million is attributable to the 2014 and 2015 Acquisition Properties, which are not comparable year-over-year. Depreciation and amortization expense increased a net \$11.8 million across the remaining hotels in the portfolio due to the depreciation of new assets placed into service reflecting the Company's recent renovation activity. These increases are partially offset by \$2.6 million from the 2014 Disposition Properties, which are not comparable year-over-year.

Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses increased \$6.1 million from \$43.2 million in 2014 to \$49.3 million in 2015. This increase is primarily due to \$4.7 million from the 2014 and 2015 Acquisition Properties, which are not comparable year-over-year. The increase is partially offset by a \$1.0 million decrease in real estate taxes, personal property taxes and insurance expense attributable to the sale of the 2014 Disposition properties, which are also not comparable year-over-year. Real estate taxes and personal property taxes increased by \$2.8 million across the remaining hotels in the portfolio due primarily to increased property values or tax rates at certain properties, primarily the two Chicago properties, which were slightly offset by successful real estate tax appeals. Insurance expense decreased by \$0.4 million reflecting slightly lower premiums throughout the portfolio.

Ground Rent

Ground rent increased \$1.2 million from \$11.0 million in 2014 to \$12.2 million in 2015. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance. Hotel Vitale, which is not comparable year-over-year, contributed \$0.7 million to the 2015 increase. The other hotels subject to ground leases contributed a net \$0.5 million to the increase due to improved operating results.

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General and Administrative

General and administrative expense increased \$1.1 million from \$17.8 million in 2014 to \$18.9 million in 2015 due primarily to increased compensation costs, partially due to additional staffing as a result of portfolio growth.

Acquisition Transaction Costs

Acquisition transaction costs of \$1.9 million in 2014 and \$0.5 million in 2015 relate to the purchase of the 2014 and 2015 Acquisition Properties and the placing of the Mezzanine Loan.

Other Expenses

Other expenses increased \$6.0 million from \$6.8 million in 2014 to \$12.8 million in 2015 due primarily to an increase of \$4.6 million in one-time expenses associated with the alleged health and safety claims by the Union at the Park Central Hotel New York and WestHouse Hotel New York. These expenses include guest relocation expenses, clean up, legal and payroll. A net \$1.0 million increase in management transition expenses, severance and pre-opening costs in 2015 was incurred at a number of properties across the portfolio. In addition, losses from property damage, retail lease expenses and other miscellaneous expenses increased by a net \$0.4 million.

Interest Income

Interest income decreased \$0.5 million from \$1.8 million in 2014 to \$1.3 million in 2015 as a result of the February 10, 2014 repayment of the \$72.0 million mezzanine loan which was acquired in July 2012, partially offset by the placing of the new \$80.0 million Mezzanine Loan, which was acquired in July 2015.

Interest Expense

Interest expense decreased \$2.2 million from \$43.0 million in 2014 to \$40.8 million in 2015 due to a decrease in the Company's weighted average interest rate, partly offset by an increase in the weighted average debt outstanding. The Company's weighted average debt outstanding increased from \$1.34 billion in 2014 to \$1.40 billion in 2015 due primarily to borrowings for the following:

- additional borrowings to purchase the 2014 and 2015 Acquisition Properties;
- additional borrowings to redeem the Series G Preferred Shares in July 2014; and
- additional borrowings to finance other capital improvements during 2014 and 2015.

The above borrowings were partially offset by paydowns with proceeds from the following:

- the repayment of the mezzanine loan in February 2014;
- the sale of Hilton Alexandria Old Town in June 2014;
- the sale of Hotel Viking in September 2014;
- the December 2014 common share offering; and
- positive operating results from the hotel properties.

The Company's weighted average interest rate, including the effect of capitalized interest, decreased from 4.0% in 2014 to 3.6% in 2015. This decrease is due in part to the repayment of the Westin Copley Place 5.28% fixed rate mortgage loan in June 2015 and replacing it with a variable rate mortgage loan on Westin Copley Place in July 2015, which had a rate of 2.21% as of September 30, 2015. Interest capitalized on renovations increased from \$0.1 million in 2014 to \$0.5 million in 2015 primarily due to renovations at various hotels.

Loss from Extinguishment of Debt

Loss from extinguishment of debt of \$2.5 million in 2014 relates to the write-off of a portion of the unamortized deferred financing costs for the Company's senior unsecured credit facility and Second Term Loan (as defined below). These costs were recorded in connection with the original agreements that were in effect prior to the Company refinancing its senior unsecured credit facility and Second Term Loan on January 8, 2014. There was no loss from extinguishment of debt in the 2015 period.

Income Tax Expense

Income tax expense decreased \$1.3 million from \$1.5 million in 2014 to \$0.2 million in 2015. This decrease is primarily the result of a decrease in LHL's net income before income tax expense of \$1.7 million from \$2.3 million in 2014 to \$0.6 million in 2015 and the impact of the finalization and related adjustments of the 2014 federal and state tax returns during the 2015 period. For the nine months ended September 30, 2015, LHL's income tax expense was calculated using an estimated combined federal and state effective tax rate of 38.3%.

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Gain on Sale of Properties

The gain on sale of properties of \$93.2 million relates to the sale of Hilton Alexandria Old Town on June 17, 2014 for \$43.5 million and the sale of Hotel Viking on September 10, 2014 for \$49.7 million.

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 September 30, 2015, third party limited partners held 0.1% of the common units in the Operating Partnership.

Distributions to Preferred Shareholders

Distributions to preferred shareholders decreased \$2.2 million from \$11.3 million in 2014 to \$9.1 million in 2015 due to decreased distributions on the remaining Series G Preferred Shares, which were all redeemed on July 3, 2014.

Issuance Costs of Redeemed Preferred Shares

Issuance costs of redeemed preferred shares of \$1.0 million in 2014 represent the offering costs related to the remaining Series G Preferred Shares, which were all redeemed on July 3, 2014. The excess of fair value paid over carrying value (i.e. offering costs) is included in the determination of net income attributable to common shareholders.

Non-GAAP Financial Measures

FFO and EBITDA

The Company considers the non-GAAP measures of FFO and EBITDA 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 and EBITDA 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") in April 2002, as revised in 2011, 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 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.

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.

FFO and EBITDA do not represent cash generated from operating activities as determined by GAAP and should not be considered as alternatives to net income, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO and EBITDA are not measures of the Company's liquidity, nor are FFO and EBITDA 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 and will be incurred. FFO and EBITDA may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures,

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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 attributable to common shareholders and FFO attributable to common shareholders and unitholders for the three and nine months ended September 30, 2015 and 2014 (in thousands, except share and unit data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Net income attributable to common shareholders	\$44,424	\$98,164	\$99,927	\$174,802
Depreciation	46,080	38,715	134,622	115,573
Amortization of deferred lease costs	72	86	219	261
Noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	8	8
Noncontrolling interests of common units in Operating Partnership	75	297	229	557
Less: Net gain on sale of properties	0	(49,657)	0	(93,205)
FFO attributable to common shareholders and unitholders ⁽¹⁾	\$90,651	\$87,605	\$235,005	\$197,996
Weighted average number of common shares and units outstanding:				
Basic	112,876,581	104,095,153	112,920,964	104,026,307
Diluted	113,282,507	104,429,853	113,332,130	104,355,330

⁽¹⁾ FFO attributable to common shareholders and unitholders includes the loss from extinguishment of debt of \$2.5 million for the nine months ended September 30, 2014.

The following is a reconciliation between net income attributable to common shareholders and EBITDA for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Net income attributable to common shareholders	\$44,424	\$98,164	\$99,927	\$174,802
Interest expense	13,250	14,499	40,790	43,043
Loss from extinguishment of debt	0	0	0	2,487
Income tax (benefit) expense	(490)	2,997	216	1,488
Depreciation and amortization	46,208	38,821	135,002	115,887
Noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	8	8
Noncontrolling interests of common units in Operating Partnership	75	297	229	557
Distributions to preferred shareholders	3,043	3,042	9,127	11,291
EBITDA ⁽¹⁾	\$106,510	\$157,820	\$285,299	\$349,563

⁽¹⁾ EBITDA includes the gain on sale of Hotel Viking of \$49.7 million for the three and nine months ended September 30, 2014 and the gain on sale of Hilton Alexandria Old Town of \$43.5 million for the nine months ended

September 30, 2014.

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 (a) certain non-routine repairs and maintenance to the hotels and (b) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company

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reserve this cash in separate accounts. As of September 30, 2015, the Company held a total of \$26.0 million of restricted cash reserves, \$20.9 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 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. 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 42 unencumbered properties (subject to certain terms and conditions of the credit agreement) as of September 30, 2015, the sale of one or more properties, equity issuances available under the Company's shelf registration statement, issuances of common units in the Operating Partnership and the issuance of up to \$230.1 million of common shares from time to time under the 2013 Agreement (as defined under "Equity Issuances and Redemptions" below).

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.

Debt Summary

Debt as of September 30, 2015 and December 31, 2014 consisted of the following (in thousands):

Debt	Interest Rate	Maturity Date	Balance Outstanding as of	
			September 30, 2015	December 31, 2014
Credit facilities				
Senior unsecured credit facility	Floating ^(a)	January 2018 ^(a)	\$380,000	\$0
LHL unsecured credit facility	Floating ^(b)	January 2018 ^(b)	0	0
Total borrowings under credit facilities			380,000	0
Term loans				
First Term Loan	Floating ^(c)	May 2019	177,500	177,500
Second Term Loan	Floating ^(c)	January 2019	300,000	300,000
Total term loans			477,500	477,500
Massport Bonds				
Hyatt Boston Harbor (taxable)	Floating ^(d)	March 2018	5,400	5,400
Hyatt Boston Harbor (tax exempt)	Floating ^(d)	March 2018	37,100	37,100
Total bonds payable			42,500	42,500
Mortgage loans				
Westin Copley Place	5.28%	September 2015 ^(e)	0	210,000
Westin Michigan Avenue	5.75%	April 2016 ^(f)	131,800	133,347
Indianapolis Marriott Downtown	5.99%	July 2016 ^(f)	96,467	97,528
The Roger	6.31%	August 2016 ^(f)	59,265	60,215
Westin Copley Place	Floating ^(g)	August 2018 ^(g)	225,000	0
Total mortgage loans			512,532	501,090

Total debt	\$1,412,532	\$1,021,090
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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. As of

(a) September 30, 2015, the rate, including the applicable margin, for the Company's outstanding LIBOR borrowings of \$200,000 and \$180,000 were 1.91% and 1.90%, respectively. There were no borrowings outstanding at December 31, 2014. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

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(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 September 30, 2015 and December 31, 2014. 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 separate interest rate swap agreements for the full seven-year term of the First Term Loan (as defined below) and a five-year term ending in August 2017 for the Second Term Loan (as defined below), resulting in fixed all-in interest rates at September 30, 2015 and December 31, 2014 of 3.62% and 2.38%, respectively, at the Company's current leverage ratio (as defined in the swap agreements).

(d) The Massport Bonds are secured by letters of credit issued by U.S. Bank National Association ("U.S. Bank") that expire in September 2016. The letters of credit have two one-year extension options and are secured by the Hyatt Boston Harbor. The letters of credit cannot be extended beyond the Massport Bonds' maturity date. The bonds bear interest based on weekly floating rates. The interest rates as of September 30, 2015 were 0.15% and 0.03% for the \$5,400 and \$37,100 bonds, respectively. The interest rates as of December 31, 2014 were 0.13% and 0.03% for the \$5,400 and \$37,100 bonds, respectively. The Company incurs an annual letter of credit fee of 1.35%.

(e) The Company repaid the mortgage loan on June 1, 2015 through borrowings on its senior unsecured credit facility.

(f) The Company intends to repay the mortgage loan upon maturity through either borrowings on its credit facilities, placement of corporate-level debt or proceeds from a property-level mortgage financing.

(g) The mortgage loan matures on August 14, 2018 with three 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). The interest rate as of September 30, 2015 was LIBOR plus 2.00%, which equaled 2.21%.

The mortgage loan allows for prepayments without penalty after one year, subject to certain terms and conditions. A summary of the Company's interest expense and weighted average interest rates for unswapped variable rate debt for the three and nine months ended September 30, 2015 and 2014 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Interest Expense:				
Interest incurred	\$ 12,735	\$ 14,003	\$ 39,479	\$ 41,545
Amortization of deferred financing costs	703	545	1,799	1,626
Capitalized interest	(188)	(49)	(488)	(128)
Interest expense	\$ 13,250	\$ 14,499	\$ 40,790	\$ 43,043

Weighted Average Interest Rates for Unswapped Variable Rate Debt:

Senior unsecured credit facility	1.89	% 1.86	% 1.89	% 1.86	%
LHL unsecured credit facility	1.90	% 1.85	% 1.88	% 1.86	%
Massport Bonds	0.05	% 0.46	% 0.06	% 0.45	%
Mortgage loan (Westin Copley Place)	2.20	% N/A	2.20	% N/A	

Credit Facilities

On January 8, 2014, the Company refinanced its \$750.0 million senior unsecured credit facility with a syndicate of banks. The credit facility matures on January 8, 2018, 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 up to \$1.05 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 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility. On January 8, 2014, LHL also refinanced its \$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 8, 2018, 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

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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 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the LHL credit facility.

The Company's senior unsecured credit facility and LHL's unsecured credit facility contain certain financial covenants relating to net worth requirements, debt ratios and fixed charge coverage and other limitations that restrict the Company's ability to make distributions or other payments to its shareholders upon events of default.

Term Loans

On May 16, 2012, the Company entered into a \$177.5 million unsecured term loan with a seven-year term maturing on May 16, 2019 (the "First Term Loan"). The First Term Loan bears interest at a variable rate, but was hedged to a fixed interest rate through May 16, 2019 based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 3.62% at September 30, 2015, for the full seven-year term (see "Derivative and Hedging Activities" below).

On January 8, 2014, the Company refinanced its \$300.0 million unsecured term loan (the "Second Term Loan"). 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 up to \$500.0 million. The Second Term Loan has a five-year term maturing on January 8, 2019 and bears interest at variable rates, but was hedged to a fixed interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.38% at September 30, 2015, through August 2, 2017 (see "Derivative and Hedging Activities" below).

The Company's term loans contain certain financial covenants relating to net worth requirements, debt ratios and fixed charge coverage and other limitations that restrict the Company's ability to make distributions or other payments to its shareholders upon events of default.

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 on the effective portion of hedging instruments are reported in other comprehensive income (loss) ("OCI"). Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. Amounts reported in accumulated other comprehensive income (loss) ("AOCL") 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. Effective May 16, 2012, the Company entered into three interest rate swap agreements with an aggregate notional amount of \$177.5 million for the First Term Loan's full seven-year term, 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 3.62% at September 30, 2015. Effective August 2, 2012, the Company entered into five interest rate swap agreements with an aggregate notional amount of \$300.0 million for the Second Term Loan through August 2, 2017, 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 2.38% at September 30, 2015. 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 (loss) gain on outstanding derivative instruments in cash flow hedging relationships, for the three and nine months ended September 30, 2015

and 2014 (in thousands):

	Amount of (Loss) Gain Recognized in OCI on Derivative Instruments		Location of Loss Reclassified from AOCL into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCL into Net Income (Effective Portion)	
	(Effective Portion)			(Effective Portion)	
	For the three months ended September 30,			For the three months ended September 30,	
	2015	2014		2015	2014
Derivatives in cash flow hedging relationships:					
Interest rate swaps	\$(4,245) \$1,551	Interest expense	\$1,071	\$1,113

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Amount of Loss Recognized in OCI on Derivative Instruments	Location of Loss Reclassified from AOCL into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCL into Net Income (Effective Portion)
(Effective Portion)	(Effective Portion)	(Effective Portion)
For the nine months ended September 30, 2015	For the nine months ended September 30, 2015	For the nine months ended September 30, 2015
2014	2014	2014

Derivatives in cash flow hedging relationships:

Interest rate swaps	\$(8,617)	\$(4,721)	Interest expense	\$3,210	\$3,297
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During the nine months ended September 30, 2015 and 2014, the Company did not have any hedge ineffectiveness or amounts that were excluded from the assessment of hedge effectiveness recorded in earnings.

As of September 30, 2015, there was \$4.7 million in cumulative unrealized loss, of which \$4.7 million was included in AOCL and an immaterial amount was attributable to noncontrolling interests. As of December 31, 2014, there was \$0.8 million in cumulative unrealized gain, of which \$0.8 million was included in AOCL and an immaterial amount was attributable to noncontrolling interests. The Company expects that approximately \$4.2 million will be reclassified from AOCL and noncontrolling interests and recognized as a reduction to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of September 30, 2015.

Extinguishment of Debt

As discussed above, on January 8, 2014, the Company refinanced its senior unsecured credit facility and Second Term Loan and LHL refinanced its unsecured revolving credit facility. The refinancing arrangements for the senior unsecured credit facility and Second Term Loan were considered substantial modifications. The Company recognized a loss from extinguishment of debt of \$2.5 million, which is included in the consolidated statements of operations and comprehensive income. The loss from extinguishment of debt represents a portion of the unamortized deferred financing costs incurred when the original agreements were executed.

Mortgage Loans

The Company's mortgage loans are secured by the respective properties. The mortgages are non-recourse to the Company except for fraud or misapplication of funds.

On June 1, 2015, the Company repaid without fee or penalty the Westin Copley Place mortgage loan in the amount of \$210.0 million plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in September 2015. On July 20, 2015, the Company entered into a new \$225.0 million mortgage loan secured by the Westin Copley Place. The mortgage loan matures on August 14, 2018 with three 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). The mortgage loan allows for prepayments without penalty after one year, subject to certain terms and conditions.

The mortgage loans contain debt service coverage ratio tests related to the mortgaged properties. If the debt service coverage ratio for a specific property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel will 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 the financial covenants contained in its credit facilities, term loans and non-recourse secured mortgages 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 the financial 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

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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 September 30, 2015, 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, bonds payable or mortgage loans.

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):

Description	Consolidated Balance Sheet Location	Fair Value Measurements at	
		September 30, 2015	December 31, 2014
		Using Significant Other Observable Inputs (Level 2)	
Derivative interest rate instruments	Prepaid expenses and other assets	\$0	\$1,520
Derivative interest rate instruments	Accounts payable and accrued expenses	\$4,657	\$770

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 September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Note receivable	\$80,000	\$80,000	\$0	\$0
Borrowings under credit facilities	\$380,000	\$381,219	\$0	\$0
Term loans	\$477,500	\$480,763	\$477,500	\$476,996
Bonds payable	\$42,500	\$42,500	\$42,500	\$42,500
Mortgage loans	\$512,532	\$516,312	\$501,090	\$510,250

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loans using interest rates ranging from 1.5% to 4.4% as of September 30, 2015 and from 1.6% to 4.3% as of December 31, 2014 with a weighted average effective interest rate of 2.2% and 2.9% as of September 30, 2015 and December 31, 2014, respectively. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company's. At September 30, 2015, the carrying amount of the note receivable was representative of its fair value due to the short-term nature and recent acquisition of this instrument. At September 30, 2015 and December 31, 2014, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued expenses were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

Equity Issuances, Repurchases and Redemptions

On February 20, 2013, the Company entered into an equity distribution agreement (the "2013 Agreement") with Raymond James & Associates, Inc. (the "Manager"). Under the terms of the 2013 Agreement, the Company may issue from time to time through or to the Manager, as sales agent or principal, the Company's common shares of beneficial interest with aggregate gross proceeds totaling up to \$250.0 million. The offering of the Company's common shares of beneficial interest under the 2013 Agreement will terminate upon the earlier of (i) the sale of common shares having an aggregate offering price of \$250.0 million or (ii) the termination of the 2013 Agreement by the Manager or Company. No shares were sold year-to-date 2015. As of September 30, 2015, the Company had availability under the 2013 Agreement to issue and sell common shares of beneficial interest having an aggregate offering price of up to \$230.1 million. The Company is not currently authorized by its Board of Trustees to issue and sell common shares under the 2013 Agreement. If authorized by its Board of Trustees, the Company may resume using the 2013 Agreement on a future date.

The Company's Board of Trustees previously authorized a share repurchase program (the "Repurchase Program") to acquire up to \$100.0 million of the Company's common shares of beneficial interest, with repurchased shares recorded at cost in treasury. In August 2015, the Company repurchased 184,742 common shares of beneficial interest under the Repurchase Program for \$5.7 million, including commissions of an immaterial amount. As of September 30, 2015, the Company had availability under the Repurchase Program to acquire up to \$69.8 million of common shares of beneficial interest.

Sources and Uses of Cash

As of September 30, 2015, the Company had \$23.3 million of cash and cash equivalents and \$26.0 million of restricted cash reserves, \$20.9 million of which was available for future capital expenditures. Additionally, the

Company had \$367.5 million available under the Company's senior unsecured credit facility, with \$2.5 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 \$266.1 million for the nine months ended September 30, 2015 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 \$592.6 million for the nine months ended September 30, 2015 primarily due to the purchases of the Park Central San Francisco and The Marker Waterfront Resort, the providing of the Mezzanine Loan and outflows for improvements and additions at the hotels.

Net cash provided by financing activities was \$235.6 million for the nine months ended September 30, 2015 primarily due to net proceeds from the credit facilities, proceeds from the \$225.0 million new mortgage loan secured by Westin Copley Place

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in July 2015, partially offset by mortgage loan repayments including the \$210.0 million early repayment of the Westin Copley Place mortgage loan in June 2015, payment of deferred financing costs, forfeiture of common shares into treasury, payment for the repurchase of common shares of beneficial interest under the Repurchase Program, payment of distributions to the common shareholders and unitholders and payment of distributions to preferred shareholders. 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. 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 42 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales, equity issuances available under the Company's shelf registration statement, issuances of common units in the Operating Partnership and the issuance of up to \$230.1 million of common shares from time to time under the 2013 Agreement. The Company also considers capital improvements, and property acquisitions as short-term needs that 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 42 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales or the issuance of additional equity securities.

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 42 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales, estimated cash flows from operations, equity issuances available under the Company's shelf registration statement, issuances of common units in the Operating Partnership and the issuance of up to \$230.1 million of common shares from time to time under the 2013 Agreement. 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 September 30, 2015 (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 loans	\$512,532	\$287,532	\$225,000	\$0	\$0
Mortgage loans interest ⁽¹⁾	27,655	17,820	9,835	0	0
Borrowings under credit facilities ⁽²⁾	380,000	0	380,000	0	0
Credit facilities interest ⁽²⁾	16,692	7,361	9,331	0	0

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Rents ⁽³⁾	657,625	12,628	25,975	26,532	592,490
Massport Bonds ⁽²⁾	42,500	0	42,500	0	0
Massport Bonds interest ⁽²⁾	46	19	27	0	0
Term loans ⁽⁴⁾	477,500	0	0	477,500	0
Term loans interest ⁽⁴⁾	44,790	13,792	25,459	5,539	0
Purchase commitments ⁽⁵⁾					
Purchase orders and letters of commitment	44,931	44,931	0	0	0
Total obligations and commitments	\$2,204,271	\$384,083	\$718,127	\$509,571	\$592,490

⁽¹⁾ Interest expense is calculated based on the variable rate as of September 30, 2015 for Westin Copley Place.

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- (2) Interest expense is calculated based on the variable rate as of September 30, 2015. It is assumed that the outstanding debt as of September 30, 2015 will be repaid upon maturity with interest-only payments until then.
- (3) Amounts calculated based on the annual minimum future lease payments that extend through the term of the lease. Rents may be subject to adjustments based on future interest rates and hotel performance.

- 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 full seven-year term of the First Term Loan and the five-year term ending August 2, 2017 for the Second Term Loan, resulting in fixed all-in interest rates of 3.62% and 2.38%, respectively, at the Company's current leverage ratio (as defined in the agreements). It is assumed that the outstanding debt as of September 30, 2015 will be repaid upon maturity with fixed interest-only payments through the swapped periods and interest calculated based on the variable rate as of September 30, 2015 for the unswapped period of the Second Term Loan.
- (4)

- As of September 30, 2015, purchase orders and letters of commitment totaling approximately \$44.9 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.
- (5)

The Hotels

The following table sets forth historical comparative information with respect to occupancy, ADR and RevPAR for the total hotel portfolio for the three and nine months ended September 30, 2015 and 2014:

	For the three months ended September 30,			For the nine months ended September 30,					
	2015	2014	Variance	2015	2014	Variance			
Occupancy	85.8	% 88.1	% -2.7	% 82.4	% 83.0	% -0.8	%		
ADR	\$245.71	\$245.08	0.3	% \$239.54	\$232.94	2.8	%		
RevPAR	\$210.74	\$216.00	-2.4	% \$197.26	\$193.45	2.0	%		

The above hotel statistics include adjustments made for presentation of comparable information.

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 hotels' 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

The Company is exposed to market risk from 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 September 30, 2015, \$647.5 million of the Company's aggregate indebtedness (45.8% 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 \$1.6 million annually. This assumes that the amount outstanding under the Company's variable rate debt remains at \$647.5 million, the balance as of September 30, 2015.

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) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of September 30, 2015. There were no changes to the Company's internal control over financial reporting during the third quarter ended September 30, 2015 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 normal course of their 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.

Item 1A. Risk Factors

Other than the following, there have been no material changes from the risk factors disclosed in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and the Company's subsequent Quarterly Reports on Form 10-Q.

The Company is subject to risks associated with the employment of hotel personnel, particularly with hotels that employ unionized labor.

The Company's third-party hotel managers are responsible for hiring and maintaining the labor force at each of the Company's hotels. Although the Company does not directly employ or manage employees at its hotels, the Company is subject to the risks associated with the employment of hotel personnel, particularly at those hotels with unionized labor. From time to time, strikes, lockouts, public demonstrations or other negative actions and publicity may disrupt hotel operations. The Company also may incur increased legal costs and indirect labor costs as a result of contract disputes or other events. The resolution of labor disputes or new or re-negotiated labor contracts could lead to increased labor costs, either by increases in wages or benefits or by changes in work rules that raise hotel operating costs. Furthermore, labor agreements may limit the ability of the hotel managers to reduce the size of hotel workforces during an economic downturn because collective bargaining agreements are negotiated between the hotel managers and labor unions. The Company does not have the ability to control the outcome of these negotiations. In addition, the Company believes that unions are generally becoming more aggressive about organizing workers at hotels in certain locations. Potential labor activities at these hotels could significantly increase the administrative, labor and legal expenses of the third-party management companies operating these hotels and reduce the profits that the Company receives. If hotels in the Company's portfolio are organized, this could have a material adverse effect on the Company's business, financial condition and results of operation.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)
July 1, 2015 - July 31, 2015	—	\$—	—	\$—
August 1, 2015 - August 31, 2015	184,742	\$30.81	184,742	\$69,807,000
September 1, 2015 - September 30, 2015	—	\$—	—	\$—
Total	184,742	\$30.81	184,742	\$69,807,000

(1) During the third quarter of 2015, the Company repurchased 184,742 common shares of beneficial interest under the Repurchase Program.

On August 29, 2011, the Company announced its Board of Trustees had authorized (the Repurchase Program) to acquire up to \$100.0 million of the Company's common shares of beneficial interest. The timing of the purchases and the exact number of shares to be purchased depend upon market conditions. The authorization did not include specific price targets or an expiration date. The Company cumulatively repurchased \$30.2 million of common shares of beneficial interest pursuant to the Repurchase Program through September 30, 2015. The Company is currently authorized by its Board of Trustees to repurchase or offer to repurchase any common shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

As of the quarter ended September 30, 2015, all items required to be disclosed in a Current Report on Form 8-K were reported on Form 8-K.

Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On October 19, 2015, William S. McCalmont notified the Company of his intention to not seek re-election as a trustee of the Company. Mr. McCalmont's term as trustee will expire at the Company's annual meeting of shareholders, which is expected to be held in May 2016. Mr. McCalmont's decision to not seek re-election was not due to any disagreement with the Company relating to the Company's operations, policies or practices. In addition, effective upon completion of the meeting of the Board of Trustees on October 19, 2015, Mr. McCalmont resigned from the Company's Audit Committee, and the Board of Trustees appointed Darryl Hartley-Leonard as Chairman of the Audit Committee.

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Item 6. Exhibits

Exhibit Number	Description of Exhibit
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 September 30, 2015, filed on October 22, 2015, 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

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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: October 22, 2015

BY: /s/ BRUCE A. RIGGINS

Bruce A. Riggins

Executive Vice President

and Chief Financial Officer (Principal Financial Officer

and Principal Accounting Officer)

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Exhibit Index

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