

Pebblebrook Hotel Trust
Form 10-Q
October 25, 2012

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, 2012

OR

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

For the transition period from _____ to _____
Commission File Number 001-34571

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

Maryland 27-1055421
(State of Incorporation (I.R.S. Employer
or Organization) Identification No.)

2 Bethesda Metro Center, Suite 1530 20814
Bethesda, Maryland (Zip Code)
(Address of Principal Executive Offices)
(240) 507-1300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. R 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). R 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Class	Outstanding at October 23, 2012
Common shares of beneficial interest (\$0.01 par value per share)	60,771,204

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Pebblebrook Hotel Trust

Consolidated Balance Sheets

(In thousands, except share data)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Investment in hotel properties, net	\$1,348,499	\$1,127,484
Investment in joint venture	173,112	171,765
Ground lease asset, net	10,338	10,502
Cash and cash equivalents	147,475	65,684
Restricted cash	10,693	9,469
Hotel receivables (net of allowance for doubtful accounts of \$73 and \$71, respectively)	18,827	11,312
Deferred financing costs, net	5,402	3,487
Prepaid expenses and other assets	18,619	16,929
Total assets	\$1,732,965	\$1,416,632
LIABILITIES AND EQUITY		
Senior unsecured revolving credit facility	\$—	\$—
Term loan	100,000	—
Mortgage debt	259,071	251,539
Accounts payable and accrued expenses	40,986	33,333
Advance deposits	5,379	4,380
Accrued interest	1,104	1,000
Distribution payable	11,209	10,032
Total liabilities	417,749	300,284
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred shares of beneficial interest, \$.01 par value (liquidation preference of \$225,000 at September 30, 2012 and December 31, 2011), 100,000,000 shares authorized; 9,000,000 shares issued and outstanding at September 30, 2012 and at December 31, 2011	90	90
Common shares of beneficial interest, \$.01 par value, 500,000,000 shares authorized; 60,356,201 issued and outstanding at September 30, 2012 and 50,769,024 issued and outstanding at December 31, 2011	604	508
Additional paid-in capital	1,355,774	1,142,905
Accumulated other comprehensive income (loss)	(389) —
Distributions in excess of retained earnings	(45,106) (30,252)
Total shareholders' equity	1,310,973	1,113,251
Non-controlling interests	4,243	3,097
Total equity	1,315,216	1,116,348
Total liabilities and equity	\$1,732,965	\$1,416,632

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Revenues:				
Room	\$ 68,596	\$ 56,437	\$ 175,083	\$ 127,597
Food and beverage	29,236	25,627	83,630	63,580
Other operating	6,473	5,739	17,233	12,401
Total revenues	104,305	87,803	275,946	203,578
Expenses:				
Hotel operating expenses:				
Room	17,045	14,477	45,521	33,984
Food and beverage	21,716	18,736	61,836	45,423
Other direct	3,229	2,747	8,935	5,830
Other indirect	26,061	23,651	71,999	56,587
Total hotel operating expenses	68,051	59,611	188,291	141,824
Depreciation and amortization	11,055	9,037	30,742	21,426
Real estate taxes, personal property taxes and property insurance	4,571	3,860	12,610	8,941
Ground rent	651	589	1,608	1,350
General and administrative	3,886	3,527	12,296	8,253
Hotel acquisition costs	514	3,903	1,340	7,344
Total operating expenses	88,728	80,527	246,887	189,138
Operating income (loss)	15,577	7,276	29,059	14,440
Interest income	82	49	111	815
Interest expense	(3,949)	(3,775)	(10,671)	(10,077)
Other	—	38	—	85
Equity in earnings (loss) of joint venture	2,152	2,169	1,636	2,169
Income (loss) before income taxes	13,862	5,757	20,135	7,432
Income tax (expense) benefit	(1,757)	81	(840)	(339)
Net income (loss)	12,105	5,838	19,295	7,093
Net income (loss) attributable to non-controlling interests	187	114	304	199
Net income (loss) attributable to the Company	11,918	5,724	18,991	6,894
Distributions to preferred shareholders	(4,456)	(2,899)	(13,369)	(5,907)
Net income (loss) attributable to common shareholders	\$ 7,462	\$ 2,825	\$ 5,622	\$ 987
Net income (loss) per share available to common shareholders, basic and diluted	\$ 0.13	\$ 0.05	\$ 0.10	\$ 0.01
Weighted-average number of common shares, basic	58,714,055	50,771,355	54,227,155	46,962,639
Weighted-average number of common shares, diluted	58,760,334	50,771,355	54,314,469	46,962,639

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Pebblebrook Hotel Trust

Consolidated Statements of Operations and Comprehensive Income - Continued

(In thousands, except share and per-share data)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Comprehensive Income:				
Net income (loss)	\$ 12,105	\$ 5,838	\$ 19,295	\$ 7,093
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments	(389) —	(389) —
Comprehensive income (loss)	11,716	5,838	18,906	7,093
Comprehensive income (loss) attributable to non-controlling interests	181	114	298	199
Comprehensive income (loss) attributable to the Company	\$ 11,535	\$ 5,724	\$ 18,608	\$ 6,894

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

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

	Preferred Shares	Common Shares Amount	Common Shares Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non-Controlling Interests	Total Equity	
Balance at December 31, 2010	—	\$—	39,814,760	\$398	\$698,100	\$—	\$(11,586)	\$686,912	\$1,540	\$688,452
Issuance of shares, net of offering costs	9,000,000	90	10,925,000	110	443,823	—	—	444,023	—	444,023
Issuance of common shares for Board of Trustee compensation	—	—	8,886	—	182	—	—	182	—	182
Repurchase of common shares	—	—	(6,496)	—	(140)	—	—	(140)	—	(140)
Share-based compensation	—	—	22,709	—	787	—	—	787	1,185	1,972
Distributions on common shares/units	—	—	—	—	—	—	(17,004)	(17,004)	(334)	(17,338)
Distributions on preferred shares	—	—	—	—	—	—	(5,907)	(5,907)	(7)	(5,914)
Net contribution from non-controlling interests	—	—	—	—	—	—	—	—	95	95
Net income (loss)	—	—	—	—	—	—	6,894	6,894	199	7,093
Balance at September 30, 2011	9,000,000	\$90	50,764,859	\$508	\$1,142,752	\$—	\$(27,603)	\$1,115,747	\$2,678	\$1,118,425
Balance at December 31, 2011	9,000,000	\$90	50,769,024	\$508	\$1,142,905	\$—	\$(30,252)	\$1,113,251	\$3,097	\$1,116,348
Issuance of shares, net of offering costs	—	—	9,544,087	95	211,425	—	—	211,520	—	211,520
Issuance of common shares	—	—	10,361	—	199	—	—	199	—	199

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for Board of Trustee compensation										
Repurchase of common shares	—	—	(15,595)	—	(319)	—	—	(319)	—	(319)
Share-based compensation	—	—	48,324	1	1,564	—	—	1,565	1,185	2,750
Distributions on common shares/units	—	—	—	—	—	—	(20,476)	(20,476)	(334)	(20,810)
Distributions on preferred shares	—	—	—	—	—	—	(13,369)	(13,369)	(9)	(13,378)
Net contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	(389)	—	(389)	—	(389)
Net income (loss)	—	—	—	—	—	—	18,991	18,991	304	19,295
Balance at September 30, 2012	9,000,000	\$90	60,356,201	\$604	\$1,355,774	\$(389)	\$(45,106)	\$1,310,973	\$4,243	\$1,315,216

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

	For the nine months ended September 30,	
	2012	2011
Operating activities:		
Net income (loss)	\$19,295	\$7,093
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	30,742	21,426
Share-based compensation	2,750	1,972
Amortization of deferred financing costs	1,128	1,135
Amortization of ground lease	164	164
Equity in (earnings) loss from joint venture	(1,636)	(2,169)
Other	218	142
Changes in assets and liabilities:		
Restricted cash, net	(174)	(686)
Hotel receivables	(6,944)	(10,024)
Prepaid expenses and other assets	1,456	(5,024)
Accounts payable and accrued expenses	9,146	13,359
Advance deposits	999	1,035
Net cash provided by (used in) operating activities	57,144	28,423
Investing activities:		
Acquisition of hotel properties	(217,371)	(467,135)
Improvements and additions to hotel properties	(40,484)	(26,348)
Distributions (contributions) from joint venture	289	(165,434)
Deposit on hotel properties	(3,000)	—
Purchase of corporate office equipment, computer software, and furniture	(25)	(145)
Restricted cash, net	2,550	(3,559)
Net cash provided by (used in) investing activities	(258,041)	(662,621)
Financing activities:		
Gross proceeds from issuance of common shares	218,054	235,980
Gross proceeds from issuance of preferred shares	—	225,150
Payment of offering costs — common and preferred shares	(6,534)	(17,108)
Payment of deferred financing costs	(3,043)	(2,031)
Contributions from non-controlling interest	—	95
Borrowings under senior credit facility	95,000	42,000
Repayments under senior credit facility	(95,000)	(42,000)
Proceeds from term loan	100,000	—
Proceeds from mortgage debt	143,000	67,000
Repayments of mortgage debt	(135,468)	(736)
Repurchase of common shares	(319)	(140)
Distributions — common shares/units	(19,633)	(16,025)
Distributions — preferred shares	(13,369)	(3,391)
Net cash provided by (used in) financing activities	282,688	488,794
Net change in cash and cash equivalents	81,791	(145,404)
Cash and cash equivalents, beginning of year	65,684	220,722

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Cash and cash equivalents, end of period	\$147,475	\$75,318
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The accompanying notes are an integral part of these financial statements.

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PEBBLEBROOK HOTEL TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization

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

As of September 30, 2012, the Company owned interests in 24 hotels, including 18 wholly owned hotels with a total of 4,419 guest rooms, and a 49% joint venture interest in six hotels with 1,733 guest rooms. The hotels are located in the following markets: Atlanta (Buckhead), Georgia; Bethesda, Maryland; Boston, Massachusetts; Los Angeles, California; Miami, Florida; Minneapolis, Minnesota; New York, New York; Philadelphia, Pennsylvania; Portland, Oregon; San Diego, California; San Francisco, California; Santa Monica, California; Seattle, Washington; Stevenson, Washington; Washington, D.C.; and West Hollywood, California.

Substantially all of the Company's assets are held by, and all of the operations are conducted through, Pebblebrook Hotel, L.P., (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At September 30, 2012, the Company owned 98.5% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 1.5% of the common units are owned by the other limited partners of the Operating Partnership. For the Company to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), it cannot operate the hotels it owns. Therefore, the Operating Partnership and its subsidiaries lease the hotel properties to subsidiaries of Pebblebrook Hotel Lessee, Inc. (collectively, "PHL"), the Company's taxable REIT subsidiary ("TRS"), which in turn engages third-party eligible independent contractors to manage the hotels. PHL is consolidated into the Company's financial statements.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial information. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements include all adjustments considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows for the periods presented. Interim results are not necessarily indicative of full-year performance, as a result of the impact of seasonal and other short-term variations and the acquisitions of hotel properties. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries in accordance with U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in entities that the Company does not control, but has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method.

Use of Estimates

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

Fair Value Measurements

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

1. Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

Investment in Hotel Properties

Upon acquisition of hotel properties, the Company allocates the purchase price based on the fair value of the acquired land, land improvements, building, furniture, fixtures and equipment, identifiable intangible assets or liabilities, other assets and assumed liabilities. Identifiable intangible assets or liabilities typically arise from contractual arrangement terms that are above or below market compared to an estimated market agreement at the acquisition date.

Acquisition-date fair values of assets and assumed liabilities are determined based on replacement costs, appraised values, and estimated fair values using methods similar to those used by independent appraisers and that use appropriate discount and/or capitalization rates and available market information.

Acquisition costs are expensed as incurred.

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

Hotel properties are recorded at cost and depreciated using the straight-line method over an estimated useful life of 10 to 40 years for buildings, land improvements, and building improvements and one to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets. Intangible assets arising from contractual arrangements are typically amortized over the life of the contract. The Company is required to make subjective assessments as to the useful lives and classification of properties for purposes of determining the amount of depreciation expense to reflect each year with respect to the assets. These assessments may impact the Company's results of operations.

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

The Company will classify a hotel as held for sale when a binding agreement to sell the property has been signed under which the buyer has committed a significant amount of nonrefundable cash, no significant financing contingencies exist, and the sale is expected to close within one year. If these criteria are met and if the fair value less costs to sell is lower than the carrying value of the hotel, the Company will record an impairment loss and will cease recording depreciation expense. The Company will classify the loss, together with the related operating results, as discontinued operations on the statements of operations and classify the assets and related liabilities as held for sale on the balance sheet.

Revenue Recognition

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Revenue consists of amounts derived from hotel operations, including the sales of rooms, food and beverage, and other ancillary amenities. Revenue is recognized when rooms are occupied and services have been rendered. The Company collects sales, use, occupancy and similar taxes at its hotels which are presented on a net basis on the statement of operations.

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Income Taxes

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

Share-based Compensation

The Company has adopted an equity incentive plan that provides for the grant of common share options, share awards, share appreciation rights, performance units and other equity-based awards. Equity-based compensation is measured at the fair value of the award on the date of grant and recognized as an expense on a straight-line basis over the vesting period. The determination of fair value of these awards is subjective and involves significant estimates.

Earnings Per Share

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

Note 3. Acquisition of Hotel Properties

On April 4, 2012, the Company acquired the 108-room Hotel Milano located in San Francisco, California for \$29.8 million. The Company selected Viceroy Hotel Group as manager for the hotel.

On July 9, 2012, the Company acquired in a single transaction, the 125-room Hotel Vintage Park Seattle located in Seattle, Washington and the 117-room Hotel Vintage Plaza Portland located in Portland, Oregon for \$63.0 million. Both of these hotels will continue to be managed by Kimpton Hotels and Restaurants.

On August 23, 2012, the Company acquired the 258-room W Los Angeles - Westwood hotel located in Los Angeles, California for \$125.0 million. At the time of the acquisition, the hotel had certain capital improvement plans which the seller agreed to fund, therefore, at closing the seller contributed \$3.6 million into an escrow account which will be used to fund these capital improvements as they are completed by the Company. The Company retained Starwood Hotels and Resorts to manage the hotel.

The allocation of fair value to the acquired assets and liabilities is as follows (in thousands). The allocation of fair value for the W Los Angeles - Westwood hotel is preliminary and is subject to change upon management's final determination of fair values for the acquired assets and liabilities.

	Hotel Milano	Hotel Vintage Park Seattle	Hotel Vintage Plaza Portland	W Los Angeles - Westwood	Total
Land	\$7,294	\$8,170	\$6,222	\$22,500	\$44,186
Building and improvements	22,166	23,557	23,012	95,107	163,842
Furniture, fixtures, and equipment	290	706	1,093	3,600	5,689
Construction in progress	—	—	—	3,600	3,600
Net working capital	7	118	123	(194) 54
Net assets acquired	\$29,757	\$32,551	\$30,450	\$124,613	\$217,371

The following unaudited pro forma financial information presents the results of operations of the Company for the three and nine months ended September 30, 2012 and 2011 as if the hotels and the interest in the joint venture

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acquired in 2012 and 2011 were acquired on January 1, 2011 and 2010, respectively. The following hotels' pro forma results are included in the pro

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forma table below: Argonaut Hotel, Westin Gaslamp Quarter, Hotel Monaco Seattle, Mondrian Los Angeles, Viceroy Miami, W Boston, Hotel Milano, Hotel Vintage Park Seattle, Hotel Vintage Plaza Portland, and W Los Angeles - Westwood. The pro forma results below excluded acquisition costs of \$0.5 million and \$3.9 million for the three months ended September 30, 2012 and 2011, respectively, and \$1.0 million and \$7.3 million for the nine months ended September 30, 2012 and 2011, respectively. The unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of either the results of operations that would have actually occurred had these transactions occurred on January 1, 2010 and 2011 or the future results of operations (in thousands, except per-share data).

	For the three months ended September 30,		For the nine months ended September 30,	
	2012 (Unaudited)	2011	2012 (Unaudited)	2011
Total revenues	\$ 109,122	\$ 102,794	\$ 306,849	\$ 286,872
Operating income (loss)	16,453	13,217	32,391	26,725
Net income (loss) attributable to common shareholders	8,299	9,970	8,596	10,038
Net income (loss) per share available to common shareholders — basic and diluted	\$ 0.15	\$ 0.18	\$ 0.15	\$ 0.18

Note 4. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2012 and December 31, 2011 consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Land	\$ 234,383	\$ 190,197
Buildings and improvements	1,073,527	887,217
Furniture, fixtures and equipment	100,961	86,138
Construction in progress	5,747	—
Investment in hotel properties	\$ 1,414,618	\$ 1,163,552
Less: Accumulated depreciation	(66,119)	(36,068)
Investment in hotel properties, net	\$ 1,348,499	\$ 1,127,484

Note 5. Investment in Joint Venture

On July 29, 2011, the Company acquired a 49% interest in a joint venture (the “Manhattan Collection joint venture”), which owns six properties in New York, New York. The transaction valued the six hotels at approximately \$908.0 million (subject to working capital and similar adjustments). The Company accounts for this investment using the equity method. As of September 30, 2012, the joint venture reported approximately \$540.9 million in total assets. The joint venture's total liabilities and members' deficit include approximately \$560.8 million in existing first mortgage and mezzanine debt, which matures in February 2013 and bears interest at variable rates, and approximately \$76.6 million of preferred capital which may be distributed to the Company's joint venture partner after the later of October 29, 2013 or the date on which the joint venture refinances, modifies, or extends its debt. The Company is not a guarantor of any existing debt of the joint venture except for limited customary carve-outs related to fraud or misapplication of funds.

At the time of the Company's investment, the estimated fair value of the hotel properties owned by the Manhattan Collection joint venture exceeded the carrying value. This basis difference between the Company's investment in the joint venture and the Company's proportionate 49% interest in these depreciable assets held by the joint venture is amortized over the estimated life of the underlying assets and recognized as a component of equity in earnings (loss) of joint venture (referred to as the basis adjustment in the table below).

The summarized results of operations of the Company's investment in the Manhattan Collection joint venture for the three and nine months ended September 30, 2012 and 2011 are presented below (in thousands):

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	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Revenues	\$43,843	\$31,206	\$122,273	\$31,206
Total expenses	38,262	26,497	115,862	26,497
Net income (loss)	\$5,581	\$4,709	\$6,411	\$4,709
Company's 49% interest of net income (loss)	2,734	2,307	3,141	2,307
Basis adjustment	(582) (138) (1,505) (138
Equity in earnings (loss) in joint venture	\$2,152	\$2,169	\$1,636	\$2,169

Note 6. Debt

Senior Unsecured Revolving Credit Facility

On July 13, 2012, the Company amended and restated the credit agreement that governs the Company's senior unsecured revolving credit facility and the Company's unsecured term loan to increase the aggregate borrowing capacity to \$300.0 million. The credit agreement provides for a \$200.0 million unsecured revolving credit facility and a \$100.0 million unsecured term loan. The revolving credit facility matures in July 2016, and the Company has a one-year extension option. The Company has the ability to increase the aggregate borrowing capacity under the credit agreement up to \$600.0 million, subject to lender approval. Borrowings on the revolving credit facility bear interest at LIBOR plus 1.75% to 2.50%, depending on the Company's leverage ratio. Additionally, the Company is required to pay an unused commitment fee at an annual rate of 0.25% or 0.35% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The credit agreement contains certain financial covenants, including a maximum leverage ratio, a maximum debt service coverage ratio, a minimum fixed charge coverage ratio, and a minimum net worth. As of September 30, 2012 and December 31, 2011, the Company had no outstanding borrowings under the revolving credit facility. As of September 30, 2012, the Company was in compliance with the credit agreement debt covenants. For the three and nine months ended September 30, 2012, the Company incurred unused commitment fees of \$0.2 million and \$0.7 million, respectively. For the three and nine months ended September 30, 2011, the Company incurred unused commitment fees of \$0.2 million and \$0.6 million, respectively.

Term Loan

On August 13, 2012, the Company drew the entire \$100.0 million unsecured term loan provided for under its amended senior credit agreement. The five-year term loan matures in July 2017 and bears interest at a variable rate, but was swapped to an effective fixed interest rate for the full five-year term (see "Derivative and Hedging Activities" below).

Derivative and Hedging Activities

The Company enters into interest rate swap agreements to hedge against interest rate fluctuations. Unrealized gains and losses on the effective portion of hedging instruments are reported in other comprehensive income (loss) and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. Effective August 13, 2012, the Company entered into three interest rate swap agreements with an aggregate notional amount of \$100.0 million for the term loan's full five-year term, resulting in an effective fixed interest rate of 2.55% at the Company's current leverage ratio (as defined in the agreement). The Company has designated its pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges.

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

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As of September 30, 2012, the Company's derivative instruments are in a liability position, with an aggregate fair value of \$0.4 million which is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. The Company had an interest rate cap associated with the mortgage debt on the Sofitel Philadelphia hotel at December 31, 2011. The estimated fair value of the interest rate cap was immaterial. As of September 30, 2012, there was \$0.4 million in unrealized loss included in accumulated other comprehensive loss. During the three and nine months ended September 30, 2012, the Company reclassified \$63 thousand from accumulated other comprehensive income to interest expense.

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Mortgage Debt

Each of the Company's mortgage loans is secured by a first mortgage lien or by leasehold interests under the ground lease on the underlying property. The mortgages are non-recourse to the Company except for customary carve-outs such as fraud or misapplication of funds.

On January 11, 2012, the Company obtained a \$46.0 million first mortgage loan secured by the Company's leasehold interest under the ground lease on the Monaco Washington DC hotel. A portion of the proceeds from this loan was used to repay the existing \$35.0 million mortgage on this property. The loan has a term of five years, bears interest at 4.36% and requires monthly principal and interest payments of \$0.2 million.

On January 11, 2012, the Company repaid the \$42.0 million loan on the Argonaut Hotel with cash on hand and borrowings from the Company's senior unsecured revolving credit facility. On February 15, 2012, the Company obtained a \$47.0 million first-mortgage loan secured by the Company's leasehold interest under the ground lease on the Argonaut Hotel. The loan has a term of five years, bears interest at 4.25% and requires monthly principal and interest payments of \$0.3 million.

On February 1, 2012, the Company repaid the \$56.1 million first mortgage loan on the Sofitel Philadelphia hotel. On May 18, 2012, the Company obtained a \$50.0 million first mortgage loan on the Sofitel Philadelphia hotel. The loan has a term of five years, bears interest at 3.90% and requires monthly principal and interest payments of \$0.3 million. Mortgage debt as of September 30, 2012 and December 31, 2011 consisted of the following (dollars in thousands):

	Interest Rate	Maturity Date	Balance Outstanding as of	
			September 30, 2012	December 31, 2011
InterContinental Buckhead	4.88%	January 2016	\$51,225	\$51,805
Skamania Lodge	5.44%	February 2016	30,359	30,664
DoubleTree by Hilton				
Bethesda-Washington DC	5.28%	February 2016	35,724	36,000
Monaco Washington DC	4.36%	February 2017	45,560	35,000
Argonaut Hotel	4.25%	March 2017	46,489	42,000
Sofitel Philadelphia	3.90%	June 2017	49,714	56,070
			\$259,071	\$251,539

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates, taking into consideration general market conditions and maturity of the debt with similar credit terms and is classified within level 2 of the fair value hierarchy. The estimated fair value of the Company's mortgage debt as of September 30, 2012 and December 31, 2011 was \$260.0 million and \$251.2 million, respectively.

The Company was in compliance with all debt covenants as of September 30, 2012.

Future scheduled debt principal payments for the Company's mortgage debt and term loan for the twelve months ending September 30, are as follows (in thousands):

2013	\$4,791
2014	5,014
2015	5,248
2016	115,220
2017	228,798
	\$359,071

Note 7. Equity

Common Shares

The Company is authorized to issue up to 500,000,000 common shares of beneficial interest, \$.01 par value per share ("common shares"). Each outstanding common share entitles the holder to one vote on each matter submitted to a vote of

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shareholders. Holders of the Company's common shares are entitled to receive dividends when authorized by the Company's board of trustees.

During the nine months ended September 30, 2012, the Company issued 4,369,087 common shares at an average price of \$23.73 per share under its \$125.0 million at-the-market ("ATM") offering program and raised \$102.1 million, net of commissions. The final sale of 150,000 common shares under the \$125.0 million ATM program were issued at settlement on October 2, 2012. On September 28, 2012, the Company filed a prospectus supplement with the SEC to sell up to \$170.0 million in common shares under a new \$170.0 million ATM program. At the same time, the Company terminated the \$125.0 million ATM program which had \$17.8 million in common shares remaining available for issuance. As of September 30, 2012, \$170.0 million of common shares remained available for issuance under the \$170.0 million ATM program.

On June 19, 2012, the Company issued 5,175,000 common shares at a price of \$22.10 per share and raised \$109.8 million, net of the underwriting discount.

Common Dividends

The Company paid or will pay the following dividends on common shares/units for the nine months ended September 30, 2012:

Dividend per Share/Unit	For the quarter ended	Record Date	Payable Date
\$0.12	March 31, 2012	March 30, 2012	April 16, 2012
\$0.12	June 30, 2012	June 29, 2012	July 16, 2012
\$0.12	September 30, 2012	September 28, 2012	October 15, 2012

Preferred Shares

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

As of September 30, 2012 and December 31, 2011, the Company had 5,600,000 shares of its 7.875% Series A Cumulative Redeemable Preferred Shares ("Series A Preferred Shares") and 3,400,000 shares of its 8.00% Series B Cumulative Redeemable Preferred Shares ("Series B Preferred Shares") outstanding.

The Series A Preferred Shares and the Series B Preferred Shares (collectively, the "Preferred Shares") rank senior to the common shares of beneficial interest and on parity with each other with respect to payment of distributions. The Preferred Shares are cumulative redeemable preferred shares. The outstanding Preferred Shares do not have any maturity date and are not subject to mandatory redemption. The Company may not optionally redeem the Series A Preferred Shares or Series B Preferred Shares prior to March 11, 2016 and September 21, 2016, 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 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 through the date of redemption. Upon the occurrence of a change of control, as defined in the Company's declaration of trust, the result of which the Company's common shares and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE MKT or NASDAQ, or any successor exchanges, the Company may, at its option, redeem the Preferred Shares in whole or in part within 120 days following the change of control by paying \$25.00 per share, plus any accrued and unpaid distributions through the date of redemption. If the Company does not exercise its right to redeem the Preferred Shares upon a change of control, the holders of the Preferred Shares have the right to convert some or all of their shares into a number of the Company's common shares based on a defined formula subject to a share cap. The share cap on each Series A Preferred Share is 2.3234 common shares and the share cap on each Series B Preferred Share is 3.4483 common shares.

Preferred Dividends

The Company paid or will pay the following dividends on preferred shares for the nine months ended September 30, 2012:

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Security Type	Dividend per Share/Unit	For the quarter ended	Record Date	Payable Date
7.875% Series A	\$0.49	March 31, 2012	March 30, 2012	April 16, 2012
7.875% Series A	\$0.49	June 30, 2012	June 29, 2012	July 16, 2012
7.875% Series A	\$0.49	September 30, 2012	September 28, 2012	October 15, 2012
8.00% Series B	\$0.50	March 31, 2012	March 30, 2012	April 16, 2012
8.00% Series B	\$0.50	June 30, 2012	June 29, 2012	July 16, 2012
8.00% Series B	\$0.50	September 30, 2012	September 28, 2012	October 15, 2012

Non-controlling Interest of Common Units in Operating Partnership

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

As of September 30, 2012 and December 31, 2011, the Operating Partnership had 929,099 long-term incentive partnership units ("LTIP units") outstanding, all of which have reached parity with other common Operating Partnership units. As of September 30, 2012, 371,640 of these LTIP units have vested. Only vested LTIP units may be converted to common units of the Operating Partnership, which in turn can be tendered for redemption as described above. As of September 30, 2012, no LTIP units have been converted to common shares.

Note 8. Share-Based Compensation Plan

The Company maintains the 2009 Equity Incentive Plan, as amended (the "Plan") to attract and retain independent trustees, executive officers and other key employees and service providers. The Plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. Share awards under the Plan generally vest over three to five years. The Company pays dividends on unvested shares. All share awards are subject to full or partial accelerated vesting upon a change in control and upon death or disability or certain other employment termination events as set forth in the award agreements. On July 10, 2012, the Company's shareholders approved an amendment and restatement of the Plan to increase the number of shares available to be issued under the Plan from 1,322,625 shares to 2,422,625 shares and extend the term of the Plan from December 6, 2019 to February 8, 2022. As of September 30, 2012, there were 1,144,888 common shares available for issuance under the Plan.

Service Condition Share Awards

The following table provides a summary of restricted share activity as of September 30, 2012:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2012	128,664	\$21.59
Granted	52,545	\$23.15
Vested	(48,324)	\$21.55
Forfeited	—	\$—
Unvested at September 30, 2012	132,885	\$22.22

The fair value of each restricted share award is determined based on the closing price of the Company's common shares on the grant date. For the three and nine months ended September 30, 2012, the Company recognized approximately \$0.4 million and \$1.1 million, respectively, of share-based compensation expense related to these restricted shares in the consolidated statements of operations. For the three and nine months ended September 30, 2011, the Company recognized approximately \$0.3 million and \$0.8 million, respectively, of share-based compensation expense related to these restricted shares in the consolidated statements of operations. As of

September 30, 2012, there was \$2.0 million of total unrecognized share-based compensation expense related to unvested restricted shares. The unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 1.8 years.

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Performance-Based Equity Awards

Performance-based equity awarded to officers and employees cliff vest after three years if certain performance measurements are met. These awards also require continued employment and are subject to full or partial accelerated vesting upon a change in control and upon death or disability or certain other employment termination events as set forth in the award agreements. The actual number of common shares that ultimately vest will be determined in 2015 based on certain share price and operating performance metrics for the period from January 1, 2012 through December 31, 2014. Performance-based equity awards granted to certain officers are subject to a maximum award cap; however, there is no maximum or cap of the number of shares which may vest on the employee awards.

The performance measurements include share price and operating metrics which consist of (1) the Company's total shareholder return relative to the total shareholder return of seven companies in a designated peer group ("Relative TSR"); (2) the Company's total shareholder return to established total shareholder return thresholds ("Absolute TSR"); and (3) the change in the gap between the Company's hotel-level earnings before interest, taxes, depreciation and amortization ("Hotel EBITDA") margin compared to that of a peer company. Dividends accumulate over the vesting period and are paid to the grantee once the number of vested shares is determined.

The Relative TSR and Absolute TSR measurements each represent 30 percent of the award and the Hotel EBITDA margin measurement represents 40 percent of the award. The Relative TSR and Absolute TSR measurements are market conditions and the Hotel EBITDA measurement is a performance condition as market and performance conditions are defined in ASC Topic 718.

On February 8, 2012, the Board of Trustees approved a grant of up to a maximum of 120,016 performance-based equity awards to certain officers of the Company ("officer awards") and approved a target award of 12,102 performance-based equity awards to employees of the Company ("employee awards"). The fair values of the market conditions were determined using a Monte Carlo simulation method performed by a third-party valuation firm. The assumptions for determining the fair value of the Relative TSR and Absolute TSR components included: risk-free interest rate of 0.34%, dividend yield of 2.2%, and expected volatility of 33%. The simulations also considered the actual TSR performance of the Company's shares and the share performance of the peer group. The total grant date fair value per share of the market conditions for the officer awards and employee awards was \$8.62 and \$17.23, respectively. The grant date fair value of the performance condition was determined based on the closing share price on the date of grant times the target number of shares for this component of the award. The grant date fair value per share of the performance condition for both the officer awards and employee awards was \$23.15. Compensation expense on the Hotel EBITDA component will be reassessed at each reporting date to determine whether achievement of the target performance condition is probable, and the accrual of compensation expense will be adjusted as appropriate.

The Company recognizes compensation expense on a straight-line basis through December 31, 2014, the vesting date. The grant date fair value of the officer and employee awards, based upon the estimated number of shares (the target awards) that are expected to vest, was \$1.9 million. As of September 30, 2012, there was approximately \$1.5 million of unrecognized compensation expense related to these awards which will be recognized over 2.3 years. For the three and nine months ended September 30, 2012, the Company recognized \$0.2 million and \$0.4 million, respectively, in expense related to these awards.

Long-Term Incentive Partnership Units

LTIP units, which are also referred to as profits interest units, may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. LTIP units are a class of partnership unit in the Company's Operating Partnership and will receive, whether vested or not, the same per-unit profit distributions as the other outstanding units in the Operating Partnership, which equal per-share distributions on common shares. Prior to reaching parity with common units, LTIP units have a capital account balance of zero, do not receive an allocation of net income (loss) and do not have full parity with the common Operating Partnership units with respect to liquidating distributions. If such parity is reached, vested LTIP units may be converted by the holder, at any time, into an equal number of common Operating Partnership units and thereafter will possess all of the rights and interests of a common Operating Partnership unit, including the right to redeem the common Operating Partnership unit for a common share in the Company or cash, at the option of the Operating Partnership.

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Upon completion of the Company's equity offering of common shares on April 6, 2011, the Company determined that a revaluation event occurred, as defined in the Internal Revenue Code, and all the LTIP units achieved full parity with the common Operating Partnership units with respect to liquidating distributions and all other purposes. These LTIP units are allocated their pro-rata share of the Company's net income (loss).

As of September 30, 2012, the Company had 929,099 LTIP units outstanding, all of which have reached parity with common units. All of the LTIP units were held by officers of the Company as of September 30, 2012. These LTIP units vest

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ratably on each of the first five anniversaries of their dates of grant. All LTIP units will vest upon a change in control. The LTIP units were valued using a Monte Carlo simulation method model. The LTIP unit grants were valued at \$8.50 per LTIP unit. As of September 30, 2012, 371,640 LTIP units have vested.

The Company recognized \$0.4 million and \$1.2 million in share-based compensation expense related to the LTIP units for the three and nine months ended September 30, 2012, respectively, and \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2011, respectively. As of September 30, 2012, there was \$3.5 million of total unrecognized share-based compensation expense related to LTIP units. This unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 2.3 years. The aggregate expense related to the LTIP unit grants is presented as non-controlling interest in the Company's consolidated balance sheets.

Note 9. Income Taxes

The Company's TRS, PHL, is subject to federal and state corporate income taxes at statutory tax rates. The Company has estimated PHL's income tax expense for the nine months ended September 30, 2012 using an estimated combined federal and state statutory tax rate of 41.0%.

Note 10. Earnings per Common Share

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net income (loss) attributable to common shareholders	\$ 7,462	\$ 2,825	\$5,622	\$987
Less: dividends paid on unvested share-based compensation	(83) (127) (249) (381
Undistributed earnings attributable to share-based compensation	—	—	—	—
Net income (loss) available to common shareholders	\$ 7,379	\$ 2,698	\$5,373	\$606
Denominator:				
Weighted-average number of common shares — basic	58,714,055	50,771,355	54,227,155	46,962,639
Effect of dilutive share-based compensation	46,279	—	87,314	—
Weighted-average number of common shares — diluted	58,760,334	50,771,355	54,314,469	46,962,639
Net income (loss) per share available to common shareholders — basic	\$ 0.13	\$ 0.05	\$0.10	\$0.01
Net income (loss) per share available to common shareholders — diluted	\$ 0.13	\$ 0.05	\$0.10	\$0.01

For the three and nine months ended September 30, 2011, 132,829 unvested restricted shares were excluded from diluted weighted-average common shares, as their effect would have been anti-dilutive. The LTIP units held by the non-controlling interest holders have been excluded from the denominator of the diluted earnings per share as there would be no effect on the amounts since the limited partners' share of income (loss) would also be added or subtracted to derive at net income (loss) available to common shareholders.

Note 11. Commitments and Contingencies

Management Agreements

The Company's hotel properties are operated pursuant to management agreements with various management companies. The initial terms of these management agreements range from five years to 20 years, not including

renewals, and five years to 40 years, including renewals. Many of the Company's management agreements are terminable at will by the Company upon paying a termination fee and some are terminable by the Company upon sale of the property, with, in some cases, the payment of termination fees. Most of the agreements also provide the Company the ability to terminate based on failure to achieve defined operating performance thresholds. Termination fees range from zero to up to six times the annual base management and incentive management fees, depending on the agreement and the reason for termination. Certain of the Company's management

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agreements are non-terminable except upon the manager's breach of a material representation or the manager's failure to meet performance thresholds as defined in the management agreement.

The management agreements require the payment of a base management fee generally between 2% and 4% of hotel revenues. Under certain management agreements, the management companies are also eligible to receive an incentive management fee if hotel operating income, cash flows or other performance measures, as defined in the agreements, exceed certain performance thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Company has received a priority return on its investment in the hotel. Combined base and incentive management fees were \$3.3 million and \$8.0 million for the three and nine months ended September 30, 2012, respectively, and \$2.5 million and \$5.8 million for the three and nine months ended September 30, 2011, respectively.

Reserve Funds

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

Restricted Cash

At September 30, 2012 and December 31, 2011, the Company had \$10.7 million and \$9.5 million, respectively, in restricted cash, which consisted of reserves for replacement of furniture and fixtures or reserves to pay for real estate taxes or property insurance under certain hotel management agreements or lender requirements.

Ground Leases

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

The Argonaut Hotel is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2059. The hotel is required to pay the greater of an annual base rent of \$1.2 million or a percentage of rooms revenues, food and beverage revenues and other department revenues in excess of certain thresholds, as defined in the agreement. The lease contains certain restrictions on modifications that can be made to the structure due to its status as a national historic landmark.

Litigation

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

Note 12. Supplemental Information to Statements of Cash Flows

	For the nine months ended	
	September 30,	
	2012	2011
	(in thousands)	
Interest paid	\$9,438	\$8,279
Income taxes paid	\$1,329	\$663
Non-Cash Investing and Financing Activities:		
Distributions payable on common shares/units	\$7,396	\$6,219
Distributions payable on preferred shares	\$3,813	\$2,516
Issuance of common shares for board of trustees compensation	\$199	\$183
Mortgage loan assumed in connection with acquisition	\$—	\$42,000
Accrued additions and improvements to hotel properties	\$537	\$—

Note 13. Subsequent Events

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On October 25, 2012, the Company acquired a leasehold interest in the 196-room Hotel Palomar located in San Francisco, California for \$58.0 million. The acquisition was funded with \$30.8 million of available cash and the assumption of a \$27.2 million first mortgage loan. The hotel is subject to a long-term lease that expires in June 2097. The hotel is required to pay the greater of a base rent, as adjusted for consumer price index (“CPI”) increases, or a percentage of rooms revenues, food and beverage revenues, and other department revenues in excess of certain thresholds, as defined in the agreement.

In October 2012, the Company issued 150,000 common shares at an average price of \$23.50 per share to settle the September 27, 2012 final sale under the \$125.0 million ATM program and raised \$3.5 million, net of commissions. As of October 25, 2012, \$170.0 million of common shares remained available for issuance under the \$170.0 million ATM program.

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

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

Forward-Looking Statements

This report, together with other statements and information publicly disseminated by 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. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions.

Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "potential," "could," "predict," "continue," "seek," "assume," "believe," "expect," "intend," "anticipate," "estimate," "project," "forecast" or similar expressions. Forward statements in this report include, among others, statements about our business strategy, including our 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 our ability to obtain financing or raise capital). You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and which could materially affect actual results, performances or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- the timing and availability of potential hotel acquisitions and our ability to identify and complete hotel acquisitions in accordance with our business strategy;
- risks associated with the hotel industry, including competition, increases in employment costs, energy costs and other operating costs, or decreases in demand caused by actual or threatened terrorist attacks, any type of flu or disease-related pandemic, or downturns in general and local economic conditions;
- the availability and terms of financing and capital and the general volatility of securities markets;
- our dependence on third-party managers of our hotels, including our inability to implement strategic business decisions directly;
- risks associated with the real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act and similar laws;
- interest rate increases;
- our possible failure to qualify as a real estate investment trust ("REIT") under 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 overruns; and
- the other factors discussed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as updated elsewhere in this report.

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

Overview

Pebblebrook Hotel Trust is an internally managed hotel investment company, organized in October 2009, to opportunistically acquire and invest in hotel properties located primarily in major U.S. cities, with an emphasis on the major gateway coastal markets. As of September 30, 2012, the Company owned interests in 24 hotels, including 18 wholly owned hotels, with a total of 4,419 guest rooms, and a 49% joint venture interest in six hotels with a total of

1,733 guest rooms.

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During the nine months ended September 30, 2012, we refinanced the loans secured by the Monaco Washington DC, the Argonaut Hotel and the Sofitel Philadelphia, receiving net proceeds of \$10.0 million. We also raised approximately \$211.5 million of net proceeds from the issuance of 9.5 million common shares.

During the nine months ended September 30, 2012, we acquired four hotel properties, the 108-room Hotel Milano located in San Francisco, California for \$29.8 million, the 125-room Hotel Vintage Park Seattle located in Seattle, Washington and the 117-room Hotel Vintage Plaza Portland in a single transaction for \$63.0 million, and the 258-room W Los Angeles - Westwood for \$125.0 million. We plan to invest approximately \$12.5 million over the next 12 months in a complete renovation and repositioning of the Hotel Milano, including all guestrooms, public areas and the restaurant.

We continue to employ our asset management initiatives at our hotels. While we do not operate our hotel properties, both our asset management team and our executive management team monitor and work cooperatively with our hotel managers by advising and making recommendations in all aspects of our hotels' operations, including property positioning and repositioning, revenue management, operations analysis, physical design, renovation and capital improvements, guest experience and overall strategic direction. Through these efforts, we seek to improve property efficiencies, lower costs, maximize revenues, and enhance property operating margins which we expect will enhance returns to our shareholders. We expect to invest a total of approximately \$17.0 million to \$20.0 million for the remainder of 2012 on renovation and repositioning projects and other capital improvements.

The U.S. lodging industry has continued to exhibit positive fundamentals during the first nine months of 2012. While there continue to be concerns about a slow-moving national economy and the increased global volatility and risk related to the European debt crisis, corporate profits and employment have continued to improve in the United States though at a slower pace than in 2011.

The strength in corporate transient, group and leisure travel, specifically in the major urban markets, has continued to drive increases in occupancy and average daily rates. New hotel supply remains at historically low levels and is expected to remain low given the lack of available financing for new hotel construction. We continue to believe that we will see a long and healthy recovery in the lodging industry and believe our properties have significant opportunities to achieve significant growth in their operating cash flows and long-term economic values.

Key Indicators of Financial Condition and Operating Performance

We measure hotel results of operations and the operating performance of our business by evaluating financial and nonfinancial metrics such as room revenue per available room ("RevPAR"); average daily rate ("ADR"); occupancy rate ("occupancy"); funds from operations ("FFO"); and earnings before interest, income taxes, depreciation and amortization ("EBITDA"). We evaluate individual hotel and company-wide performance with comparisons to budgets, prior periods and competing properties. ADR, occupancy and RevPAR may be impacted by macroeconomic factors as well as regional and local economies and events. See "Non-GAAP Financial Matters" for further discussion of FFO and EBITDA.

Hotel Operating Statistics

The following table represents the pro-forma key hotel operating statistics for our hotels for the three and nine months ended September 30, 2012 and 2011. This is for informational purposes only and includes the operating statistics of our hotels for periods prior to our ownership and reflects our 49% interest in the Manhattan Collection joint venture properties and excludes W Los Angeles - Westwood and Hotel Milano.

	Three months ended September 30,		Nine months ended September 30,		
	2012	2011	2012	2011	
Total Portfolio					
Pro forma Occupancy	86.8	% 84.7	% 82.0	% 78.2	%
Pro forma ADR	\$215.69	\$208.04	\$209.98	\$202.04	
Pro forma RevPAR	\$187.18	\$176.16	\$172.26	\$157.95	

Results of Operations

Results of operations for the three and nine months ended September 30, 2012 include the operating activities of our 18 wholly owned hotels since their respective dates of acquisition. We owned 14 hotel properties at September 30,

2011, of which six were acquired during 2011. The Company's results of operations are not directly comparable to corresponding periods in the prior year due to hotel acquisitions during these periods. In order to provide information on a comparable basis, below we

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provide the results that reflect changes resulting from hotel acquisitions as well as changes for properties owned throughout both of the periods being compared.

Comparison of three months ended September 30, 2012 to three months ended September 30, 2011

Revenues — Total hotel revenues increased by \$16.5 million. The 14 hotels we owned throughout both periods contributed \$5.4 million of the increase, which was a result of increases in occupancy and ADR from the same period in 2011. The InterContinental Buckhead and Sofitel Philadelphia hotels had significant increases in occupancy and the Sir Francis Drake and Argonaut hotels in San Francisco had significant increases in ADR. The remaining \$11.1 million of the increase in revenue was generated from the hotels which were not owned throughout both periods.

Hotel operating expenses — Total hotel operating expenses increased by \$8.4 million. The 14 hotels we owned throughout both periods contributed \$1.1 million of the increase, which is a result of higher occupancy and inflation offset by cost reduction initiatives. The remaining \$7.3 million of the increase was generated from the hotels which were not owned throughout both periods.

Depreciation and amortization — Depreciation and amortization expense increased by approximately \$2.0 million primarily due to the additional depreciation for the hotels acquired in 2012.

Real estate taxes, personal property taxes and property insurance — Real estate taxes, personal property taxes and insurance increased by approximately \$0.7 million primarily due to the hotels acquired in 2012 and an increase in real estate taxes generally throughout the portfolio.

Ground rent — Ground rent expense was consistent in both periods.

Corporate general and administrative — Corporate general and administrative expenses increased by approximately \$0.4 million primarily as a result of an increase in employee compensation costs offset in part by a decrease in legal and professional expenses. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, insurance, state franchise taxes and other expenses.

Hotel acquisition costs — Hotel acquisition costs decreased by approximately \$3.4 million primarily reflecting the acquisition costs incurred with the investment in the Manhattan Collection joint venture in 2011. Typically, hotel property acquisition costs consist of legal fees, other professional fees, transfer taxes and other direct costs associated with our pursuit of hotel investments. As a result, these costs are generally higher when properties are acquired or when we have significant ongoing acquisition activity.

Interest expense — Interest expense increased by approximately \$0.2 million as a result of higher debt balances offset by a decrease in unused fees on the credit facility.

Equity in earnings (losses) of joint venture — Equity in earnings (losses) of joint venture changed by an immaterial amount.

Income tax (expense) benefit — Income tax expense increased by approximately \$1.8 million as a result of an increase in the net income of our TRS.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of the Operating Partnership to the common units held by the LTIP unit holders. There were minimal increases to non-controlling interests during the periods.

Distributions to preferred shareholders — Distributions to preferred shareholders increased \$1.6 million. The Series B Preferred Shares were issued on September 14, 2011 and dividends were paid for a partial quarter in 2011 whereas dividends were paid for the entire quarter during 2012.

Comparison of nine months ended September 30, 2012 to nine months ended September 30, 2011

Revenues — Total hotel revenues increased by \$72.4 million. The eight hotels we owned throughout both periods contributed \$12.5 million of the increase, which was a result of the increase in occupancy primarily at four of the hotels that had renovation activity in 2011 as well as a significant increase in ADR and RevPAR at the Sir Francis Drake in San Francisco. The remaining \$59.9 million of the increase was generated from the hotels that were not owned throughout both periods.

Hotel operating expenses — Total hotel operating expenses increased by \$46.5 million. The eight hotels we owned throughout both periods contributed \$4.1 million of the increase. The remaining \$42.4 million of the increase was generated from the hotels which were not owned throughout both periods.

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Depreciation and amortization — Depreciation and amortization expense increased by approximately \$9.3 million primarily due to the additional depreciation for the hotels acquired in 2012.

Real estate taxes, personal property taxes and property insurance — Real estate taxes, personal property taxes and insurance increased by approximately \$3.7 million primarily due to the additional hotels acquired in 2012 and an increase in real estate taxes generally throughout the portfolio.

Ground rent — Ground rent expense increased by approximately \$0.3 million due to the acquisition of the Argonaut Hotel in February 2011. The Argonaut Hotel is subject to a long-term ground lease agreement.

Corporate general and administrative — Corporate general and administrative expenses increased by approximately \$4.0 million primarily as a result of increased legal fees, state and local franchise taxes, staffing and other costs related to growth in our portfolio and the \$1.1 million management contract termination expense associated with the DoubleTree by Hilton Bethesda-Washington DC hotel during the 2012 period. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, insurance, state franchise taxes and other expenses.

Hotel acquisition costs — Hotel acquisition costs decreased by approximately \$6.0 million, primarily reflecting the acquisition costs incurred for the investment in the Manhattan Collection joint venture and the Argonaut Hotel, both of which were acquired in 2011. Typically, hotel property acquisition costs consist of legal fees, other professional fees, transfer taxes and other direct costs associated with our pursuit of hotel investments. As a result, these costs are generally higher when properties are acquired or when we have significant ongoing acquisition activity.

Interest income — Interest income decreased by approximately \$0.7 million as a result of cash being used to acquire hotel properties resulting in lower average cash balance as well as a decrease in the interest rate on cash deposits.

Interest expense — Interest expense increased by \$0.6 million of which approximately \$0.3 million was incurred on the \$100.0 million term loan that we borrowed in 2012.

Equity in earnings (losses) of joint venture — Equity in earnings of joint venture decreased by \$0.5 million as a result of us owning the Manhattan Collection joint venture for the full period in 2012 but only a partial period in 2011.

Income tax (expense) benefit — Income tax expense increased by approximately \$0.5 million as a result of an increase in the net income of our TRS.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of the Operating Partnership to the common units held by the LTIP unit holders. There were minimal increases to non-controlling interests during the periods.

Distributions to preferred shareholders — Distributions to preferred shareholders increased \$7.5 million. The Series B Preferred Shares were issued on September 14, 2011 and dividends were paid for a partial period in 2011 whereas dividends were paid for the entire period during 2012.

Non-GAAP Financial Measures

Non-GAAP financial measures are measures of our historical or future financial performance that are different from measures calculated and presented in accordance with U.S. GAAP. We report FFO and EBITDA, which are non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance. We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (NAREIT), which defines FFO as net income (calculated in accordance with GAAP), excluding real estate related depreciation and amortization, gains (losses) from sales of real estate, impairments of real estate assets, the cumulative effect of changes in accounting principles and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most industry investors consider presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. By excluding the effect of real estate related depreciation and amortization including our share of the joint venture depreciation and amortization and gains (losses) from sales of real estate, both of which are based on historical cost accounting and which may be of lesser significance in evaluating current performance, we believe that FFO provides investors a useful financial measure to evaluate our operating performance.

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The following table reconciles net income (loss) to FFO and FFO available to common share and unit holders for the three and nine months ended September 30, 2012 and 2011 (in thousands):

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	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Net income (loss)	\$ 12,105	\$ 5,838	\$ 19,295	\$ 7,093
Adjustments:				
Depreciation and amortization	11,015	8,999	30,625	21,325
Depreciation and amortization from joint venture	2,469	1,169	7,333	1,169
FFO	\$ 25,589	\$ 16,006	\$ 57,253	\$ 29,587
Distribution to preferred shareholders	\$ (4,456)	\$ (2,899)	\$ (13,369)	\$ (5,907)
FFO available to common share and unit holders	\$ 21,133	\$ 13,107	\$ 43,884	\$ 23,680

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. We believe that EBITDA provides investors a useful financial measure to evaluate our operating performance, excluding the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization).

The following table reconciles net income (loss) to EBITDA for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Net income (loss)	\$12,105	\$5,838	\$19,295	\$7,093
Adjustments:				
Interest expense	3,949	3,775	10,671	10,077
Interest expense from joint venture	3,164	2,364	9,675	2,364
Income tax expense (benefit)	1,757	(81)	840	339
Depreciation and amortization	11,055	9,037	30,742	21,426
Depreciation and amortization from joint venture	2,469	1,169	7,333	1,169
EBITDA	\$34,499	\$22,102	\$78,556	\$42,468

Neither FFO nor EBITDA represent cash generated from operating activities as determined by U.S. GAAP and neither should be considered as an alternative to U.S. GAAP net income (loss), as an indication of our financial performance, or to U.S. GAAP cash flow from operating activities, as a measure of liquidity. In addition, FFO and EBITDA are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Liquidity and Capital Resources

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

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

We strive to maintain prudent debt leverage and intend to opportunistically enhance our capital position and extend our debt maturities in the current low interest rate environment.

Issuance of Common Shares

On September 28, 2012, we and the Operating Partnership entered into equity distribution agreements (collectively, the "Equity Distribution Agreements") with each of Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James & Associates, Inc. (collectively, the "Sales Agents"), pursuant to which we may sell our common shares having an aggregate offering price of up to \$170.0 million from time to time through any of the Sales Agents, acting as sales agent and/or principal (the "ATM Offering Program").

Upon entering into the Equity Distribution Agreements, we simultaneously terminated the equity distribution agreements we entered into with the same parties in connection with a prior "at the market" offering program established in May 2011.

The \$170.0 million common shares issuable pursuant to the ATM Offering Program are registered with the Securities and Exchange Commission on our Registration Statement on Form S-3 (No. 333-173468). We filed a prospectus supplement, dated September 28, 2012, to the prospectus, dated April 13, 2011, with the Securities and Exchange Commission in connection with the offer and sale of the shares pursuant to the ATM Offering Program.

Before terminating the prior ATM program established in May 2011, we sold 4,519,087 shares under that program at an average price of \$23.72 per share and raised \$105.6 million, net of commissions.

On June 19, 2012, we also issued in an underwritten public offering 5,175,000 common shares at a price of \$22.10 per share and raised \$109.8 million, net of the underwriting discount.

We used the net proceeds of these issuances to repay debt outstanding on our senior unsecured revolving credit facility, to repay mortgage debt, to acquire hotel properties and for general corporate purposes.

Sources and Uses of Cash

Our principal sources of cash are cash from operations, borrowings under mortgage financings, draws on our credit facility and the proceeds from offerings of our equity securities. Our principal uses of cash are asset acquisitions, debt service, capital investments, operating costs, corporate expenses and dividends.

Cash provided by Operations. Our cash provided by operating activities was \$57.1 million for the nine months ended September 30, 2012. Our cash from operations includes the operating activities of the 18 wholly owned hotels. Our cash provided by operating activities for the nine months ended September 30, 2011 was \$28.4 million and relates principally to the 14 hotels we owned at September 30, 2011.

Cash used in Investing Activities. Our cash used in investing activities was \$258.0 million for the nine months ended September 30, 2012. During the nine months ended September 30, 2012, we purchased four hotels for \$217.4 million, invested \$40.5 million in improvements to our hotel properties, placed a deposit of \$3.0 million on one property under contract for purchase, and had a decrease in restricted cash of \$2.6 million. During the nine months ended September 30, 2011, we used \$662.6 million of cash, of which we used \$467.1 million to acquire six properties, we invested \$26.3 million in improvements to hotel properties, invested \$165.4 million in the Manhattan Collection joint venture, and had an increase in restricted cash of \$3.6 million.

Cash provided by Financing Activities. Our cash provided by financing activities was \$282.7 million for the nine months ended September 30, 2012. We received net proceeds of \$211.5 million from the issuance of 9.5 million common shares. We also received \$100.0 million in proceeds from the term loan, received \$143.0 million in proceeds from mortgage debt refinancings, repaid \$135.5 million of mortgage debt, borrowed and repaid \$95.0 million under

our senior unsecured revolving credit facility, and paid \$33.0 million in dividends. For the nine months ended September 30, 2011, cash flows provided by financing activities were \$488.8 million, which consisted of \$236.0 million of proceeds received from our issuance and sale of 10.9 million common shares and \$225.2 million of proceeds received from our issuance of Series A and Series B Preferred Shares which were offset by \$17.1 million in underwriting discounts and offering-related costs, and \$67.0 million of proceeds

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received from the mortgage debt placed on the Skamania Lodge and DoubleTree by Hilton Bethesda-Washington DC hotels. We also paid \$19.4 million in dividends during the period.

Capital Investments

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

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

For the nine months ended September 30, 2012, we invested \$40.5 million in capital investments to reposition and improve the properties we own. We expect to invest approximately \$17.0 million to \$20.0 million in capital investments through the remainder of 2012. We plan to invest approximately \$12.5 million over the next 12 months in a complete renovation and repositioning of the Hotel Milano, including all guestrooms, public areas and the restaurant. For the nine months ended September 30, 2012, we spent approximately \$1.7 million on Hotel Milano. We expect to complete the Hotel Milano renovation in the first quarter of 2013.

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Contractual Obligations and Off-Balance Sheet Arrangements

The table below summarizes our contractual obligations as of September 30, 2012 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Mortgage loans ⁽¹⁾	\$305,003	\$16,769	\$33,539	\$254,695	\$—
Term loan ⁽²⁾	112,714	2,585	5,171	104,958	—
Ground leases ⁽³⁾	65,088	1,380	2,760	2,760	58,188
Purchase commitments ⁽⁴⁾	3,403	3,403	—	—	—
Corporate office lease	598	280	318	—	—
Total	\$486,806	\$24,417	\$41,788	\$362,413	\$58,188

⁽¹⁾ Amounts include principal and interest.

Amounts include principal and interest. Loan bears interest at a floating rate equal to LIBOR plus an applicable margin. We entered into separate interest rate swap agreements for the full five-year term, resulting in an effective fixed interest rate of 2.55% at our current leverage ratio (as defined in the credit agreement). It is assumed that the outstanding debt will be repaid upon maturity with fixed interest-only payments until then.

⁽³⁾ The long-term ground leases on the Monaco Washington DC and the Argonaut Hotel provide for the greater of base or percentage rent, adjusted for CPI increases. The table reflects only base rent for all periods presented and does not include assumptions for CPI adjustments.

⁽⁴⁾ These represent purchase orders and contracts that have been executed for renovation projects at the properties. We are committed to these purchase orders and contracts and anticipate making similar arrangements in the future with the existing properties or any future properties that we may acquire.

Off-Balance Sheet Arrangements – Joint Venture Indebtedness

We have a 49% equity interest in the Manhattan Collection joint venture, which owns six properties in New York City that have mortgage debt secured by these properties. We exercise significant influence over, but do not control, the joint venture and therefore account for our investment in the joint venture using the equity method of accounting. As of September 30, 2012, the aggregate debt of the joint venture was \$560.8 million which bears interest at a variable rate. The joint venture was in compliance with all debt covenants as of September 30, 2012. We are not guarantors of the joint venture debt except for limited customary carve-outs related to fraud or misapplication of funds. The joint venture mortgage debt matures in February 2013. We and our joint venture partner intend to refinance this debt at or prior to maturity. However there can be no assurance we will be able to refinance the debt on attractive terms, if at all. In addition, in order to maintain our existing ownership interests, we may need to invest additional equity into the joint venture in connection with such refinancing.

Inflation

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

Seasonality

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

Derivative Instruments

In the normal course of business, we are exposed to the effects of interest rate changes. We may enter into derivative instruments including interest rate swaps, caps and collars to manage or hedge interest rate risk. Derivative instruments are subject to fair value reporting at each reporting date and the increase or decrease in fair value is recorded in net income (loss) or

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accumulated other comprehensive income (loss), based on the applicable hedge accounting guidance. Derivatives expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions.

Effective August 13, 2012, we entered into three interest rate swap agreements with an aggregate notional amount of \$100.0 million for the term loan's full five-year term, resulting in an effective fixed interest rate of 2.55% at our current leverage ratio (as defined in the credit agreement). We have designated these pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. As of September 30, 2012, our derivative instruments are in a liability position, with an aggregate fair value of \$0.4 million, which is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. As of September 30, 2012, there was \$0.4 million in unrealized loss included in accumulated other comprehensive loss.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Sensitivity

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

As of September 30, 2012, we have no debt outstanding that is subject to variable interest rates. The \$100.0 million term loan was swapped to a fixed interest rate, therefore a change in the LIBOR rate on the term loan would have a corresponding offsetting change on the interest rate swap. The \$560.8 million of mortgage indebtedness on the six hotels in the Manhattan Collection joint venture, in which we own a 49% interest, bears interest at a variable rate.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

None.

Item 3. Defaults Upon Senior Securities.

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None.

Item 4. Mine Safety Disclosures.

Inapplicable.

Item 5. Other information.

None.

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
10.1*	Amended and Restated Credit Agreement, dated as of July 13, 2012, among Pebblebrook Hotel, L.P., as borrower, Pebblebrook Hotel Trust, as the parent REIT and a guarantor, certain subsidiaries of the borrower, as guarantors, Bank of America, N.A., as administrative agent, and the other lenders party hereto.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document ⁽¹⁾
101.SCH XBRL	Taxonomy Extension Schema Document ⁽¹⁾
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document ⁽¹⁾
101.LAB XBRL	Taxonomy Extension Label Linkbase Document ⁽¹⁾
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document ⁽¹⁾
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document ⁽¹⁾

*Filed herewith.

**Furnished herewith.

Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURE

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

Date: October 25, 2012

PEBBLEBROOK HOTEL TRUST

/s/ JON E. BORTZ

Jon E. Bortz

Chairman, President and Chief Executive
Officer

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EXHIBIT INDEX

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31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document ⁽¹⁾
101.SCH XBRL	Taxonomy Extension Schema Document ⁽¹⁾
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document ⁽¹⁾
101.LAB XBRL	Taxonomy Extension Label Linkbase Document ⁽¹⁾
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document ⁽¹⁾
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document ⁽¹⁾

* Filed herewith.

** Furnished herewith.

Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.