Pebblebrook Hotel Trust
Form 10-Q
October 24, 2013

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

FORM 10-Q

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
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 (State of Incorporation or Organization)	27-1055421 (I.R.S. Employer Identification No.)
2 Bethesda Metro Center, Suite 1530 Bethesda, Maryland (Address of Principal Executive Offices)	20814 (Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes R 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 21, 2013
Common shares of beneficial interest ($0.01 par value per share)	61,545,040

Pebblebrook Hotel Trust
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
Pebblebrook Hotel Trust
Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Investment in hotel properties, net	$1,603,236	$1,417,229
Investment in joint venture	256,658	283,011
Ground lease asset, net	10,118	10,283
Cash and cash equivalents	110,042	85,900
Restricted cash	15,930	12,034
Hotel receivables (net of allowance for doubtful accounts of $260 and $28, respectively)	23,500	13,463
Deferred financing costs, net	5,167	5,753
Prepaid expenses and other assets	20,194	18,489
Total assets	$2,044,845	$1,846,162
LIABILITIES AND EQUITY		
Senior unsecured revolving credit facility	$—	$—
Term loan	100,000	100,000
Mortgage debt (including mortgage loan premium of $6,270 and $2,498, respectively)	456,847	368,508
Accounts payable and accrued expenses	57,916	47,364
Advance deposits	8,203	4,596
Accrued interest	1,896	1,328
Distribution payable	15,271	11,274
Total liabilities	640,133	533,070
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred shares of beneficial interest, $.01 par value (liquidation preference of $325,000 and $225,000 at September 30, 2013 and December 31, 2012), 100,000,000 shares authorized; 13,000,000 shares issued and outstanding at September 30, 2013 and 9,000,000 issued and outstanding at December 31, 2012	130	90
Common shares of beneficial interest, $.01 par value, 500,000,000 shares authorized; 61,179,628 issued and outstanding at September 30, 2013 and 60,955,090 issued and outstanding at December 31, 2012	612	610
Additional paid-in capital	1,465,905	1,362,349
Accumulated other comprehensive income (loss)	911	(300)
Distributions in excess of retained earnings	(64,191)	(49,798)
Total shareholders' equity	1,403,367	1,312,951
Non-controlling interests	1,345	141
Total equity	1,404,712	1,313,092
Total liabilities and equity	$2,044,845	$1,846,162

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

Table of Contents

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,	
	2013	2012	2013	2012
Revenues:				
Room	$90,093	$68,596	$240,632	$175,083
Food and beverage	32,900	29,236	99,291	83,630
Other operating	8,241	6,473	22,526	17,233
Total revenues	131,234	104,305	362,449	275,946
Expenses:				
Hotel operating expenses:				
Room	22,063	17,045	61,768	45,521
Food and beverage	24,705	21,716	74,180	61,836
Other direct	3,619	3,229	10,344	8,935
Other indirect	32,629	26,061	92,893	71,999
Total hotel operating expenses	83,016	68,051	239,185	188,291
Depreciation and amortization	13,971	11,055	40,747	30,742
Real estate taxes, personal property taxes and property insurance	6,008	4,571	17,240	12,610
Ground rent	1,983	651	5,660	1,608
General and administrative	4,253	3,886	12,838	12,296
Hotel acquisition costs	268	514	1,429	1,340
Total operating expenses	109,499	88,728	317,099	246,887
Operating income (loss)	21,735	15,577	45,350	29,059
Interest income	670	82	1,964	111
Interest expense	(6,074)	(3,949)	(17,457)	(10,671)
Equity in earnings (loss) of joint venture	2,284	2,152	2,492	1,636
Income (loss) before income taxes	18,615	13,862	32,349	20,135
Income tax (expense) benefit	(1,088)	(1,757)	(137)	(840)
Net income (loss)	17,527	12,105	32,212	19,295
Net income (loss) attributable to non-controlling interests	112	187	211	304
Net income (loss) attributable to the Company	17,415	11,918	32,001	18,991
Distributions to preferred shareholders	(6,100)	(4,456)	(16,872)	(13,369)
Net income (loss) attributable to common shareholders	$11,315	$7,462	$15,129	$5,622
Net income (loss) per share available to common shareholders, basic and diluted	$0.18	$0.13	$0.24	$0.10
Weighted-average number of common shares, basic	61,179,524	58,714,055	61,086,834	54,227,155
Weighted-average number of common shares, diluted	61,347,863	58,760,334	61,279,252	54,314,469

Table of Contents

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, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Comprehensive Income:				
Net income (loss)	$17,527	$12,105	$32,212	$19,295
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments	(589)	(389)	1,211	(389)
Comprehensive income (loss)	16,938	11,716	33,423	18,906
Comprehensive income (loss) attributable to non-controlling interests	108	181	218	298
Comprehensive income (loss) attributable to the Company	$16,830	$11,535	$33,205	$18,608

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

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

	Preferred Shares		Common Shares							
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non-Controlling Interests	Total Equity
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 for Board of Trustee compensation	—	—	10,361	—	199	—	—	199	—	199
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)
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
Balance at December 31, 2012	9,000,000	$90	60,955,090	$610	$1,362,349	$(300)	$(49,798)	$1,312,951	$141	$1,313,092
Issuance of shares, net of	4,000,000	40	171,893	2	101,200	—	—	101,242	—	101,242

offering costs										
Issuance of common shares for Board of Trustee compensation	—	—	9,097	—	207	—	—	207	—	207
Repurchase of common shares	—	—	(21,644)	—	(523)	—	—	(523)	—	(523)
Share-based compensation	—	—	65,192	—	2,672	—	—	2,672	1,185	3,857
Distributions on common shares/units	—	—	—	—	—	—	(29,522)	(29,522)	(183)	(29,705)
Distributions on preferred shares	—	—	—	—	—	—	(16,872)	(16,872)	(9)	(16,881)
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	1,211	—	1,211	—	1,211
Net income (loss)	—	—	—	—	—	—	32,001	32,001	211	32,212
Balance at September 30, 2013	13,000,000	$130	61,179,628	$612	$1,465,905	$911	$(64,191)	$1,403,367	$1,345	$1,404,712

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

Table of Contents

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

	For the nine months ended September 30, 2013	2012
Operating activities:		
Net income (loss)	$32,212	$19,295
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	40,747	30,742
Share-based compensation	3,857	2,750
Amortization of deferred financing costs and mortgage loan premiums	(147)	1,128
Non-cash ground rent	2,405	164
Equity in (earnings) loss from joint venture	(706)	(1,636)
Other	447	218
Changes in assets and liabilities:		
Restricted cash, net	(2,061)	(174)
Hotel receivables	(9,995)	(6,944)
Prepaid expenses and other assets	(4,413)	1,456
Distributions from joint venture	735	—
Accounts payable and accrued expenses	8,550	9,146
Advance deposits	3,433	999
Net cash provided by (used in) operating activities	75,064	57,144
Investing activities:		
Acquisition of hotel properties	(99,274)	(217,371)
Improvements and additions to hotel properties	(27,682)	(40,484)
Investment in joint venture, net	26,291	289
Deposit on hotel properties	—	(3,000)
Purchase of corporate office equipment, software, and furniture	(32)	(25)
Restricted cash, net	(1,835)	2,550
Net cash provided by (used in) investing activities	(102,532)	(258,041)
Financing activities:		
Gross proceeds from issuance of common shares	4,829	218,054
Gross proceeds from issuance of preferred shares	100,000	—
Payment of offering costs — common and preferred shares	(3,586)	(6,534)
Payment of deferred financing costs	(649)	(3,043)
Borrowings under senior credit facility	—	95,000
Repayments under senior credit facility	—	(95,000)
Proceeds from term loan	—	100,000
Proceeds from mortgage debt	—	143,000
Repayments of mortgage debt	(5,881)	(135,468)
Repurchase of common shares	(523)	(319)
Distributions — common shares/units	(27,099)	(19,633)
Distributions — preferred shares	(15,481)	(13,369)
Net cash provided by (used in) financing activities	51,610	282,688
Net change in cash and cash equivalents	24,142	81,791
Cash and cash equivalents, beginning of year	85,900	65,684

Cash and cash equivalents, end of period	$110,042	$147,475

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

7

Table of Contents

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, 2013, the Company owned interests in 28 hotels, including 22 wholly owned hotels with a total of 5,191 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; Hollywood, California; 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.; West Hollywood, California; and Westwood, 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, 2013, the Company owned 99.4% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 0.6% 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 comprehensive income, 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, 2012.

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

Table of Contents

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

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

The Company's financial instruments include cash and cash equivalents, restricted cash, interest rate swap derivatives, accounts payable and accrued expenses. Due to their short maturities, the carrying amounts of these assets and liabilities approximate fair value. See Note 6 for disclosures on the fair value of debt and derivative instruments.

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 1 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets. Intangible assets arising from contractual arrangements are typically amortized over the life of the contract.

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

The Company reviews its investments in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, when a hotel property experiences a current or projected loss from operations, when it becomes more likely than not that a hotel property will be sold before the end of its useful life, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, the Company performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying value of the asset, an adjustment to reduce the carrying value to the related hotel’s estimated fair market value is recorded and an impairment loss 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

Table of Contents

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.

Income Taxes

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

Share-based Compensation

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

Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing the net income (loss) 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 January 29, 2013, the Company acquired the 337-suite Embassy Suites San Diego Bay-Downtown located in San Diego, California for $112.5 million. The acquisition was funded with $45.8 million of available cash and the assumption of a $66.7 million first mortgage loan. The fixed rate mortgage loan that was assumed was determined to have an interest rate that was above the current market interest rate. The Company recorded a $4.8 million mortgage loan premium for the above market interest that is amortized as a reduction in interest expense through the maturity of the loan. The Company selected HEI Hotels and Resorts to manage the hotel.

On August 8, 2013, the Company acquired the 57-suite Redbury Hotel located in Hollywood, California for $34.0 million. The acquisition was funded with available cash and the property will continue to be managed by sbe Hotel Group.

On August 28, 2013, the Company acquired the 174-room Hotel Modera located in Portland, Oregon for $47.5 million. The acquisition was funded with $23.8 million of available cash and the assumption of a $23.7 million first mortgage loan. The fixed rate mortgage loan that was assumed was determined to have an interest rate that was above the current market interest rate. The Company recorded a $0.4 million mortgage loan premium for the above market interest that is amortized as a reduction in interest expense through the maturity of the loan. The Company selected OLS 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 Hotel Modera is preliminary and is subject to change in the fourth quarter of 2013 upon management's final determination of fair values for the acquired assets and liabilities.

Table of Contents

	Embassy Suites San Diego Bay-Downtown	Redbury Hotel	Hotel Modera	Total
Land	$20,103	$8,057	$7,490	$35,650
Buildings and improvements	90,161	24,833	38,183	153,177
Furniture, fixtures and equipment	6,881	1,000	1,500	9,381
Above market rate contracts	(4,751)	—	(395)	(5,146)
Mortgage debt	(66,732)	—	(23,716)	(90,448)
In place lease assets and intangibles	66	—	355	421
Net working capital	(12)	(165)	416	239
Net assets acquired	$45,716	$33,725	$23,833	$103,274

The following unaudited pro forma financial information presents the results of operations of the Company for the three and nine months ended September 30, 2013 and 2012 as if the hotels acquired in 2013 and 2012 were acquired on January 1, 2012 and 2011, respectively. The following hotels' pro forma results are included in the pro forma table below: Hotel Zetta (formerly Hotel Milano), Hotel Vintage Park Seattle, Hotel Vintage Plaza Portland, W Los Angeles - Westwood, Hotel Palomar San Francisco, Embassy Suites San Diego Bay-Downtown, Redbury Hotel, and Hotel Modera. The pro forma results below excluded acquisition costs of $0.3 million and $0.5 million for the three months ended September 30, 2013 and 2012, respectively, and $1.4 million and $1.3 million for the nine months ended September 30, 2013 and 2012, 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, 2012 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,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Total revenues	$134,013	$126,110	$376,812	$353,854
Operating income (loss)	22,916	20,951	49,347	42,430
Net income (loss) attributable to common shareholders	11,803	12,166	17,047	17,023
Net income (loss) per share available to common shareholders — basic	$0.19	$0.20	$0.28	$0.27
Net income (loss) per share available to common shareholders — diluted	$0.19	$0.20	$0.27	$0.27

For the three and nine months ended September 30, 2013, the Company's consolidated statements of operations included $9.4 million and $18.8 million of revenues, respectively and $5.1 million and $10.2 million of hotel operating expenses, respectively, related to the operations of the Embassy Suites San Diego Bay - Downtown, Redbury Hotel, and Hotel Modera acquired in 2013.

Note 4. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2013 and December 31, 2012 consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Land	$271,936	$236,287
Buildings and improvements	1,317,050	1,141,347
Furniture, fixtures and equipment	128,507	107,938

Construction in progress	3,668	9,595
Investment in hotel properties	$1,721,161	$1,495,167
Less: Accumulated depreciation	(117,925)	(77,938)
Investment in hotel properties, net	$1,603,236	$1,417,229

11

Table of Contents

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.

On December 27, 2012, the Manhattan Collection joint venture refinanced its existing loans with a new, single $410.0 million loan, secured by five of the properties (excluding Affinia Dumont) owned by the joint venture. The new loan bears interest at an annual fixed rate of 3.67% and requires interest-only payments through maturity on January 5, 2018. In conjunction with the refinancing, the Company provided the joint venture a $50.0 million unsecured special loan which matures at the earlier of July 4, 2018, the closing of any refinancing of the secured loan or the closing date of a portfolio sale (as defined in the loan agreement). The unsecured special loan bears interest at an annual fixed rate of 9.75% and requires interest-only payments through maturity. The unsecured special loan is pre-payable by the joint venture at any time. The unsecured special loan to the joint venture is included in the investment in joint venture on the consolidated balance sheets. Interest income is recorded on the accrual basis and the Company's 49% pro-rata portion of the special loan and related interest income is eliminated.

On April 4, 2013, the joint venture obtained a $50.0 million first mortgage loan secured by the Affinia Dumont. The loan bears interest at an annual fixed rate of 3.14% and requires interest-only payments through maturity on May 1, 2018.

On April 10, 2013, the Company received a $23.0 million distribution from the proceeds of the Affinia Dumont debt financing. This distribution is presented as an investing activity in the Company's consolidated statements of cash flows.

As of September 30, 2013, the joint venture reported approximately $507.6 million in total assets, which represents the basis of the hotels prior to the Company's investment. The joint venture's total liabilities and members' deficit include approximately $460.0 million in existing first mortgage debt, a $50.0 million unsecured special loan and approximately $40.0 million of preferred capital, which may be distributed to the Company's joint venture partner after October 29, 2013. 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, 2013 and 2012 are presented below (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Revenues	$43,299	$43,843	$121,868	$122,273
Total expenses	39,881	38,262	119,273	115,862
Net income (loss)	$3,418	$5,581	$2,595	$6,411
Company’s 49% interest of net income (loss)	1,675	2,734	1,272	3,141
Basis adjustment	7	(582)	(567)	(1,505)
Special loan interest income elimination	602	—	1,787	—
Equity in earnings (loss) in joint venture	$2,284	$2,152	$2,492	$1,636

Note 6. Debt

Senior Unsecured Revolving Credit Facility

The Company's $300.0 million credit facility 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, 2013 and December 31, 2012, the Company had no outstanding borrowings under the revolving credit facility. As of September 30, 2013, the Company was in compliance with the credit agreement debt covenants. For the three and nine months ended September 30, 2013, the Company incurred unused commitment fees of $0.2 million and $0.5 million, respectively. 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.

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 (Overnight Index Swap curves) and volatilities (level 2 inputs). Derivatives expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions.

As of September 30, 2013, the Company's derivative instruments are in an asset position, with an aggregate fair value of $0.9 million, which is included in prepaid expenses and other assets in the accompanying consolidated balance sheets. For the nine months ended September 30, 2013, there was $1.2 million in unrealized gain recorded in accumulated other comprehensive income. During the three and nine months ended September 30, 2013, the Company reclassified $0.1 million and $0.4 million, respectively, from accumulated other comprehensive income to net income (loss) and is included in interest expense. During the three and nine months ended September 30, 2012, the Company reclassified $0.1 million from accumulated other comprehensive income to net income (loss). The Company expects that approximately $0.5 million will be reclassified from accumulated other comprehensive income to net income (loss) in the next 12 months.

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.

In conjunction with the acquisition of the Embassy Suites San Diego Bay-Downtown, the Company assumed a $66.7 million first mortgage loan secured by the property. The loan has a remaining term of three years, bears interest at an annual fixed rate of 6.28% and requires monthly principal and interest payments of $0.5 million. As the loan's interest rate was above market for loans with comparable terms, the Company recorded a loan premium of $4.8 million, which is amortized to interest expense over the remaining term of the loan.

In conjunction with the acquisition of the Hotel Modera, the Company assumed a $23.7 million first mortgage loan secured by the property. The loan has a remaining term of three years, bears interest at an annual fixed rate of 5.26%

and requires monthly principal and interest payments of $0.1 million. As the loan's interest rate was above market for loans with comparable terms, the Company recorded a loan premium of $0.4 million, which is amortized to interest expense over the remaining term of the loan.

Table of Contents

Debt Summary

Debt as of September 30, 2013 and December 31, 2012 consisted of the following (dollars in thousands):

	Interest Rate	Maturity Date	Balance Outstanding as of September 30, 2013	December 31, 2012
Senior unsecured revolving credit facility	Floating	July 2016	$—	$—
Term loan	Floating[1]	July 2017	100,000	100,000
Mortgage loans				
InterContinental Buckhead	4.88%	January 2016	50,405	51,022
Skamania Lodge	5.44%	February 2016	29,925	30,252
DoubleTree by Hilton Bethesda-Washington DC	5.28%	February 2016	35,231	35,602
Embassy Suites San Diego Bay-Downtown	6.28%	June 2016	66,031	—
Hotel Modera	5.26%	July 2016	23,688	—
Monaco Washington DC	4.36%	February 2017	44,780	45,368
Argonaut Hotel	4.25%	March 2017	45,415	46,223
Sofitel Philadelphia	3.90%	June 2017	48,524	49,419
Hotel Palomar San Francisco	5.94%	September 2017	26,885	27,124
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	79,693	81,000
Mortgage loans at stated value			450,577	366,010
Mortgage loan premiums [2]			6,270	2,498
Total mortgage loans			$456,847	$368,508
Total debt			$556,847	$468,508

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[1] The Company entered into interest rate swaps to effectively fix the interest rate at 2.55% for the full five-year term, based on its current leverage ratio.

[2] Loan premiums on assumed mortgages recorded in purchase accounting and secured by the leasehold interest on the Hotel Palomar San Francisco, Embassy Suites San Diego Bay - Downtown and Hotel Modera as of September 30, 2013 and the Hotel Palomar San Francisco as of December 31, 2012.

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, 2013 and December 31, 2012 was $466.4 million and $372.3 million, respectively.

The Company was in compliance with all debt covenants as of September 30, 2013.

Note 7. Equity

Common Shares

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

For the nine months ended September 30, 2013, the Company issued 171,893 common shares at an average price of $28.09 per share under its $170.0 million at-the-market offering ("ATM") program and raised $4.8 million, net of commissions. As of September 30, 2013, $165.2 million of common shares remained available for issuance under the ATM program.

Common Dividends

The Company declared the following dividends on common shares/units for the nine months ended September 30, 2013:

14

Dividend per Share/Unit	For the quarter ended	Record Date	Payable Date
$0.16	March 31, 2013	April 1, 2013	April 15, 2013
$0.16	June 30, 2013	July 1, 2013	July 15, 2013
$0.16	September 30, 2013	September 30, 2013	October 15, 2013

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").

On March 18, 2013, the Company issued 3,600,000 shares of its 6.50% Series C Cumulative Redeemable Preferred Shares ("Series C Preferred Shares") at a public offering price of $25.00 per share, for a total of $87.1 million of net proceeds, after deducting the underwriting discount and other offering-related costs.

On April 12, 2013, the Company issued an additional 400,000 shares of its Series C Preferred Shares at a public offering price of $25.00 per share, for a total of $9.6 million of proceeds, after deducting the underwriting discount and other offering-related costs.

As of September 30, 2013, the Company had 5,600,000 shares of its 7.875% Series A Cumulative Redeemable Preferred Shares ("Series A Preferred Shares"), 3,400,000 shares of its 8.00% Series B Cumulative Redeemable Preferred Shares ("Series B Preferred Shares") and 4,000,000 shares of its 6.50% Series C Preferred Shares outstanding. As of December 31, 2012, the Company had 5,600,000 shares of its 7.875% Series A Preferred Shares and 3,400,000 shares of its 8.00% Series B Preferred Shares outstanding.

The Series A Preferred Shares, Series B Preferred Shares and Series C 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, do not have any maturity date and are not subject to mandatory redemption. The Company may not redeem the Series A Preferred Shares, Series B Preferred Shares or Series C Preferred Shares prior to March 11, 2016, September 21, 2016, and March 18, 2018, respectively, except in limited circumstances relating to the Company's continuing qualification as a REIT or as discussed below. After those dates, the Company may, at its option, redeem the 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, each Series B Preferred Share is 3.4483 common shares, and each Series C Preferred Share is 2.0325 common shares.

Preferred Dividends

The Company declared the following dividends on preferred shares for the nine months ended September 30, 2013:

Security Type	Dividend per Share/Unit	For the quarter ended	Record Date	Payable Date
7.875% Series A	$0.49	March 31, 2013	April 1, 2013	April 15, 2013
7.875% Series A	$0.49	June 30, 2013	July 1, 2013	July 15, 2013
7.875% Series A	$0.49	September 30, 2013	September 30, 2013	October 15, 2013
8.00% Series B	$0.50	March 31, 2013	April 1, 2013	April 15, 2013
8.00% Series B	$0.50	June 30, 2013	July 1, 2013	July 15, 2013
8.00% Series B	$0.50	September 30, 2013	September 30, 2013	October 15, 2013
6.50% Series C	$0.12	March 31, 2013	April 1, 2013	April 15, 2013

6.50% Series C	$0.41	June 30, 2013	July 1, 2013	July 15, 2013
6.50% Series C	$0.41	September 30, 2013	September 30, 2013	October 15, 2013

Table of Contents

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 the Operating Partnership's limited partners or the Company's shareholders.

As of September 30, 2013 and December 31, 2012, the Operating Partnership had 381,109 long-term incentive partnership units (“LTIP units”) outstanding, all of which have reached parity with other common Operating Partnership units. As of September 30, 2013, of the 381,109 LTIP units outstanding, 9,470 units have vested. Only vested LTIP units may be converted to common units of the Operating Partnership, which in turn can be tendered for redemption as described above.

Note 8. Share-Based Compensation Plan

The Company maintains the 2009 Equity Incentive Plan, as amended (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 restricted 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. As of September 30, 2013, there were 987,480 common shares available for issuance under the Plan.

Service Condition Share Awards

The following table provides a summary of service condition restricted share activity as of September 30, 2013:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2013	128,622	$22.19
Granted	59,245	$24.74
Vested	(65,192)	$21.96
Forfeited	—	$—
Unvested at September 30, 2013	122,675	$23.65

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, 2013, the Company recognized approximately $0.4 million and $1.2 million, respectively, of share-based compensation expense related to these service condition restricted shares in the consolidated statements of operations. 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 service condition restricted shares in the consolidated statements of operations. As of September 30, 2013, there was $1.9 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 2.1 years.

Performance-Based Equity Awards

Performance-based equity awards granted 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 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.

Table of Contents

The Relative TSR and Absolute TSR measurements each represent 30% of the award and the Hotel EBITDA margin measurement represents 40% 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 January 30, 2013, the Board of Trustees approved a target award of 60,365 performance-based equity awards to certain officers of the Company ("officer awards") and approved a target award of 11,753 performance-based equity awards to employees of the Company ("employee awards"). The actual number of common shares that ultimately vest will be determined in 2016 based on certain share price and operating performance metrics for the period from January 1, 2013 through December 31, 2015. The officer awards 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 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 0.41%, dividend yield of 2.2%, and expected volatility of 31%. The simulations also considered the actual TSR performance of the Company's shares and the share performance of the peer group. The grant date fair value of the Relative TSR component was $9.53 per target share and the grant date fair value of the Absolute TSR component was $7.46 per target share. The grant date fair value of the Hotel EBITDA component was $24.74 and was determined based on the closing share price on the date of grant. 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 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.

The Company recognizes compensation expense on a straight-line basis through the vesting date. As of September 30, 2013, there was approximately $3.1 million of unrecognized compensation expense related to performance-based awards which will be recognized over the weighted-average remaining vesting period of 1.7 years. For the three and nine months ended September 30, 2013, the Company recognized $0.6 million and $1.5 million, respectively, in expense related to these awards. 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 receive, whether vested or not, the same per-unit profit distributions as the other outstanding units in the Operating Partnership, which equal per-share distributions on common shares. LTIP units are allocated their pro-rata share of the Company's net income (loss). Vested LTIP units may be converted by the holder, at any time, into an equal number of common Operating Partnership units and thereafter will possess all of the rights and interests of a common Operating Partnership unit, including the right to redeem the common Operating Partnership unit for a common share in the Company or cash, at the option of the Operating Partnership.

As of September 30, 2013, the Company had 381,109 LTIP units outstanding, all of which were held by officers of the Company. These LTIP units vest 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 at $8.50 per LTIP unit at the date of grant using a Monte Carlo simulation method model. As of September 30, 2013, of the 381,109 units outstanding, 9,470 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, 2013 and 2012, respectively. As of September 30, 2013, there was $1.9 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 1.3 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 (benefit) for the nine months ended September 30, 2013 using an estimated combined federal and state statutory tax rate of 41.0%.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state and local jurisdictions, where applicable. As of

17

Table of Contents

September 30, 2013 and December 31, 2012, the statute of limitations remains open for all major jurisdictions for tax years dating back to 2009.

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,	
	2013	2012	2013	2012
Numerator:				
Net income (loss) attributable to common shareholders	$11,315	$7,462	$15,129	$5,622
Less: dividends paid on unvested share-based compensation	(81)	(83)	(242)	(249)
Undistributed earnings attributable to share-based compensation	(11)	—	—	—
Net income (loss) available to common shareholders	$11,223	$7,379	$14,887	$5,373
Denominator:				
Weighted-average number of common shares — basic	61,179,524	58,714,055	61,086,834	54,227,155
Effect of dilutive share-based compensation	168,339	46,279	192,418	87,314
Weighted-average number of common shares — diluted	61,347,863	58,760,334	61,279,252	54,314,469
Net income (loss) per share available to common shareholders — basic	$0.18	$0.13	$0.24	$0.10
Net income (loss) per share available to common shareholders — diluted	$0.18	$0.13	$0.24	$0.10

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 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 1% 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 $4.2 million and $11.4 million for the three and nine months ended September 30, 2013, respectively, and $3.3 million and $8.0 million for the three and nine months ended September 30, 2012, respectively.

Reserve Funds

18

Table of Contents

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, 2013 and December 31, 2012, the Company had $15.9 million and $12.0 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.

The Hotel Palomar San Francisco is subject to a long-term hotel lease for the right to use the ground floor lobby area and floors five through nine of the building and underlying land. The hotel lease expires in 2097. The hotel is required to pay an annual base rent payment and a percentage rent payment, which is based on gross hotel and gross food and beverage revenues in excess of certain thresholds, as defined in the agreement.

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,	
	2013	2012
	(in thousands)	
Interest paid, net of capitalized interest	$17,242	$9,438
Interest capitalized	$206	$—
Income taxes paid	$1,420	$1,329
Non-Cash Investing and Financing Activities:		
Distributions payable on common shares/units	$10,068	$7,396
Distributions payable on preferred shares	$5,203	$3,813
Issuance of common shares for board of trustees compensation	$207	$199
Mortgage loan assumed in connection with acquisition	$90,448	$—
Above market rate contracts assumed in connection with acquisition	$5,146	$—
Deposit applied to purchase price of acquisition	$4,000	$—
Accrued additions and improvements to hotel properties	$1,308	$537

Table of Contents

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, 2012, 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, 2013, the Company owned interests in 28 hotels, including 22 wholly owned hotels, with a total of 5,191 guest rooms, and a 49% joint venture interest in six hotels with a total of

1,733 guest rooms.

During the nine months ended September 30, 2013, we raised approximately $96.7 million of proceeds, net of commissions, from the issuance of 4.0 million Series C Preferred Shares. We also raised approximately $4.8 million of

Table of Contents

proceeds, net of commissions, from the issuance of 171,893 common shares under our $170.0 million at-the-market offering program.

During the nine months ended September 30, 2013, we acquired three hotel properties: the 337-suite Embassy Suites San Diego Bay-Downtown for $112.5 million, the 57-suite Redbury Hotel for $34.0 million, and the 174-room Hotel Modera for $47.5 million.

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 $15.0 million to $20.0 million for the remainder of 2013 on renovation and repositioning projects and other capital improvements for our wholly owned hotels.

The U.S. lodging industry has exhibited positive fundamentals through the first nine months of 2013. Concerns continue about tepid economic growth, global volatility and government fiscal deficits, however, U.S. employment levels and housing markets have improved. Additional challenges caused by the federal government's partial shutdown and continued partisanship in the federal government have created uncertainty for both business and leisure travelers.

The third quarter of 2013 continued the trend of strength in transient travel, both business and leisure, despite the fiscal and economic headwinds. High occupancy levels at our properties and in our markets allowed us to drive healthy increases in average daily rates. When we look at the third quarter's overall industry trends, performance continued to be driven by strength in transient travel, both business and leisure, while group demand across the industry continued to be weak, and negatively impacted by federal government travel cutbacks and the beginning of the government shutdown. Nationally, new hotel supply growth remains at historically low levels with demand growth continuing to exceed supply growth, causing industry occupancy levels to increase. Supply growth has begun to increase, particularly in a few markets, as construction financing begins to become more available. We believe that we are in 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 non-financial 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 key same-property hotel operating statistics for our wholly owned hotels for the three and nine months ended September 30, 2013 and 2012.

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Total Portfolio				
Same-Property Occupancy	86.3 %	85.8 %	83.4 %	80.9 %
Same-Property ADR	$225.32	$210.02	$214.28	$203.63
Same-Property RevPAR	$194.53	$180.27	$178.78	$164.84

This schedule of hotel results for the three months ended September 30 includes information from all of the hotels we owned as of September 30, 2013, except for Hotel Modera and our 49% ownership interest in the Manhattan Collection for both 2013 and 2012. This schedule of hotel results for the nine months ended September 30 includes information from all of the hotels we owned as of September 30, 2013, except for the Hotel Zetta (formerly Hotel Milano) for the first quarter, Redbury Hotel for the first and second quarters and Hotel Modera for the first, second, and third quarters of both 2013 and 2012 and our 49% ownership interest in the Manhattan Collection for both 2013 and 2012. The hotel results for the respective periods include information reflecting operational performance prior to our ownership of the hotels.

Table of Contents

Results of Operations

At September 30, 2013 and 2012, we had 22 and 18 wholly owned properties, respectively. All properties owned during these periods have been included in our results of operations during the respective periods or since their date of acquisition. Based on when a property is acquired, operating results for certain properties are not comparable for the three and nine months ended September 30, 2013 and 2012. The properties listed in the table below are hereinafter referred to as the non-comparable properties:

Property	Location	Acquisition Date	Non-comparable property for the Three Months Ended September 30, 2013 and 2012	Non-comparable property for the Nine Months Ended September 30, 2013 and 2012
Hotel Zetta (formerly Hotel Milano)	San Francisco, CA	April 4, 2012		X
Hotel Vintage Park	Seattle, WA	July 9, 2012	X	X
Hotel Vintage Plaza	Portland, OR	July 9, 2012	X	X
W Los Angeles - Westwood	Los Angeles , CA	August 23, 2012	X	X
Hotel Palomar San Francisco	San Francisco, CA	October 25, 2012	X	X
Embassy Suites San Diego Bay-Downtown	San Diego, CA	January 29, 2013	X	X
Redbury Hotel	Hollywood, CA	August 8, 2013	X	X
Hotel Modera	Portland, OR	August 28, 2013	X	X

Comparison of three months ended September 30, 2013 to three months ended September 30, 2012

Revenues — Total hotel revenues increased by $26.9 million, of which $5.5 million was contributed by our comparable properties and $21.4 million was contributed by the non-comparable properties. The increase from our comparable properties is primarily a result of increases in ADR and revenues at our InterContinental Buckhead, Argonaut and Hotel Zetta properties.

Hotel operating expenses — Total hotel operating expenses increased by $15.0 million. The comparable properties contributed $2.7 million of the increase, which is a result of cost increases as a result of increased revenues, partially offset by cost reduction initiatives. The remaining $12.3 million of the increase was generated from the non-comparable properties.

Depreciation and amortization — Depreciation and amortization expense increased by $2.9 million primarily due to the additional depreciation for the non-comparable properties.

Real estate taxes, personal property taxes and property insurance — Real estate taxes, personal property taxes and insurance increased by $1.4 million primarily due to the non-comparable properties and an increase in real estate taxes throughout the portfolio.

Ground rent — Ground rent expense increased by $1.3 million due to the acquisition of the Hotel Palomar San Francisco on October 25, 2012 which we lease pursuant to a long-term hotel lease agreement.

Corporate general and administrative — Corporate general and administrative expenses increased by $0.4 million primarily as a result of increases in non-cash share-based employee compensation costs, 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 $0.2 million due to less acquisition activity during the period than during the same period in the prior year. 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 more properties are acquired or when we have significant ongoing acquisition activity.

Interest income — Interest income increased by $0.6 million as a result of interest income earned on the special loan to the Manhattan Collection joint venture. The special loan was made to the joint venture in December 2012.

Interest expense — Interest expense increased by $2.1 million as a result of higher debt balances from mortgage assumptions in connection with property acquisitions.

22

Equity in earnings (losses) of joint venture — Equity in earnings of joint venture remained consistent with the prior year.
Income tax (expense) benefit — Income tax expense decreased by $0.7 million as a result of a decrease in the taxable 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 changes to non-controlling interests during the periods.
Distributions to preferred shareholders — Distributions to preferred shareholders increased $1.6 million as a result of the issuance of the Series C Preferred Shares on March 18, 2013 and April 12, 2013. There were no Series C Preferred Shares outstanding in 2012.
Comparison of nine months ended September 30, 2013 to nine months ended September 30, 2012
Revenues — Total hotel revenues increased by $86.5 million, of which $16.5 million was contributed by our comparable properties and $70.0 million was contributed by the non-comparable properties. The increase in revenues from our comparable properties is primarily a result of increases in ADR of our West Coast properties and RevPAR growth at the InterContinental Buckhead property.
Hotel operating expenses — Total hotel operating expenses increased by $50.9 million. The comparable properties contributed $6.5 million of the increase, which is a result of cost increases as a result of increased revenues, partially offset by cost reduction initiatives. The remaining $44.4 million of the increase was generated from non-comparable properties.
Depreciation and amortization — Depreciation and amortization expense increased by $10.0 million primarily due to the additional depreciation for the non-comparable properties.
Real estate taxes, personal property taxes and property insurance — Real estate taxes, personal property taxes and insurance increased by $4.6 million primarily due to the non-comparable properties and an increase in real estate taxes throughout the portfolio.
Ground rent — Ground rent expense increased by $4.1 million due to the acquisition of the Hotel Palomar San Francisco on October 25, 2012 which we lease pursuant to a long-term hotel lease agreement.
Corporate general and administrative — Corporate general and administrative expenses increased by $0.5 million primarily as a result of increases in non-cash share-based employee compensation costs, which was offset by the $1.1 million management contract termination expense incurred in 2012 for the DoubleTree by Hilton Bethesda-Washington DC. 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 increased by an insignificant amount. 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 more properties are acquired or when we have significant ongoing acquisition activity.
Interest income — Interest income increased by $1.9 million as a result of interest income earned on the special loan to the Manhattan Collection joint venture. The special loan was made to the joint venture in December 2012.
Interest expense — Interest expense increased by $6.8 million as a result of higher debt balances from mortgage assumptions in connection with property acquisitions.
Equity in earnings (losses) of joint venture — Equity in earnings of joint venture increased by $0.9 million primarily due to lower interest expense at the joint venture resulting from less borrowings.
Income tax (expense) benefit — Income tax expense decreased by $0.7 million as a result of a decrease in the taxable 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 changes to non-controlling interests during the periods.
Distributions to preferred shareholders — Distributions to preferred shareholders increased $3.5 million as a result of the issuance of the Series C Preferred Shares on March 18, 2013 and April 12, 2013. There were no Series C Preferred Shares outstanding in 2012.
Non-GAAP Financial Measures

Table of Contents

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.

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, 2013 and 2012 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$17,527	$12,105	$32,212	$19,295
Adjustments:				
Depreciation and amortization	13,928	11,015	40,619	30,625
Depreciation and amortization from joint venture	2,022	2,469	6,776	7,333
FFO	$33,477	$25,589	$79,607	$57,253
Distribution to preferred shareholders	$(6,100)	$(4,456)	$(16,872)	$(13,369)
FFO available to common share and unit holders	$27,377	$21,133	$62,735	$43,884

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, 2013 and 2012 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$17,527	$12,105	$32,212	$19,295
Adjustments:				
Interest expense	6,074	3,949	17,457	10,671
Interest expense from joint venture	2,306	3,164	6,601	9,675
Income tax expense (benefit)	1,088	1,757	137	840
Depreciation and amortization	13,971	11,055	40,747	30,742
Depreciation and amortization from joint venture	2,022	2,469	6,776	7,333
EBITDA	$42,988	$34,499	$103,930	$78,556

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

24

Table of Contents

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, 2012.

Liquidity and Capital Resources

We expect to meet our short-term liquidity requirements through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our senior unsecured revolving credit 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.

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.

Senior Unsecured Credit Facility

We have a $300.0 million senior unsecured credit facility to fund acquisitions, property redevelopments, return on investment initiatives and general business needs. The senior unsecured credit facility consists of a $200.0 million revolver and a $100.0 million term loan. As of September 30, 2013, we had no outstanding borrowings under the revolver and we had $100.0 million outstanding under the term loan. We have the ability to increase the aggregate borrowing capacity under the credit agreement up to $600.0 million, subject to lender approval. We intend to repay indebtedness incurred under our senior unsecured revolving credit facility from time to time out of cash flows from operations and from the net proceeds of issuances of additional equity and debt securities, as market conditions permit.

Interest is paid on the periodic advances under the senior unsecured revolving credit facility at varying rates, based upon either LIBOR or the alternate base rate, plus an additional margin amount. The interest rate depends upon our leverage ratio pursuant to the provisions of the credit facility agreement. We entered into interest rate swaps to effectively fix the interest rate at 2.55% per annum for the term loan for the full five-year term at the Company's current leverage ratio (as defined in the credit agreement).

Table of Contents

Debt Summary
Debt as of September 30, 2013 and December 31, 2012 consisted of the following (dollars in thousands):

	Interest Rate	Maturity Date	Balance Outstanding as of September 30, 2013	December 31, 2012
Senior unsecured revolving credit facility	Floating [(1)]	July 2016	$—	$—
Term loan	Floating[(2)]	July 2017	100,000	100,000
Mortgage loans				
InterContinental Buckhead	4.88%	January 2016	50,405	51,022
Skamania Lodge	5.44%	February 2016	29,925	30,252
DoubleTree by Hilton Bethesda-Washington DC	5.28%	February 2016	35,231	35,602
Embassy Suites San Diego Bay-Downtown	6.28%	June 2016	66,031	—
Hotel Modera	5.26%	July 2016	23,688	—
Monaco Washington DC	4.36%	February 2017	44,780	45,368
Argonaut Hotel	4.25%	March 2017	45,415	46,223
Sofitel Philadelphia	3.90%	June 2017	48,524	49,419
Hotel Palomar San Francisco	5.94%	September 2017	26,885	27,124
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	79,693	81,000
Mortgage loans at stated value			450,577	366,010
Mortgage loan premiums [(3)]			6,270	2,498
Total mortgage loans			$456,847	$368,508
Total debt			$556,847	$468,508

[(1)] Borrowings bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) an Adjusted Base Rate (as defined in the senior unsecured credit agreement) plus an applicable margin. We have a one-year extension option.
[(2)] Borrowings bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) an Adjusted Base Rate plus an applicable margin. We entered into interest rate swaps to effectively fix the interest rate for the full five-year term at 2.55% per annum, based on our current leverage ratio.
[(3)] Loan premiums on assumed mortgages recorded in purchase accounting and secured by the leasehold interest on the Hotel Palomar San Francisco, Embassy Suites San Diego Bay - Downtown and Hotel Modera as of September 30, 2013 and the Hotel Palomar San Francisco as of December 31, 2012.

Issuance of Common Shares

As previously disclosed, on September 28, 2012 we entered into equity distribution agreements (collectively, the “Equity Distribution Agreements”) with each of Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James & Associates, Inc. (collectively, the “Sales Agents”), providing for our sale of 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 (our “ATM program”).
The $170.0 million of common shares issuable pursuant to our ATM 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 our ATM program. For the nine months ended September 30, 2013, we sold 171,893 shares under our ATM program at an average price of $28.09 per share and raised $4.8 million, net of commissions. We expect to use the net proceeds of these issuances for future acquisitions and general corporate purposes. As of September 30, 2013, $165.2 million of common shares remained

available for issuance under our ATM program.
Sources and Uses of Cash

Table of Contents

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 $75.1 million for the nine months ended September 30, 2013. Our cash from operations includes the operating activities of our 22 wholly owned hotels and operating cash flow distributions received from our Manhattan Collection joint venture. Our cash provided by operating activities for the nine months ended September 30, 2012 was $57.1 million and relates principally to the 18 hotels we owned at September 30, 2012.

Cash used in Investing Activities. Our cash used in investing activities was $102.5 million for the nine months ended September 30, 2013. During the nine months ended September 30, 2013, we purchased three hotels using cash of $99.3 million, invested $27.7 million in improvements to our hotel properties, received a net distribution of $26.3 million from our joint venture, and had an increase in restricted cash of $1.8 million. During the nine months ended September 30, 2012, we used $258.0 million of cash, of which we used $217.4 million to purchase four hotel properties, 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.

Cash provided by Financing Activities. Our cash provided by financing activities was $51.6 million for the nine months ended September 30, 2013. We received net proceeds of $101.2 million from the issuance of 4.0 million Series C Preferred Shares and 171,893 common shares, repaid $5.9 million of mortgage debt, and paid $42.6 million in distributions. For the nine months ended September 30, 2012, cash flows provided by financing activities was $282.7 million, which consisted of 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 distributions.

Capital Investments

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

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

For the nine months ended September 30, 2013, we invested $27.7 million in capital investments to reposition and improve the properties we own. We expect to invest approximately $15.0 million to $20.0 million in capital investments for our wholly owned hotels during the remainder of 2013. In late February 2013, the renovation of the Hotel Milano was completed, and the hotel re-opened as Hotel Zetta.

Contractual Obligations and Off-Balance Sheet Arrangements

The table below summarizes our contractual obligations as of September 30, 2013 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

Table of Contents

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Mortgage loans (1)	$522,904	$30,710	$250,974	$169,052	$72,168
Term loan (2)	109,909	2,585	5,178	102,146	—
Ground leases (3)	413,188	3,058	6,175	6,311	397,644
Purchase commitments (4)	3,500	3,500	—	—	—
Corporate office lease	318	293	25	—	—
Total	$1,049,819	$40,146	$262,352	$277,509	$469,812

(1) Amounts include principal and interest.

(2) 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 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. The long-term hotel lease on the Hotel Palomar San Francisco provides for base rent plus percentage rent, adjusted for CPI increases and contains a base rent floor and ceiling. The table reflects only minimum 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.

On December 27, 2012, the joint venture refinanced its existing loans with a new, single $410.0 million loan, secured by five of the properties (excluding Affinia Dumont) owned by the joint venture. The new loan bears interest at an annual fixed rate of 3.67% and requires interest only payments through maturity on January 5, 2018. In conjunction with the re-financing, we provided the joint venture a $50.0 million unsecured special loan which matures at the earlier of July 4, 2018, the closing of any refinancing of the secured loan or the closing date of a portfolio sale (as defined in the loan agreement). The unsecured special loan bears interest at an annual fixed rate of 9.75% and requires interest-only payments through maturity. The unsecured special loan is pre-payable by the joint venture at any time.

On April 4, 2013, the joint venture obtained a $50.0 million first mortgage loan secured by the Affinia Dumont. The loan bears interest at an annual fixed interest rate of 3.14% and requires interest-only payments through maturity on May 1, 2018.

The joint venture was in compliance with all of its debt covenants as of September 30, 2013. We are not guarantors of the joint venture debt except for limited customary carve-outs related to fraud or misapplication of funds.

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.

Table of Contents

Derivative Instruments

In the normal course of business, we are exposed to the effects of interest rate changes. We may enter into derivative instruments including interest rate swaps, caps and collars to manage or hedge interest rate risk. Derivative instruments are subject to fair value reporting at each reporting date and the increase or decrease in fair value is recorded in net income (loss) or accumulated other comprehensive income (loss), based on the applicable hedge accounting guidance. Derivatives expose the Company to credit risk in the event of non-performance by the 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% per annum 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, 2013, our derivative instruments are in an asset position, with an aggregate fair value of $0.9 million, which is included in prepaid expenses and other assets in the accompanying consolidated balance sheets. For the nine months ended September 30, 2013, there was $1.2 million in unrealized gain recorded in accumulated other comprehensive income.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Sensitivity

We are exposed to market risk from changes in interest rates. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose us to the risks that the other parties to the agreements will not perform, 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, 2013, we have no unhedged 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 swaps.

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.

Except as set forth below, 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, 2012.

29

Table of Contents

A delay in approving a budget and/or continuing appropriation legislation to fund the operations of the federal government and the failure to raise the borrowing limit for the federal government could affect travel directly and indirectly and may thereby negatively impact our revenues and cash available for distributions.

The delay in approving a budget and continuing appropriation legislation to fund the operations of the federal government caused many federal agencies to cease or curtail some activities during the fourth quarter of 2013. In addition, in April 2013, the Federal Aviation Administration announced the implementation of furloughs of air traffic controllers, resulting in flight delays throughout the United States until the U.S. Congress passed a bill suspending such furloughs. There can be no assurance that future sequestration obligations under the Budget Control Act of 2011 by the Federal Aviation Administration or other agencies of the federal government will not occur in future periods resulting in difficulties and discouraging travel. The reduction in income from both businesses and federal government employees and the possibility of another federal government impasse may adversely affect consumer confidence or may discourage both business and leisure travel, resulting in the deferral or cancellation of travel and a negative effect on our group and transient revenues in the fourth quarter of 2013 and in subsequent quarters. Such impacts could have a material adverse impact on our consolidated financial statements.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other information.

None.

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
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.

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

Table of Contents

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.

PEBBLEBROOK HOTEL TRUST

Date: October 24, 2013

/s/ JON E. BORTZ
Jon E. Bortz
Chairman, President and Chief Executive Officer

Table of Contents

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32