Pebblebrook Hotel Trust
Form 10-Q
April 25, 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 March 31, 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	20814
(Address of Principal Executive Offices)	(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 April 22, 2013
Common shares of beneficial interest ($0.01 par value per share)	61,412,400

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

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Investment in hotel properties, net	$1,535,458	$1,417,229
Investment in joint venture	276,378	283,011
Ground lease asset, net	10,228	10,283
Cash and cash equivalents	115,633	85,900
Restricted cash	13,152	12,034
Hotel receivables (net of allowance for doubtful accounts of $116 and $28, respectively)	20,278	13,463
Deferred financing costs, net	5,646	5,753
Prepaid expenses and other assets	18,955	18,489
Total assets	$1,995,728	$1,846,162
LIABILITIES AND EQUITY		
Senior unsecured revolving credit facility	$—	$—
Term loan	100,000	100,000
Mortgage debt (including mortgage loan premium of $6,866 and $2,498, respectively)	437,837	368,508
Accounts payable and accrued expenses	48,031	47,364
Advance deposits	7,724	4,596
Accrued interest	1,876	1,328
Distribution payable	13,984	11,274
Total liabilities	609,452	533,070
Commitments and contingencies (Note 11)		
Shareholders’ equity:		
Preferred shares of beneficial interest, $.01 par value (liquidation preference of $315,000 and $225,000 at March 31, 2013 and December 31, 2012), 100,000,000 shares authorized; 12,600,000 shares issued and outstanding at March 31, 2013 and 9,000,000 issued and outstanding at December 31, 2012	126	90
Common shares of beneficial interest, $.01 par value, 500,000,000 shares authorized; 61,007,735 issued and outstanding at March 31, 2013 and 60,955,090 issued and outstanding at December 31, 2012	610	610
Additional paid-in capital	1,449,797	1,362,349
Accumulated other comprehensive income (loss)	(195)	(300)
Distributions in excess of retained earnings	(64,539)	(49,798)
Total shareholders’ equity	1,385,799	1,312,951
Non-controlling interests	477	141
Total equity	1,386,276	1,313,092
Total liabilities and equity	$1,995,728	$1,846,162

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

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

	For the three months ended March 31, 2013	2012
Revenues:		
Room	$67,139	$46,855
Food and beverage	31,163	25,524
Other operating	6,612	5,095
Total revenues	104,914	77,474
Expenses:		
Hotel operating expenses:		
Room	18,858	13,493
Food and beverage	24,058	19,703
Other direct	3,276	2,751
Other indirect	28,852	22,146
Total hotel operating expenses	75,044	58,093
Depreciation and amortization	13,211	9,689
Real estate taxes, personal property taxes and property insurance	5,591	4,007
Ground rent	922	420
General and administrative	4,339	3,600
Hotel acquisition costs	920	238
Total operating expenses	100,027	76,047
Operating income (loss)	4,887	1,427
Interest income	634	6
Interest expense	(5,458)	(3,257)
Other	—	—
Equity in earnings (loss) of joint venture	(2,907)	(3,596)
Income (loss) before income taxes	(2,844)	(5,420)
Income tax (expense) benefit	2,598	2,583
Net income (loss)	(246)	(2,837)
Net income (loss) attributable to non-controlling interests	2	(46)
Net income (loss) attributable to the Company	(248)	(2,791)
Distributions to preferred shareholders	(4,668)	(4,456)
Net income (loss) attributable to common shareholders	$(4,916)	$(7,247)
Net income (loss) per share available to common shareholders, basic and diluted	$(0.08)	$(0.14)
Weighted-average number of common shares, basic	60,996,196	51,009,904
Weighted-average number of common shares, diluted	60,996,196	51,009,904

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

	For the three months ended March 31,	
	2013	2012
Comprehensive Income:		
Net income (loss)	$(246)	$(2,837)
Other comprehensive income (loss):		
Unrealized gain (loss) on derivative instruments	105	—
Comprehensive income (loss)	(141)	(2,837)
Comprehensive income (loss) attributable to non-controlling interests	3	(46)
Comprehensive income (loss) attributable to the Company	$(144)	$(2,791)

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

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

	Preferred Shares		Common Shares							
	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	—	—	1,407,079	14	31,859	—	—	31,873	—	31,873
Issuance of common shares for Board of Trustee compensation	—	—	10,361	—	199	—	—	199	—	199
Repurchase of common shares	—	—	(15,595)	—	(318)	—	—	(318)	—	(318)
Share-based compensation	—	—	48,324	—	457	—	—	457	396	853
Distributions on common shares/units	—	—	—	—	—	—	(6,282)	(6,282)	(113)	(6,395)
Distributions on preferred shares	—	—	—	—	—	—	(4,456)	(4,456)	—	(4,456)
Net income (loss)	—	—	—	—	—	—	(2,791)	(2,791)	(46)	(2,837)
Balance at March 31, 2012	9,000,000	$90	52,219,193	$522	$1,175,102	$—	$(43,781)	$1,131,933	$3,334	$1,135,267
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 offering costs	3,600,000	36	—	—	86,929	—	—	86,965	—	86,965
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	—	835	—	—	835	395	1,230
Distributions on common shares/units	—	—	—	—	—	—	(9,825)	(9,825)	(61)	(9,886)
Distributions on preferred shares	—	—	—	—	—	—	(4,668)	(4,668)	—	(4,668)
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	105	—	105	—	105
Net income (loss)	—	—	—	—	—	—	(248)	(248)	2	(246)
Balance at March 31, 2013	12,600,000	$126	61,007,735	$610	$1,449,797	$(195)	$(64,539)	$1,385,799	$477	$1,386,276

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

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

	For the three months ended March 31, 2013	2012
Operating activities:		
Net income (loss)	$(246)	$(2,837)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,211	9,689
Share-based compensation	1,230	853
Amortization of deferred financing costs and mortgage loan premiums	20	421
Amortization of ground lease	22	54
Equity in (earnings) loss from joint venture	2,907	3,596
Other	162	62
Changes in assets and liabilities:		
Restricted cash, net	(1,357)	372
Hotel receivables	(6,746)	(3,876)
Prepaid expenses and other assets	(4,136)	831
Accounts payable and accrued expenses	2,488	(332)
Advance deposits	3,128	1,762
Net cash provided by (used in) operating activities	10,683	10,595
Investing activities:		
Acquisition of hotel properties	(41,716)	—
Improvements and additions to hotel properties	(15,296)	(17,005)
Investment in joint venture	3,307	—
Deposit on hotel properties	—	(3,000)
Purchase of corporate office equipment, software, and furniture	(6)	—
Restricted cash, net	239	282
Net cash provided by (used in) investing activities	(53,472)	(19,723)
Financing activities:		
Gross proceeds from issuance of common shares	—	32,421
Gross proceeds from issuance of preferred shares	90,000	—
Payment of offering costs — common and preferred shares	(3,036)	(548)
Payment of deferred financing costs	(303)	(594)
Borrowings under senior credit facility	—	70,000
Repayments under senior credit facility	—	(70,000)
Proceeds from mortgage debt	—	93,000
Repayments of mortgage debt	(1,772)	(133,477)
Repurchase of common shares	(523)	(319)
Distributions — common shares/units	(7,388)	(6,219)
Distributions — preferred shares	(4,456)	(4,456)
Net cash provided by (used in) financing activities	72,522	(20,192)
Net change in cash and cash equivalents	29,733	(29,320)
Cash and cash equivalents, beginning of year	85,900	65,684
Cash and cash equivalents, end of period	$115,633	$36,364

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

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

Note 1. Organization

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

As of March 31, 2013, the Company owned interests in 26 hotels, including 20 wholly owned hotels with a total of 4,960 guest rooms, and a 49% joint venture interest in six hotels with 1,733 guest rooms. The hotels are located in the following markets: Atlanta (Buckhead), Georgia; Bethesda, Maryland; Boston, Massachusetts; Los Angeles, California; Miami, Florida; Minneapolis, Minnesota; New York, New York; Philadelphia, Pennsylvania; Portland, Oregon; San Diego, California; San Francisco, California; Santa Monica, California; Seattle, Washington; Stevenson, Washington; Washington, D.C.; and West Hollywood, California.

Substantially all of the Company’s assets are held by, and all of the operations are conducted through, Pebblebrook Hotel, L.P., (the “Operating Partnership”). The Company is the sole general partner of the Operating Partnership. At March 31, 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 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 that the Company does not control, but has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method.

Use of Estimates

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

Fair Value Measurements

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

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

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

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

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts payable and accrued expenses. Due to their short maturities, the carrying amounts of these assets and liabilities approximate fair value. 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

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

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 our stock, 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 is 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 allocation of fair value to the acquired assets and liabilities is as follows (in thousands).

	Embassy Suites San Diego Bay-Downtown
Land	$20,103
Buildings and improvements	90,162
Furniture, fixtures and equipment	6,881
Above market rate contracts	(4,751)
Mortgage debt	(66,732)
In place lease assets	66

Net working capital	39
Net assets acquired	$45,768

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The following unaudited pro forma financial information presents the results of operations of the Company for the three months ended March 31, 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 and Embassy Suites San Diego Bay-Downtown. The pro forma results below excluded acquisition costs of $0.9 million and $0.2 million for the three months ended March 31, 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 March 31,	
	2013	2012
	(Unaudited)	
Total revenues	$ 106,550	$ 100,455
Operating income (loss)	5,106	3,728
Net income (loss) attributable to common shareholders	(5,344)	(5,136)
Net income (loss) per share available to common shareholders — basic and diluted	$ (0.09)	$ (0.09)

For the three months ended March 31, 2013, the Company's consolidated statements of operations included $4.2 million of revenues and $2.1 million of hotel operating expenses related to the operations of the Embassy Suites San Diego Bay - Downtown hotel acquired in 2013.

Note 4. Investment in Hotel Properties

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

	March 31, 2013	December 31, 2012
Land	$256,389	$236,287
Buildings and improvements	1,243,323	1,141,347
Furniture, fixtures and equipment	120,482	107,938
Construction in progress	6,166	9,595
Investment in hotel properties	$1,626,360	$1,495,167
Less: Accumulated depreciation	(90,902)	(77,938)
Investment in hotel properties, net	$1,535,458	$1,417,229

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.

As of March 31, 2013, the joint venture reported approximately $475.1 million in total assets, which represents the basis of the hotels prior to our investment. The joint venture's total liabilities and members' deficit include approximately $410.0 million in existing first mortgage debt, a $50.0 million unsecured special loan, and approximately $16.1 million of preferred capital which may be distributed to the Company's joint venture partner after October 29, 2013. The Company is not a

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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 months ended March 31, 2013 and 2012 are presented below (in thousands):

	For the three months ended March 31,	
	2013	2012
Revenues	$33,224	$32,200
Total expenses	39,222	38,596
Net income (loss)	$(5,998)	$(6,396)
Company's 49% interest of net income (loss)	(2,939)	(3,134)
Basis adjustment	(557)	(462)
Special loan interest income elimination	589	—
Equity in earnings (loss) in joint venture	$(2,907)	$(3,596)

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 joint venture.

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 March 31, 2013 and December 31, 2012, the Company had no outstanding borrowings under the revolving credit facility. As of March 31, 2013, the Company was in compliance with the credit agreement debt covenants. For the three months ended March 31, 2013 and 2012, the Company incurred unused commitment fees of $0.2 million and $0.2 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 March 31, 2013, the Company's derivative instruments are in a liability position, with an aggregate fair value of $0.2 million which is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. As of March 31, 2013, there was $0.2 million in unrealized loss included in accumulated other comprehensive loss. During the three months ended March 31, 2013, the Company reclassified $0.1 million from accumulated other comprehensive income to net income (loss) and is included in interest expense.

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 is 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.

Debt Summary

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

			Balance Outstanding as of	
	Interest Rate	Maturity Date	March 31, 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	50,810	51,022
Skamania Lodge	5.44%	February 2016	30,138	30,252
DoubleTree by Hilton Bethesda-Washington DC	5.28%	February 2016	35,473	35,602
Embassy Suites San Diego Bay-Downtown	6.28%	June 2016	66,608	—
Monaco Washington DC	4.36%	February 2017	45,174	45,368
Argonaut Hotel	4.25%	March 2017	45,950	46,223
Sofitel Philadelphia	3.90%	June 2017	49,117	49,419
Hotel Palomar San Francisco	5.94%	September 2017	27,039	27,124
Westin Gaslamp Quarter, San Diego	3.69%	January 2020	80,662	81,000
Mortgage loans at stated value			430,971	366,010
Mortgage loan premiums [2]			6,866	2,498
Total mortgage loans			$437,837	$368,508
Total debt			$537,837	$468,508

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(1) We entered into interest rate swaps to effectively fix the interest rate at 2.55% for the full five-year term, based on our 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 and Embassy Suites San Diego Bay - Downtown.

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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 March 31, 2013 and December 31, 2012 was $444.7 million and $372.3 million, respectively.
The Company was in compliance with all debt covenants as of March 31, 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.
As of March 31, 2013, $170.0 million of common shares remained available for issuance under the $170.0 million at-the-market ("ATM") program.

Common Dividends

The Company declared the following dividends on common shares/units for the three months ended March 31, 2013:

Dividend per Share/Unit	For the quarter ended	Record Date	Payable Date
$0.16	March 31, 2013	April 1, 2013	April 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 approximately $87.1 million of net proceeds, after deducting the underwriting discount and other offering-related costs.
As of March 31, 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 3,600,000 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. The outstanding Preferred Shares do not have any maturity date and are not subject to mandatory redemption. The Company may not optionally redeem the Series A Preferred Shares, 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, the share cap on each Series B Preferred Share is 3.4483 common shares, and the share cap on each Series C Preferred Share is 2.0325 common shares.

Preferred Dividends

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The Company declared the following dividends on preferred shares for the three months ended March 31, 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
8.00% Series B	$0.50	March 31, 2013	April 1, 2013	April 15, 2013
6.50% Series C	$0.12	March 31, 2013	April 1, 2013	April 15, 2013

Non-controlling Interest of Common Units in Operating Partnership

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

As of March 31, 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 March 31, 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 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 March 31, 2013, there were 948,227 common shares available for issuance under the Plan.

Service Condition Share Awards

The following table provides a summary of service condition share activity as of March 31, 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 March 31, 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 months ended March 31, 2013 and 2012, the Company recognized approximately $0.4 million and $0.3 million, respectively, of share-based compensation expense related to these service condition restricted shares in the consolidated statements of operations. As of March 31, 2013, there was $2.6 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 2.4 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.

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

The Relative TSR and Absolute TSR measurements each represent 30% 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 March 31, 2013, there was approximately $4.0 million of unrecognized compensation expense related to performance-based awards which will be recognized over 2.2 years. For the three months ended March 31, 2013 and 2012, the Company recognized $0.4 million and $0.1 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 March 31, 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 March 31, 2013, of the 381,109 units outstanding, 9,470 LTIP units have vested.

The Company recognized $0.4 million in share-based compensation expense related to the LTIP units for both the three months ended March 31, 2013 and 2012. As of March 31, 2013, there was $2.7 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 1.8 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 three months ended March 31, 2013 using an estimated combined federal and state statutory tax rate of 41.0%. As of March 31, 2013, the Company had deferred tax assets of $2.6 million primarily due

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to current period tax net operating losses of PHL. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

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 March 31,	
	2013	2012
Numerator:		
Net income (loss) attributable to common shareholders	$ (4,916)	$ (7,247)
Less: dividends paid on unvested share-based compensation	(79)	(83)
Undistributed earnings attributable to share-based compensation	—	—
Net income (loss) available to common shareholders	$ (4,995)	$ (7,330)
Denominator:		
Weighted-average number of common shares — basic	60,996,196	51,009,904
Effect of dilutive share-based compensation	—	—
Weighted-average number of common shares — diluted	60,996,196	51,009,904
Net income (loss) per share available to common shareholders — basic	$ (0.08)	$ (0.14)
Net income (loss) per share available to common shareholders — diluted	$ (0.08)	$ (0.14)

For the three months ended March 31, 2013 and 2012, 130,130 and 204,995 unvested service condition restricted shares and performance based equity awards were excluded from diluted weighted-average common shares, as their effect would have been anti-dilutive. The LTIP units held by the non-controlling interest holders have been excluded from the denominator of the diluted earnings per share as there would be no effect on the amounts since the limited partners' share of income (loss) would also be added or subtracted to derive at net income (loss) available to common shareholders.

Note 11. Commitments and Contingencies

Management Agreements

The Company’s hotel properties are operated pursuant to management agreements with various management companies. The initial terms of these management agreements range from five years to 20 years, not including renewals, and five years to 40 years, including renewals. Many of the Company’s management agreements are terminable at will by the Company upon paying a termination fee and some are terminable by the Company upon sale of the property, with, in some cases, the payment of termination fees. Most of the agreements also provide the Company the ability to terminate based on failure to achieve defined operating performance thresholds. Termination fees range from zero to up to six times the annual base management and incentive management fees, depending on the agreement and the reason for termination. Certain of the Company’s management 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 $3.2 million and $2.1 million for the three months ended March 31, 2013 and 2012.

Reserve Funds

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

Restricted Cash

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At March 31, 2013 and December 31, 2012, the Company had $13.2 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 certain floors of the building. 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 three months ended March 31,	
	2013	2012
	(in thousands)	
Interest paid, net of capitalized interest	$5,096	$2,906
Interest capitalized	$206	$—
Income taxes paid	$400	$232
Non-Cash Investing and Financing Activities:		
Distributions payable on common shares/units	$9,960	$6,393
Distributions payable on preferred shares	$4,024	$3,813
Issuance of common shares for board of trustees compensation	$207	$199
Mortgage loan assumed in connection with acquisition	$66,732	$—
Above market rate contracts assumed in connection with acquisition	$4,751	$—
Deposit applied to purchase price of acquisition	$4,000	$—
Accrued additions and improvements to hotel properties	$1,229	$2,493

Note 13. Subsequent Events

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. Net proceeds, after deducting the underwriting discount and other offering-related costs, were approximately $9.6 million.

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

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

Forward-Looking Statements

This report, together with other statements and information publicly disseminated by the Company, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," “should,” “potential,” “could,” “predict,” “continue,’ “seek,” “assume,” “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “forecast” or similar expressions. Forward statements in this report include, among others, statements about our business strategy, including our acquisition and development strategies, industry trends, estimated revenues and expenses, ability to realize deferred tax assets and expected liquidity needs and sources (including capital expenditures and our ability to obtain financing or raise capital). You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and which could materially affect actual results, performances or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- the timing and availability of potential hotel acquisitions and our ability to identify and complete hotel acquisitions in accordance with our business strategy;
- risks associated with the hotel industry, including competition, increases in employment costs, energy costs and other operating costs, or decreases in demand caused by actual or threatened terrorist attacks, any type of flu or disease-related pandemic, or downturns in general and local economic conditions;
- the availability and terms of financing and capital and the general volatility of securities markets;
- our dependence on third-party managers of our hotels, including our inability to implement strategic business decisions directly;
- risks associated with the real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act and similar laws;
- interest rate increases;
- our possible failure to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), and the risk of changes in laws affecting REITs;
- the possibility of uninsured losses;
- risks associated with redevelopment and repositioning projects, including delays and overruns; and
- the other factors discussed under the heading “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 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 March 31, 2013, the Company owned interests in 26 hotels, including 20 wholly owned hotels, with a total of 4,960 guest rooms, and a 49% joint venture interest in six hotels with a total of 1,733

guest rooms.
During the three months ended March 31, 2013, we raised approximately $87.1 million of net proceeds from the issuance of 3.6 million shares of 6.5% Series C Preferred Shares.

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During the three months ended March 31, 2013, we acquired one hotel property, the 337-suite Embassy Suites San Diego Bay-Downtown for $112.5 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 $30.0 million to $40.0 million for the remainder of 2013 on renovation and repositioning projects and other capital improvements.

The U.S. lodging industry has continued to exhibit positive fundamentals through the first three months of 2013. While concerns continue about tepid economic growth, global volatility and government fiscal deficits, U.S. employment levels, housing markets, and consumer confidence have improved.

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

Key Indicators of Financial Condition and Operating Performance

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

Hotel Operating Statistics

The following table represents the key same-property hotel operating statistics for our wholly owned hotels for the three months ended March 31, 2013 and 2012. This is for informational purposes only.

	For the three months ended March 31,	
	2013	2012
Total Portfolio		
Same-Property Occupancy	78.0 %	73.5 %
Same-Property ADR	$199.89	$193.94
Same-Property RevPAR	$155.89	$142.53

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This schedule of hotel results for the three months ended March 31, includes information from all of the hotels we owned as of March 31, 2013, except for the Hotel Zetta (formerly Hotel Milano) and our 49% ownership interest in the Manhattan Collection for both 2013 and 2012. The hotel results for the respective periods may include information reflecting operational performance prior to the Company's ownership of the hotels. The Company expects to include historical hotel results for the Hotel Zetta after the Company has owned the hotel for one year.

Results of Operations

Results of operations for the three months ended March 31, 2013 include the operating activities of our 20 wholly owned hotels, including one hotel acquired in 2013 since its acquisition date. Results of operations for three months ended March 31, 2012 include the operating activities of the 14 wholly owned hotels owned at March 31, 2012. The Company's results of operations are not directly comparable to corresponding periods in the prior year due to hotel acquisitions during these periods. In order to provide information on a comparable basis, below we provide the results that reflect changes resulting from hotel acquisitions as well as changes for properties owned throughout both of the periods being compared.

Comparison of three months ended March 31, 2013 to three months ended March 31, 2012

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Revenues — Total hotel revenues increased by $27.4 million. The 14 hotels we owned throughout both periods contributed $5.8 million of the increase, which was a result of increases in occupancy and ADR from the same period in 2012. The Sheraton Delfina Santa Monica and Mondrian Los Angeles hotels had significant increases in occupancy and ADR. The remaining $21.6 million of the increase in revenue was generated from the hotels which were not owned throughout both periods.

Hotel operating expenses — Total hotel operating expenses increased by $17.0 million. The 14 hotels we owned throughout both periods contributed $2.0 million of the increase, which is a result of higher occupancy and inflation offset by cost reduction initiatives. The remaining $15.0 million of the increase was generated from the hotels which were not owned throughout both periods.

Depreciation and amortization — Depreciation and amortization expense increased by approximately $3.5 million primarily due to the additional depreciation for the hotels acquired in 2012, all of which were acquired after the first quarter of 2012.

Real estate taxes, personal property taxes and property insurance — Real estate taxes, personal property taxes and insurance increased by approximately $1.6 million primarily due to the hotels acquired in 2012 (all of which were acquired after the first quarter of 2012) and an increase in real estate taxes throughout the portfolio.

Ground rent — Ground rent expense increased by $0.5 million due to the acquisition of the Hotel Palomar San Francisco on October 25, 2012 which is subject to a long-term hotel lease arrangement.

Corporate general and administrative — Corporate general and administrative expenses increased by approximately $0.7 million primarily as a result of an increase in employee compensation costs and management company transition expenses related to the Embassy Suites San Diego Bay-Downtown offset in part by a decrease in legal costs. 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 approximately $0.7 million primarily reflecting more acquisition activities during the period than 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 properties are acquired or when we have significant ongoing acquisition activity.

Interest income — Interest income increased by approximately $0.6 million as a result of additional 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 approximately $2.2 million as a result of higher debt balances.

Equity in earnings (losses) of joint venture — Equity in losses of joint venture decreased by $0.7 million primarily due to lower interest expense at the joint venture resulting from lower borrowings.

Income tax (expense) benefit — Income tax benefit remained consistent with the prior period.

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 $0.2 million as a result of the issuance of the Series C Preferred Shares on March 18, 2013. There were no Series C Preferred Shares outstanding in 2012.

Non-GAAP Financial Measures

Non-GAAP financial measures are measures of our historical or future financial performance that are different from measures calculated and presented in accordance with U.S. GAAP. We report FFO and EBITDA, which are non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance.

We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (NAREIT), which defines FFO as net income (calculated in accordance with GAAP), excluding real estate related depreciation and amortization, gains (losses) from sales of real estate, impairments of real estate assets, the cumulative effect of changes in accounting principles and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most industry investors consider presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. By excluding the effect of real estate related depreciation and amortization including our share of the joint venture depreciation and amortization and

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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 months ended March 31, 2013 and 2012 (in thousands):

	For the three months ended March 31,	
	2013	2012
Net income (loss)	$ (246)	$ (2,837)
Adjustments:		
Depreciation and amortization	13,169	9,651
Depreciation and amortization from joint venture	2,606	2,427
FFO	$ 15,529	$ 9,241
Distribution to preferred shareholders	$ (4,668)	$ (4,456)
FFO available to common share and unit holders	$ 10,861	$ 4,785

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 months ended March 31, 2013 and 2012 (in thousands):

	For the three months ended March 31,	
	2013	2012
Net income (loss)	$ (246)	$ (2,837)
Adjustments:		
Interest expense	5,458	3,257
Interest expense from joint venture	2,021	3,313
Income tax expense (benefit)	(2,598)	(2,583)
Depreciation and amortization	13,211	9,689
Depreciation and amortization from joint venture	2,606	2,427
EBITDA	$ 20,452	$ 13,266

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

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Liquidity and Capital Resources

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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 March 31, 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, if any, 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, if any, 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 fix the interest rate at 2.55% of the term loan for the full five-year term.

Debt Summary

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

			Balance Outstanding as of	
	Interest Rate	Maturity Date	March 31, 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	50,810	51,022
Skamania Lodge	5.44%	February 2016	30,138	30,252
DoubleTree by Hilton Bethesda-Washington DC	5.28%	February 2016	35,473	35,602
Embassy Suites San Diego Bay-Downtown	6.28%	June 2016	66,608	—
Monaco Washington DC	4.36%	February 2017	45,174	45,368
Argonaut Hotel	4.25%	March 2017	45,950	46,223
Sofitel Philadelphia	3.90%	June 2017	49,117	49,419
Hotel Palomar San Francisco	5.94%	September 2017	27,039	27,124
Westin Gaslamp Quarter, San Diego	3.69%	January 2020	80,662	81,000
Mortgage loans at stated value			430,971	366,010
Mortgage loan premiums (3)			6,866	2,498
Total mortgage loans			$437,837	$368,508
Total debt			$537,837	$468,508

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(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%, based on our current leverage ratio.
(3) Include premiums on the leasehold mortgage loan on the Hotel Palomar San Francisco and the loan on the Embassy Suites San Diego Bay - Downtown as a result of recording the mortgages at fair value at acquisition.

Sources and Uses of Cash

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

Cash provided by Operations. Our cash provided by operating activities was $10.7 million for the three months ended March 31, 2013. Our cash from operations includes the operating activities of the 20 wholly owned hotels. Our cash provided by operating activities for the three months ended March 31, 2012 was $10.6 million and relates principally to the 14 hotels we owned at March 31, 2012.

Cash used in Investing Activities. Our cash used in investing activities was $53.5 million for the three months ended March 31, 2013. During the three months ended March 31, 2013, we purchased one hotel using cash of $41.7 million, invested $15.3 million in improvements to our hotel properties, and had a decrease in restricted cash of $0.2 million. During the three months ended March 31, 2012, we used $19.7 million of cash, of which we invested $17.0 million in improvements to hotel properties, placed a deposit of $3.0 million on one property under contract for purchase, and had a decrease in restricted cash of $0.3 million.

Cash provided by Financing Activities. Our cash provided by financing activities was $72.5 million for the three months ended March 31, 2013. We received net proceeds of $87.0 million from the issuance of 3.6 million Series C Preferred Shares and paid $11.8 million in distributions. For the three months ended March 31, 2012, cash flows used in financing activities was $20.2 million, which consisted of net proceeds of $31.9 million from the issuance of 1.4 million common shares. We also received $93.0 million in proceeds from mortgage debt refinancings, repaid $133.5 million of mortgage debt, borrowed and repaid $70.0 million under our senior unsecured revolving credit facility, and paid $10.7 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 the renovations and improvements with available cash, borrowings under our credit facility, or proceeds from new mortgage debt or equity offerings.

For the three months ended March 31, 2013, we invested $15.3 million in capital investments to reposition and improve the properties we own. We expect to invest approximately $30.0 million to $40.0 million in capital investments through the remainder of 2013. In late February 2013, the renovation of the Hotel Milano was completed and the hotel was re-opened as Hotel Zetta.

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Contractual Obligations and Off-Balance Sheet Arrangements

The table below summarizes our contractual obligations as of March 31, 2013 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Mortgage loans [1]	$510,261	$29,089	$168,258	$238,264	$74,650
Term loan [2]	111,213	2,585	5,178	103,450	—
Ground leases [3]	441,215	3,127	6,359	6,502	425,227
Purchase commitments [4]	1,353	1,353	—	—	—
Corporate office lease	460	286	174	—	—
Total	$1,064,502	$36,440	$179,969	$348,216	$499,877

(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 the Argonaut Hotel provide for the greater of base or percentage rent, adjusted for CPI increases. The long-term hotel lease on the Hotel Palomar San Francisco provides for base rent plus percentage rent, adjusted for CPI increases with a minimum 2% per annum but no more than 4% per annum. The table reflects only base rent for all periods presented and does not include assumptions for CPI adjustments.

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

Off-Balance Sheet Arrangements – Joint Venture Indebtedness

We have a 49% equity interest in the Manhattan Collection joint venture, which owns six properties in New York City that have mortgage debt secured by these properties. We exercise significant influence over, but do not control, the joint venture and therefore account for our investment in the joint venture using the equity method of accounting.

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 5, 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 debt covenants as of March 31, 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.

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% 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 March 31, 2013, our derivative instruments are in a liability position, with an aggregate fair value of $0.2 million, which is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. As of March 31, 2013, there was $0.2 million in unrealized loss included in accumulated other comprehensive loss.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Sensitivity

We are exposed to market risk from changes in interest rates. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose us to the risks that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly effective cash flow hedges under guidance included in ASC 815 “Derivatives and Hedging."

As of March 31, 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.

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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.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share
January 1, 2013 - January 31, 2013	14,458	$23.10
February 1, 2013 - February 28, 2013	—	$—
March 1, 2013 - March 31, 2013	7,186	$24.40
Total	21,644	$23.53

[1] Amounts in this column represent shares sold to the Company as payment of tax withholding due upon vesting of restricted common shares.

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
3.1*	Declaration of Trust, as amended and supplemented, of the Registrant.
3.2*	First Amended and Restated Agreement of Limited Partnership of Pebblebrook Hotel, L.P., as amended.
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.
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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) Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as

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amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURE

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

	PEBBLEBROOK HOTEL TRUST
Date: April 25, 2013	/s/ JON E. BORTZ Jon E. Bortz Chairman, President and Chief Executive Officer

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