

Pebblebrook Hotel Trust  
Form 8-K/A  
September 28, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): September 28, 2011 (July 29, 2011)

PEBBLEBROOK HOTEL TRUST  
(Exact name of registrant as specified in its charter)

|   |  |   |
|---|--|---|
| Maryland<br>(State or other jurisdiction<br>of incorporation) | 001-34571<br>(Commission<br>File Number) | 27-1055421<br>(I.R.S. Employer<br>Identification No.) |
|---|--|---|

|  |                     |
|--|---------------------|
| 2 Bethesda Metro Center, Suite 1530,<br>Bethesda, Maryland<br>(Address of principal executive offices) | 20814<br>(Zip Code) |
|--|---------------------|

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

Not Applicable  
Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## EXPLANATORY NOTE

This Current Report on Form 8-K/A amends and supplements the Current Report on Form 8-K filed by Pebblebrook Hotel Trust on August 4, 2011 reporting the investment in a joint venture with Denihan Ownership Company, LLC, an affiliate of Denihan Hospitality Group, (i) to file the historical financial statements and pro forma financial information required by Items 9.01(a) and (b) of Form 8-K, (ii) to correctly reflect the value shown for Preferred Capital (as defined below) under Item 1.01 of this Current Report on Form 8-K and (iii) to file the definitive Owner JV Operating Agreement (as defined below).

### Item 1.01. Entry into a Material Definitive Agreement.

On July 29, 2011, Pebblebrook Hotel Trust (the “Company”) closed on the previously disclosed investment in a joint venture with Denihan Ownership Company, LLC (“DOC”), an affiliate of Denihan Hospitality Group (“Denihan”). The joint venture is composed of two entities: DP Fee Holding Co., LLC (“Owner JV”) and DP Lease Holding, LLC (“Lessee JV”). Owner JV owns six hotels located in Manhattan, New York, as further described below, and is governed by an operating agreement (the “Owner JV Operating Agreement”) between Cardinals Owner LLC (“Cardinal Sub”), a wholly owned subsidiary of the Company and DOC. Lessee JV owns six entities that serve as lessees for each hotel, and is governed by an operating agreement (the “Lessee JV Operating Agreement”) between a subsidiary of the Company’s taxable REIT subsidiary and DOC. The Company purchased a 49% interest in each entity for an aggregate price of approximately \$153.6 million.

Each of the Owner JV Operating Agreement and the Lessee JV Operating Agreement (each, an “Operating Agreement”) provides that all decisions on behalf of the applicable joint venture entity will be made jointly by both members thereto (with certain limited exceptions set forth therein). Either member may initiate a call for further capital contributions of the members to the extent necessary to preserve, protect or maintain the hotels or the interests of the joint venture entities therein.

Owner JV distributed a portion of the purchase price to DOC and its affiliates, but retained approximately \$84.4 million of the cash investment (the “Preferred Capital”). All or any portion of the Preferred Capital may be loaned to affiliates of Denihan at an interest rate equal to the applicable IRS federal rate for the term of such loan, and any such loan must be guaranteed by DOC and supported by DOC’s pledge of all of its equity in Owner JV and Lessee JV. The Owner JV Operating Agreement provides that upon the request of DOC from time to time at any time after the later of (a) October 30, 2013 or (b) the date on which the joint venture has refinanced, modified or extended the \$596.6 million in existing first mortgage and mezzanine debt on the six hotel properties, Owner JV must distribute to DOC all or any part of the accrued but unpaid Preferred Return (as defined below) and, to the extent not then loaned to a Denihan affiliate, the unreturned Preferred Capital.

The Owner JV Operating Agreement provides that Owner JV will distribute its Operating Cash Flow (as defined therein) as follows:

- first, to DOC to provide a cumulative, annually compounded return on the unreturned Preferred Capital equal to the applicable IRS federal rate less one-half of one percent (the “Preferred Return”);
  - thereafter, to the members in proportion to their then-current respective percentage interests.

The Owner JV Operating Agreement further provides that Owner JV will distribute its Extraordinary Cash Flow (as defined therein) as follows:

- first, to DOC to the extent of any accrued and unpaid Preferred Return;
-

second, to DOC to the extent of any unreturned amount of its Preferred Capital (to the extent not loaned to Denihan affiliates);

- thereafter, to the members in proportion to their then-current respective percentage interests in the Joint Venture.

The Lessee JV Operating Agreement provides that all cash flow will be distributed to its members in proportion to their then-current respective percentage interests in the Lessee JV.

Each Operating Agreement provides that after July 29, 2016, and subject to certain rights specified therein, each member shall have the right to: (a) sell all of its membership interests in the applicable joint venture; (b) cause the applicable joint venture to sell one or more, but fewer than all, of its hotel properties; and (c) cause the applicable joint venture to sell its entire portfolio of hotel properties (a "Portfolio Sale"). Prior to July 29, 2016, a member may make a Portfolio Sale if the other member has committed and not cured an Event of Default (as defined in each Operating Agreement) and DOC may make a Portfolio Sale if any hotel management agreement with respect to any of the hotels has been terminated other than for "cause" (as defined therein). In each of these sale cases, each member will have a right of first offer to purchase the other member's interests or the properties owned by the applicable joint venture, as applicable, to be sold to a third party.

The preceding summary of the Operating Agreements is qualified in its entirety by reference to the terms of each Operating Agreement, copies of which are filed as Exhibits 10.1 and 10.2 filed herewith.

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Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

DP Fee Holding Co., LLC

Independent Auditor's Report

Consolidated Balance Sheets as of June 30, 2011 (unaudited) and December 31, 2010 and 2009

Consolidated Statements of Member's Equity (Deficit) for the six months ended June 30, 2011 (unaudited) and the years ended December 31, 2010 and 2009

Consolidated Statements of Operations for the six months ended June 30, 2011 and 2010 (unaudited) and the years ended December 31, 2010 and 2009

Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 (unaudited) and the years ended December 31, 2010 and 2009

Notes to Consolidated Financial Statements

(b) Pro forma financial information.

Pebblebrook Hotel Trust

Unaudited Pro Forma Consolidated Balance Sheet as of June 30, 2011

Unaudited Pro Forma Consolidated Statement of Operations for the six months ended June 30, 2011

Unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 2010

(d) Exhibits

Exhibit

| Number | Exhibit Description   |
|--------|---|
| 10.1†  | Second Amended and Restated Operating Agreement of DP Fee Holding Co., LLC, dated July 29, 2011 (supersedes Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 4, 2011). |
| 10.2   | Operating Agreement of DP Lease Holding, LLC, dated July 29, 2011 (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on August 4, 2011).             |
| 23.1†  | Consent of PKF.   |
| 99.1   | Press release issued on August 1, 2011 (Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on August 4, 2011).  |
| 99.2   | Materials about the Manhattan Collection (Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed on August 4, 2011).                                      |

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† Filed herewith.

SIGNATURES

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

PEBBLEBROOK HOTEL TRUST

September 28, 2011

By: /s/ Raymond D. Martz  
Name: Raymond D. Martz  
Title: Executive Vice President, Chief  
Financial Officer,  
Treasurer and Secretary

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EXHIBIT INDEX

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† Filed herewith.

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Independent Auditor's Report

To The Member of  
DP Fee Holding Co., LLC

We have audited the consolidated balance sheets DP Fee Holding Co., LLC as of December 31, 2010 and 2009 and the related consolidated statements of member's equity (deficit), operations and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DP Fee Holding Co., LLC at December 31, 2010 and 2009 and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ PKF

New York, New York  
September 2, 2011

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## DP FEE HOLDING CO., LLC

## Consolidated Balance Sheets

|   | June 30<br>2011<br>(Unaudited) | December 31<br>2010  | December 31<br>2009  |
|---|--------------------------------|----------------------|----------------------|
| <b>Assets</b>   |                                |                      |                      |
| <b>Current assets</b>   |                                |                      |                      |
| Cash and cash equivalents   | \$7,743,551                    | \$5,152,420          | \$20,112,774         |
| Cash in escrow (note 3)   | 35,056,920                     | 46,989,519           | 8,805,497            |
| Accounts receivable, net of allowance of \$7,270 in 2011, \$9,814 in 2010, and \$31,217 in 2009 | 4,688,926                      | 6,812,499            | 7,466,279            |
| Inventory (note 2)  | 380,408                        | 338,070              | 227,650              |
| Prepaid expenses  | 7,965,976                      | 6,279,066            | 6,344,754            |
| <b>Total current assets</b>   | <b>55,835,781</b>              | <b>65,571,574</b>    | <b>42,956,954</b>    |
| Property and equipment, net (note 2)  | 410,804,679                    | 399,613,320          | 407,262,031          |
| Deferred expenses (note 2)  | 465,364                        | 864,248              | -                    |
| Derivative asset (note 4)   | 1,707                          | 94,566               | -                    |
| Deposits  | -                              | 2,311,848            | -                    |
| Other assets  | 148,649                        | 113,152              | 43,034               |
| <b>Total assets</b>   | <b>\$467,256,180</b>           | <b>\$468,568,708</b> | <b>\$450,262,019</b> |
| <b>Liabilities and Member's Equity (Deficit)</b>  |                                |                      |                      |
| <b>Current liabilities</b>  |                                |                      |                      |
| Accounts payable  | \$5,464,673                    | \$3,625,482          | \$2,600,450          |
| Taxes payable   | 1,133,403                      | 1,320,683            | 1,315,530            |
| Accrued expenses  | 18,450,518                     | 15,075,808           | 13,082,548           |
| Security and deposits   | 2,268,833                      | 1,453,493            | 2,210,589            |
| Other liabilities   | 332,073                        | 447,676              | 398,928              |
| <b>Total current liabilities</b>  | <b>27,649,500</b>              | <b>21,923,142</b>    | <b>19,608,045</b>    |
| Long-term debt (note 3)   | 598,365,066                    | 600,000,000          | 600,000,000          |
| <b>Total liabilities</b>  | <b>626,014,566</b>             | <b>621,923,142</b>   | <b>619,608,045</b>   |
| <b>Member's equity (deficit)</b>  |                                |                      |                      |
| Other comprehensive (loss) (note 4)   | (186,264 )                     | (254,521 )           | -                    |
| Member's equity (deficit) (note 1)  | (158,572,122)                  | (153,099,913)        | (169,346,026)        |
| <b>Total member's equity (deficit)</b>  | <b>(158,758,386)</b>           | <b>(153,354,434)</b> | <b>(169,346,026)</b> |
| <b>Total liabilities and member's equity (deficit)</b>  | <b>\$467,256,180</b>           | <b>\$468,568,708</b> | <b>\$450,262,019</b> |

See notes to consolidated financial statements





DP FEE HOLDING CO., LLC

Consolidated Statements of Member's Equity (Deficit)

|                              | Six Months<br>Ended<br>June 30<br>2011<br>(Unaudited) | For the Year Ended<br>December 31<br>2010                      2009 |                 |
|------------------------------|---|---|-----------------|
| Balance, beginning of period | \$(153,099,913)                                       | \$(169,346,026)   | \$(169,480,782) |
| Contributions                | -   | 22,796,718  | 4,350,000       |
| Distributions                | -   | (13,077,868 )   | (7,350,000 )    |
| Net income (loss)            | (5,472,209 )  | 6,527,263   | 3,134,756       |
| Balance, end of period       | \$(158,572,122)                                       | \$(153,099,913)   | \$(169,346,026) |

See notes to consolidated financial statements

## DP FEE HOLDING CO., LLC

## Consolidated Statements of Operations

|  | Six Months Ended      |                       | For the Year Ended December 31 |                     |
|--|-----------------------|-----------------------|--------------------------------|---------------------|
|  | June 30               |                       | 2010                           | 2009                |
|  | 2011                  | 2010                  |                                |                     |
|  | (Unaudited)           | (Unaudited)           |                                |                     |
| <b>Revenues</b>                        |                       |                       |                                |                     |
| Rooms                                  | \$57,435,691          | \$56,943,946          | \$ 131,040,727                 | \$ 117,254,953      |
| Food and beverage                      | 5,198,068             | 2,774,554             | 5,657,932                      | 4,950,659           |
| Telephone                              | 723,413               | 802,174               | 1,601,355                      | 1,272,627           |
| Gain on disposals of assets            | -                     | 37,071                | -                              | -                   |
| Other income                           | 1,922,848             | 2,026,053             | 4,215,694                      | 4,229,063           |
| <b>Total revenues</b>                  | <b>65,280,020</b>     | <b>62,583,798</b>     | <b>142,515,708</b>             | <b>127,707,302</b>  |
| <b>Expenses</b>                        |                       |                       |                                |                     |
| Rooms                                  | 19,587,268            | 18,888,489            | 39,510,891                     | 36,321,667          |
| Food and beverage                      | 5,625,021             | 2,760,145             | 6,244,826                      | 5,241,532           |
| Telephone                              | 386,414               | 404,380               | 792,715                        | 813,384             |
| Administrative and general             | 9,259,149             | 8,687,116             | 18,383,458                     | 16,874,630          |
| Advertising and marketing              | 4,470,640             | 3,707,508             | 7,633,447                      | 6,682,750           |
| Property operations and maintenance    | 2,825,480             | 2,672,205             | 5,697,081                      | 5,198,596           |
| Utilities                              | 2,579,106             | 2,200,764             | 4,871,113                      | 4,476,558           |
| Other expenses                         | -                     | -                     | 103,969                        | 112,464             |
| Pre-opening expenses                   | 941,641               | -                     | 743,318                        | 808,093             |
| Rent expense                           | 37,475                | 30,007                | 68,729                         | 59,341              |
| Real estate taxes                      | 6,011,631             | 6,092,250             | 12,451,591                     | 11,361,930          |
| Interest expense (note 3)              | 11,073,754            | 11,126,982            | 22,376,548                     | 19,197,893          |
| Insurance                              | 648,839               | 630,798               | 1,272,835                      | 1,303,375           |
| Depreciation and amortization (note 2) | 7,305,811             | 8,372,738             | 15,577,997                     | 16,120,333          |
| Loss on disposals of assets            | -                     | -                     | 259,927                        | -                   |
| <b>Total expenses</b>                  | <b>70,752,229</b>     | <b>65,573,382</b>     | <b>135,988,445</b>             | <b>124,572,546</b>  |
| <b>Net income (loss)</b>               | <b>\$(5,472,209 )</b> | <b>\$(2,989,584 )</b> | <b>\$ 6,527,263</b>            | <b>\$ 3,134,756</b> |

See notes to consolidated financial statements

## DP FEE HOLDING CO., LLC

## Consolidated Statements of Cash Flows

|  | Six Months Ended |                | For the Year Ended December |               |
|--|------------------|----------------|-----------------------------|---------------|
|  | June 30          |                | 31                          |               |
|  | 2011             | 2010           | 2010                        | 2009          |
|  | (Unaudited)      | (Unaudited)    |                             |               |
| <b>Cash flows from operating activities</b>  |                  |                |                             |               |
| Net income (loss)  | \$(5,472,209 )   | \$(2,989,584 ) | \$ 6,527,263                | \$ 3,134,756  |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities |                  |                |                             |               |
| Depreciation and amortization  | 7,305,811        | 8,372,738      | 15,577,997                  | 16,120,333    |
| Loss on disposals of assets  | -                | -              | 259,927                     | -             |
| Changes in certain other accounts  |                  |                |                             |               |
| Cash in escrow   | 11,932,599       | 3,766,401      | (38,184,022 )               | (695,110 )    |
| Accounts receivable  | 2,123,573        | 1,711,323      | 653,780                     | 2,507,809     |
| Inventory  | (42,338 )        | 5,611          | (110,420 )                  | 10,999        |
| Prepaid expenses   | (1,686,910 )     | (1,083,525 )   | 65,688                      | (1,058,197 )  |
| Deposits   | 2,311,848        | (234,527 )     | (2,311,848 )                | -             |
| Other assets   | (35,497 )        | (7,247,612 )   | (70,118 )                   | 47,888        |
| Accounts payable   | 1,839,191        | (415,470 )     | 1,025,032                   | (440,142 )    |
| Taxes payable  | (187,280 )       | (200,625 )     | 5,153                       | 79,665        |
| Accrued expenses   | 3,374,710        | 11,580,970     | 1,993,260                   | 7,057,618     |
| Security and deposits  | 815,345          | (203,419 )     | (757,096 )                  | 907,453       |
| Other liabilities  | (115,603 )       | 34,753         | 48,748                      | (69,519 )     |
| Total adjustments  | 27,635,449       | 16,086,618     | (21,803,919 )               | 24,468,797    |
| Net cash provided (used) by operating activities   | 22,163,240       | 13,097,034     | (15,276,656 )               | 27,603,553    |
| <b>Cash flows from investing activities</b>  |                  |                |                             |               |
| Capital expenditures   | (17,937,175)     | (1,423,164 )   | (7,855,715 )                | (8,643,543 )  |
| Proceeds from disposal of assets   | -                | -              | 39,836                      | -             |
| Net cash (used) by investing activities  | (17,937,175)     | (1,423,164 )   | (7,815,879 )                | (8,643,543 )  |
| <b>Cash flows from financing activities</b>  |                  |                |                             |               |
| Payment of deferred expenses   | -                | (172,074 )     | (1,130,169 )                | (119,640 )    |
| Payments on long-term debt   | (1,634,934 )     | -              | -                           | -             |
| Purchase of interest rate cap  | -                | -              | (456,500 )                  | -             |
| Contributions (distributions) - net  | -                | -              | 9,718,850                   | (3,000,000 )  |
| Net cash provided (used) by financing activities   | (1,634,934 )     | (172,074 )     | 8,132,181                   | (3,119,640 )  |
| Net increase (decrease) in cash and cash equivalents   |                  |                |                             |               |
|  | 2,591,131        | 11,501,796     | (14,960,354 )               | 15,840,370    |
| Cash and cash equivalents, at beginning of period  | 5,152,420        | 20,112,774     | 20,112,774                  | 4,272,404     |
| Cash and cash equivalents, at end of period  | \$7,743,551      | \$31,614,570   | \$ 5,152,420                | \$ 20,112,774 |
| <b>Supplemental disclosure of cash flow information</b>  |                  |                |                             |               |
| Cash paid during the period for interest   | \$11,073,754     | \$11,126,982   | \$ 22,249,437               | \$ 9,865,226  |

Supplemental disclosure of non-cash flow  
information

|   |          |     |               |           |
|---|----------|-----|---------------|-----------|
| The Company recorded an increase (decrease)<br>in assets related to an interest cap agreement | \$68,257 | \$- | \$ (254,521 ) | \$ 72,750 |
|---|----------|-----|---------------|-----------|

See notes to consolidated financial statements

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DP FEE HOLDING CO., LLC

Notes to Consolidated Financial Statements

Note 1 - Organization and basis of presentation

The accompanying consolidated financial statements and notes thereto include the assets and liabilities attributable to the operations of DP Fee Holding Co., LLC (the "Company"). The Company is comprised of the following wholly-owned entities:

150 East 34th Street Co., LLC ("Affinia Dumont")  
215 East 64th Street Co., LLC ("Affinia Gardens")  
303 Lexington Avenue Co., LLC ("Affinia Shelburne")  
155 East 50th Street Co., LLC ("Affinia 50")  
125 East 50th Street Co., LLC ("The Benjamin")  
371 Seventh Avenue Co., LLC ("Affinia Manhattan")

The Company was owned by a single member, Denihan Ownership Company, LLC ("DOC"), through July 29, 2011.

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated financial statements and notes thereto include the assets and liabilities attributable to the operations of the Company. In consolidation, all significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements of the Company as of June 30, 2011 and for the six month periods ended June 30, 2011 and 2010, have been prepared pursuant to the Securities and Exchange Commission (SEC) rules and regulations. All amounts included in the financial statements referring to June 30, 2011, and for the six month periods ended June 30, 2011 and 2010, are unaudited. The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature.

Note 2 - Summary of significant accounting policies

Use of estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain estimates used by management are particularly susceptible to changes, such as the useful lives and recoverability of costs of property and equipment. Management believes that the estimates used are adequate based on the information currently available.

Significant concentrations

Certain amounts of the Company's cash is on deposit in one bank which exceeds federally insured limits. The Company has not experienced any loss on its deposits.

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Approximately 72%, 72% and 71% of the Company's workforce at June 30, 2011, December 31, 2010 and December 31, 2009, respectively, is covered by collective bargaining agreements which expire on June 30, 2012 and April 20, 2014.

## DP FEE HOLDING CO., LLC

## Notes to Consolidated Financial Statements (continued)

## Fair value of financial instruments

The estimated fair value of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate carrying amounts due to the short-term maturities of these instruments. The carrying value of the long-term debt approximates fair value since the current interest rate approximates market rates.

## Property and equipment

Property and equipment through December 31, 2005 has been recorded at its estimated fair value resulting from a restructuring on January 1, 2006. Additions subsequent to January 1, 2006 have been recorded at cost.

Depreciation of buildings and improvements and furniture, fixtures and equipment has been computed using the straight-line method over various estimated useful lives as follows:

|                                   |             |
|-----------------------------------|-------------|
| Buildings and improvements        | 40 years    |
| Furniture, fixtures and equipment | 3 - 7 years |

Property and equipment consists of the following:

|                                   | June 30<br>2011<br>(Unaudited) | December 31<br>2010 | December 31<br>2009 |
|-----------------------------------|--------------------------------|---------------------|---------------------|
| Land                              | \$ 81,182,503                  | \$ 81,182,503       | \$ 81,182,503       |
| Buildings and improvements        | 355,015,198                    | 347,426,629         | 343,467,413         |
| Furniture, fixtures and equipment | 46,276,288                     | 35,927,685          | 32,904,940          |
| Total cost                        | 482,473,989                    | 464,536,817         | 457,554,856         |
| Accumulated depreciation          | (71,669,310 )                  | (64,923,497 )       | (50,292,825 )       |
|                                   | \$ 410,804,679                 | \$ 399,613,320      | \$ 407,262,031      |

## Cash and cash equivalents

The Company considers all instruments with an original maturity of three months or less to be cash equivalents.

## Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to aggregate future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value.

## Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market.



Deferred expenses

Expenditures incurred in connection with obtaining long-term debt are being amortized using the straight-line basis over the term of the related debt.

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DP FEE HOLDING CO., LLC

Notes to Consolidated Financial Statements (continued)

Accounting for derivative instruments and hedging activities

The Company applies the provisions of Accounting Standards Codification (ASC) 815-10.

ASC 815-10 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction.

For cash-flow hedge transactions in which the Company hedges the variability of cash flows related to a variable-rate asset, liability or a forecasted transaction, changes in fair value of the derivative instrument are reported in other comprehensive income (loss). The gains and losses on the derivative instrument that are reported in other comprehensive income (loss) are reclassified to earnings in the periods in which earnings are impacted by the variability of cash flows of the hedged item.

Income taxes

The Company is a limited liability company which is not recognized as a taxable entity for Federal or State tax purposes. As such, no provision has been made for income taxes, since such taxes, if any, are the responsibility of the ultimate members of the Company.

Subsequent events

The Company has evaluated significant events subsequent to the balance sheet date through the date the financial statements were issued and has determined that there were no subsequent events or transactions which would require recognition or disclosure in the consolidated financial statements, except that the Company admitted a new 49% member on July 29, 2011.

Note 3 - Long term debt

On July 9, 2007 the six hotels owned by the individual entities were financed with \$600 million in debt obligations (\$280 million in the form of mortgage debt and \$320 million in mezzanine loans.) The mezzanine portion of the financing is secured by the Company's ownership interest in the properties and is reflected in the total long-term debt of the six hotels.

All loans had an original maturity date of August 1, 2009 and were extended per agreement dated August 16, 2010 and effective as of August 1, 2009 until February 1, 2012 with a one-year extension option.

Under the terms of the agreement the Company is required to fund the following escrows:

- Taxes
- Insurance
- Mortgage debt service
- Administrative fees
- Operating expenses

Furniture, fixtures and equipment  
Mezzanine debt service  
Debt service  
Seasonality  
Renovations  
Excess cash flow

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DP FEE HOLDING CO., LLC

Notes to Consolidated Financial Statements (continued)

In connection with the loan extension in 2010, certain modifications were made to the loan agreement, as follows:

The member was required to make an equity contribution of \$10 million to fund planned renovations.

The agent and lenders waived any and all potential defaults.

Any excess cash flows of the respective individual entities, as defined, is allocated to a reduction in the mortgage principal.

Annual interest effective August 1, 2009:

Mortgage loan (\$280 million) - LIBOR plus 2.75%.

Mezzanine A loan (\$105 million) - LIBOR plus 3% with 2.75% payable currently and .25% accrued.

Mezzanine B, C and D loans (\$215 million) - LIBOR plus 3.25% with 2% currently payable and 1.25% accrued.

Borrower must purchase an interest rate cap agreement acceptable to the lender (see note 4).

Borrower purchased an interest rate cap agreement acceptable to the lender (see note 4).

All cash receipts are to be deposited into a lockbox and such receipts shall be disbursed in accordance with the agreement.

The specified guarantors guarantee the completion of specified renovation projects.

The loans are non-recourse to the borrower with the exception of certain limited obligations of the borrower arising out of or in connection with certain events or acts among which is fraud or material misrepresentation. Further, the loans will become recourse to the guarantors if certain events occur, amongst which is the mezzanine borrower or any individual borrower filing a voluntary bankruptcy petition.

Note 4 - Derivative asset and other comprehensive income

The Company had entered into an interest rate cap agreement with the intent to manage interest rate exposure. The agreement had an aggregate notional amount of \$600,000,000 and expired on August 1, 2009. This agreement effectively fixed the LIBOR linked debt at a maximum rate of 6.50%. The interest rate differentials under such agreement were entered into to minimize the risks associated with financing activities. The Company was exposed to credit risk in the event of non-performance by these counterparties; however, the company considered non-performance to be remote.

Effective August 1, 2010, the Company entered into an interest rate cap agreement with the intent to manage interest rate exposure. The agreement has an aggregate notional amount of \$600,000,000 and expires on February 1, 2012. This agreement fixed the LIBOR linked debt at a maximum rate of 2%. The interest rate differentials under such agreements were entered into to minimize the risks associated with financing activities. The Company is exposed to credit risk in the event of non-performance by these counterparties; however, the Company considers non-performance to be remote.



## DP FEE HOLDING CO., LLC

## Notes to Consolidated Financial Statements (continued)

Applying the provisions of ASC 815-10, the Company recognized a derivative asset of \$1,707, \$94,566 and \$-0- as of June 30, 2011, December 31, 2010 and 2009, respectively, which represents the difference between the carrying value and fair market value of the interest rate cap. Such change has been recorded through member's equity, as comprehensive income (loss).

|  | Six Months Ended    |                     | December 31  |              |
|--|---------------------|---------------------|--------------|--------------|
|  | 2011<br>(Unaudited) | 2010<br>(Unaudited) | 2010         | 2009         |
| Comprehensive income (loss) consists of: |                     |                     |              |              |
| Net income (loss)                        | \$ (5,472,209)      | \$ (2,989,584)      | \$ 6,527,263 | \$ 3,134,756 |
| Change in fair value of derivative asset | 68,357              | -                   | (254,521 )   | 72,750       |
| Comprehensive income (loss)              | \$ (5,403,852)      | \$ (2,989,584)      | \$ 6,272,742 | \$ 3,207,506 |

The Company follows Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The following table summarizes the valuation of the Company's financial assets by the above fair value hierarchy levels:

|                  | June 30, 2011  |   |  | Total    |
|------------------|--|---|--|----------|
|                  | Quoted Prices<br>In Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |          |
| Derivative asset | \$ -   | \$ 1,707  | \$ -   | \$ 1,707 |

  

|                  | December 31, 2010  |   |  | Total     |
|------------------|--|---|--|-----------|
|                  | Quoted Prices<br>In Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |           |
| Derivative asset | \$ -   | \$ 94,566   | \$ -   | \$ 94,566 |

The Company had no derivative assets in 2009.

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## DP FEE HOLDING CO., LLC

## Notes to Consolidated Financial Statements (continued)

## Note 5 - Employee retirement plan

The Company makes contributions, along with many other employers to union-sponsored multiemployer pension plans based on the number of hours worked by employees covered under union contracts. The Multiemployer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employers associated with multiemployer plans who withdraw from such a plan or upon termination of said plan. The Company has not undertaken to terminate, withdraw or partially withdraw from the plan. The Company has not received information from the plan's administrators to determine its share of unfunded vested benefits, if any. Amounts charged to operations for contributions to the multiemployer plans for 2010 and 2009 amounted to \$1,616,361 and \$1,521,519, respectively. Amounts charged to operations for contributions to the multiemployer plans for the six month period ended June 30, 2011 and June 30, 2010 amounted to \$839,627 and \$803,756, respectively.

The Company participates in a defined contribution 401(k) plan maintained by a related party for the benefit of its non-union employees. Contributions to the plan by the Company are made at the sole discretion of the member. Participants may also make contributions to the plan. No amounts were contributed by the Company for the years ended December 31, 2010 and 2009 and for the six month periods ended June 30, 2011 and June 30, 2010.

## Note 6 - Operating leases

The Company, as lessor under various operating leases, will receive rents over the remaining six months of 2011 and annually over the remaining terms of the leases as follows:

|            |              |
|------------|--------------|
| 2011       | \$1,469,844  |
| 2012       | 2,373,610    |
| 2013       | 2,353,014    |
| 2014       | 2,134,260    |
| 2015       | 2,176,484    |
| Thereafter | 2,549,948    |
|            | \$13,057,160 |

Certain leases contain provisions for additional rents and renewal options.

## Note 7 - Related party transactions

The Company is charged by a related party for laundry and other expenses consisting of accounting, advertising, executive office, human resources, management information, reservation and sales, security and technical services. Amounts charged to operations for laundry and other services amounted to \$22,071,699 and \$21,500,704 for the years ended December 31, 2010 and 2009, respectively. Amounts charged to operations for laundry and other services for the six month periods ended June 30, 2011 and 2010 amounted to \$8,895,527 and \$9,695,303, respectively. The Company uses a purchasing company, which is related through common ownership. The purchasing company provides goods to the Company at cost.

Amounts due from (to) related parties were included in the following balance sheet accounts:

June 30

December 31



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|                     | 2011<br>(Unaudited) | 2010           | 2009           |
|---------------------|---------------------|----------------|----------------|
| Accounts receivable | \$ -                | \$ 1,800       | \$ -           |
| Accounts payable    | \$ (2,111,743)      | \$ (2,416,917) | \$ (1,571,734) |

Amounts due to related parties are noninterest-bearing and have no specified date of repayment.

DP FEE HOLDING CO., LLC

Notes to Consolidated Financial Statements (continued)

Note 8 - Litigation

Lawsuits which arose in the normal course of business are pending against the Company. In the opinion of management the eventual disposition of these legal actions, based upon available insurance coverage and the assessment of the merits of such actions by counsel, will not have a material adverse effect on the financial position of the Company.

Note 9 - Commitments

During 2010, the Company entered into various contracts with contractors and other vendors to renovate the Benjamin and Affinia Manhattan hotels. At December 31, 2010 the Company had commitments of \$24,648,000 of which \$9,645,000 had been incurred as of December 31, 2010 and is included in property and equipment in the accompanying consolidated financial statements.

\* \* \*

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF PEBBLEBROOK HOTEL TRUST

Pebblebrook Hotel Trust (the “Company”) completed its initial public offering and concurrent private placement of common shares of beneficial interest on December 14, 2009. The Company raised \$379.6 million, net of underwriting discounts and offering costs. On July 28, 2010, the Company completed a follow-on offering of 19,550,000 common shares, including the underwriters’ overallotment of 2,550,000 common shares, at an offering price of \$17.00 per share. The net proceeds to the Company, after underwriters’ discounts and offering costs, were \$318.3 million. On March 11, 2011, the Company completed an offering of 5,000,000 7.875% Series A Cumulative Redeemable Preferred Shares at an offering price of \$25.00 per share. The net proceeds to the Company, after underwriters’ discounts and offering costs, were \$121.1 million. On April 6, 2011, the Company completed a follow-on offering of 10,925,000 common shares, including the underwriters’ overallotment of 1,425,000 common shares, at an offering price of \$21.60 per share. The net proceeds to the Company, after underwriters’ discounts and offering costs, were \$226.5 million. On July 14, 2011, the Company completed an offering of 600,000 7.875% Series A Cumulative Redeemable Preferred Shares at an offering price of \$25.25 per share, for net proceeds of approximately \$15.1 million.

On July 29, 2011, the Company, through a subsidiary, completed its 49% equity investment in a joint venture (the “Joint Venture”) for \$153.6 million with affiliates of Denihan Hospitality Group (“Denihan”). The Joint Venture owns six upper upscale hotels – Affinia Manhattan, Affinia Shelburne, Affinia Dumont, Affinia 50, Affinia Gardens and The Benjamin – comprising 1,640 guestrooms (expected to increase to 1,730 guestrooms upon completion of a renovation at the Affinia Manhattan). The Company funded this investment with \$111.6 million in available cash and \$42.0 million from borrowings under its credit facility. Affiliates of Denihan will continue to own the remaining 51% interest in the Joint Venture. The Company accounts for this investment using the equity method.

The unaudited pro forma consolidated balance sheet as of June 30, 2011 includes the pro forma financial information as if the 49% equity investment in the Joint Venture, which was completed on July 29, 2011, had been completed on June 30, 2011.

The unaudited pro forma consolidated statement of operations for the six months ended June 30, 2011 includes the pro forma financial information as if the following acquisitions had been completed on January 1, 2010:

- Argonaut Hotel San Francisco, which was acquired on February 16, 2011;
- The Westin Gaslamp Quarter, San Diego, which was acquired on April 6, 2011;
  - Viceroy Miami, which was acquired on May 26, 2011;
  - W Boston, which was acquired on June 8, 2011; and
- The 49% equity investment in the Joint Venture, which was completed on July 29, 2011.

The unaudited pro forma consolidated statement of operations for the year ended December 31, 2010 includes the pro forma financial information as if the following acquisitions had been completed on January 1, 2010:

- DoubleTree by Hilton Bethesda-Washington DC Hotel, Sir Francis Drake Hotel, InterContinental Buckhead Hotel, Hotel Monaco Washington DC, Skamania Lodge, Sheraton Delfina Santa Monica Hotel, Sofitel Philadelphia Hotel, which were each acquired during 2010;
  - Argonaut Hotel San Francisco, which was acquired on February 16, 2011;
  - The Westin Gaslamp Quarter, San Diego, which was acquired on April 6, 2011;
    - Viceroy Miami, which was acquired on May 26, 2011;
    - W Boston, which was acquired on June 8, 2011; and
  - The 49% equity investment in the Joint Venture, which was completed on July 29, 2011.



The unaudited pro forma financial information is provided for significant acquisitions. The Grand Hotel Minneapolis (acquired on September 30, 2010), Hotel Monaco Seattle (acquired on April 7, 2011) and Mondrian Los Angeles (acquired on May 3, 2011) were not significant acquisitions, therefore they are not included in the pro forma financial information.

The unaudited pro forma financial information is not necessarily indicative of what the Company's results of operations or financial condition would have been assuming such transactions had been completed at the beginning of the periods presented, nor is it indicative of the results of operations for future periods. The unaudited pro forma financial information reflects the preliminary application of purchase accounting to the acquisition of the 49% equity interest in the Joint Venture. The preliminary purchase accounting may be adjusted if any of the assumptions underlying the purchase accounting change. In management's opinion, all adjustments necessary to reflect the effects of the significant acquisitions described above have been made. This unaudited pro forma financial information should be read in conjunction with the historical financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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Pebblebrook Hotel Trust

Unaudited Pro Forma Consolidated Balance Sheet  
As of June 30, 2011  
(in thousands, except share and per-share data)

|  | Historical<br>Pebblebrook<br>Hotel Trust | Acquisition of<br>equity interest<br>in<br>Joint Venture<br>(1) | Pro Forma<br>Pebblebrook<br>Hotel<br>Trust |
|--|--|---|--|
| <b>ASSETS</b>  |  |   |  |
| Investment in hotel properties, net  | \$ 1,120,085                             | \$ -  | \$ 1,120,085                               |
| Ground lease asset   | 10,612                                   | -   | 10,612                                     |
| Investment in joint venture  | -  | 153,600   | 153,600                                    |
| Cash and cash equivalents  | 139,999                                  | (101,600 )  | 38,399                                     |
| Restricted cash  | 6,729                                    | -   | 6,729                                      |
| Accounts receivable, net   | 13,752                                   | -   | 13,752                                     |
| Deferred financing costs, net  | 4,042                                    | -   | 4,042                                      |
| Prepaid expenses and other assets  | 24,734                                   | (10,000 )   | 14,734                                     |
| Total assets   | \$ 1,319,953                             | \$ 42,000   | \$ 1,361,953                               |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |  |   |  |
| Senior credit facility   | \$ -                                     | \$ 42,000   | \$ 42,000                                  |
| Mortgage debt  | 252,114                                  | -   | 252,114                                    |
| Accounts payable and accrued expenses  | 30,325                                   | -   | 30,325                                     |
| Advance deposits   | 4,667                                    | -   | 4,667                                      |
| Accrued interest   | 785                                      | -   | 785  |
| Distribution payable   | 8,297                                    | -   | 8,297                                      |
| Total liabilities  | 296,188                                  | 42,000  | 338,188                                    |
| Commitments and contingencies  |  |   |  |
| Shareholders' equity:  |  |   |  |
| Preferred shares of beneficial interest, stated at liquidation preference \$25 per share, \$0.01 par value; 100,000,000 shares authorized; 5,000,000 shares issued and outstanding | 125,000                                  | -   | 125,000                                    |
| Common shares of beneficial interest, \$0.01 par value; 500,000,000 shares authorized, 50,771,380 issued and outstanding   | 508                                      | -   | 508  |
| Additional paid-in capital   | 920,297                                  | -   | 920,297                                    |
| Accumulated deficit and distributions  | (24,320 )                                | -   | (24,320 )                                  |
| Total shareholders' equity   | 1,021,485                                | -   | 1,021,485                                  |
| Non-controlling interest   | 2,280                                    | -   | 2,280                                      |
| Total equity   | 1,023,765                                | -   | 1,023,765                                  |
| Total liabilities and equity   | \$ 1,319,953                             | \$ 42,000   | \$ 1,361,953                               |

Footnotes:

(1) Reflects the acquisition of the 49% equity interest in the Joint Venture for \$153.6 million, which was funded with \$101.6 million of available cash, \$10.0 million deposit held in escrow and \$42.0 million from borrowings from the

Company's \$200 million senior unsecured credit facility.

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Pebblebrook Hotel Trust  
 Unaudited Pro Forma Income Statement  
 For the six months ended June 30, 2011  
 (in thousands, except share and per-share data)

|  | Historical<br>Pebblebrook<br>Hotel Trust | Acquisition<br>of<br>The<br>Argonaut<br>Hotel<br>San<br>Francisco<br>(1) | Acquisition<br>of<br>Westin<br>San<br>Diego<br>Quarter,<br>(2) | Acquisition<br>of<br>Viceroy<br>Miami<br>(3) | Acquisition<br>of<br>W<br>Boston<br>(4) | Acquisition<br>of<br>equity<br>interest<br>in Joint<br>Venture<br>(5) | Pro<br>Forma<br>Adjustments | Pro Forma<br>Pebblebrook<br>Hotel Trust |
|--|--|--|--|--|---|---|-----------------------------|---|
| <b>REVENUE</b>   |  |  |  |  |   |   |                             |   |
| Room   | \$ 71,160                                | \$ 976   | \$ 4,010   | \$ 4,186                                     | \$ 6,707                                | -   | \$ -                        | \$ 87,039                               |
| Food and beverage  | 37,953                                   | 330  | 2,268  | 3,485  | 3,558                                   | -   | -                           | 47,594                                  |
| Other operating<br>department                                | 6,662                                    | 78   | 395  | 730  | 1,422                                   | -   | -                           | 9,287                                   |
| <b>Total revenues</b>  | <b>115,775</b>                           | <b>1,384</b>   | <b>6,673</b>   | <b>8,401</b>                                 | <b>11,687</b>                           | <b>-</b>  | <b>-</b>                    | <b>143,920</b>                          |
| <b>EXPENSES</b>  |  |  |  |  |   |   |                             |   |
| Hotel operating expenses:                                    |  |  |  |  |   |   |                             |   |
| Room   | 19,507                                   | 347  | 1,129  | 1,302  | 1,679                                   | -   | -                           | 23,964                                  |
| Food and beverage  | 26,687                                   | 270  | 1,477  | 2,740  | 3,386                                   | -   | -                           | 34,560                                  |
| Other direct<br>expenses                                     | 3,083                                    | 37   | 167  | 121  | 1,269                                   | -   | -                           | 4,677                                   |
| Other indirect<br>expenses                                   | 32,936                                   | 405  | 1,666  | 3,385  | 3,562                                   | -   | (17 )                       | (6) 41,937                              |
| <b>Total hotel<br/>operating expenses</b>                    | <b>82,213</b>                            | <b>1,059</b>   | <b>4,439</b>   | <b>7,548</b>                                 | <b>9,896</b>                            | <b>-</b>  | <b>(17 )</b>                | <b>105,138</b>                          |
| Depreciation and<br>amortization                             | 12,389                                   | -  | -  | -  | -                                       | -   | 3,162                       | (7) 15,551                              |
| Real estate taxes,<br>personal property<br>taxes & insurance | 5,081                                    | 92   | 326  | 357  | 666                                     | -   | -                           | 6,522                                   |
| Impairment of<br>hotel properties                            | -  | -  | -  | 384  | -                                       | -   | (384 )                      | (8) -                                   |
| Ground rent  | 761                                      | 108  | -  | -  | -                                       | -   | -                           | 869                                     |
| General and<br>administrative                                | 4,726                                    | -  | -  | -  | -                                       | -   | -                           | 4,726                                   |
| Acquisition<br>transaction costs                             | 3,441                                    | -  | -  | -  | -                                       | -   | (3,441 )                    | (9) -                                   |
| <b>Total operating<br/>expenses</b>                          | <b>108,611</b>                           | <b>1,259</b>   | <b>4,765</b>   | <b>8,289</b>                                 | <b>10,562</b>                           | <b>-</b>  | <b>(680 )</b>               | <b>132,806</b>                          |
| <b>Operating income<br/>(loss)</b>                           | <b>7,164</b>                             | <b>125</b>   | <b>1,908</b>   | <b>112</b>                                   | <b>1,125</b>                            | <b>-</b>  | <b>680</b>                  | <b>11,114</b>                           |



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|  |             |          |          |        |          |            |            |      |             |
|--|-------------|----------|----------|--------|----------|------------|------------|------|-------------|
| Interest income  | 766         | -        | -        | -      | -        | -          | (766 )     | (10) | -           |
| Interest expense   | (6,302 )    | (208 )   | -        | -      | -        | -          | (998 )     | (11) | (7,508 )    |
| Other income   | 47          | -        | -        | -      | -        | -          | -          | -    | 47          |
| Equity in earnings (losses) of joint venture                 | -           | -        | -        | -      | -        | (2,681)    | (845 )     | (12) | (3,526 )    |
| Income (loss) before income taxes                            | 1,675       | (83 )    | 1,908    | 112    | 1,125    | (2,681)    | (1,929)    |      | 127         |
| Income tax benefit (expense)                                 | (420 )      | -        | -        | -      | -        | -          | (481 )     | (13) | (901 )      |
| Net income (loss)  | 1,255       | (83 )    | 1,908    | 112    | 1,125    | (2,681)    | (2,410)    |      | (774 )      |
| Net income (loss) attributable to non-controlling interests  | 85          | -        | -        | -      | -        | -          | -          | -    | 85          |
| Net income (loss) attributable to the Company                | 1,170       | (83 )    | 1,908    | 112    | 1,125    | (2,681)    | (2,410)    |      | (859 )      |
| Distribution to preferred shareholders                       | (3,008 )    | -        | -        | -      | -        | -          | -          | -    | (3,008 )    |
| Net income (loss) to common shareholders                     | \$ (1,838 ) | \$ (83 ) | \$ 1,908 | \$ 112 | \$ 1,125 | \$ (2,681) | \$ (2,410) |      | \$ (3,867 ) |
| Income (loss) income per common share - basic and diluted    | \$ (0.05 )  |          |          |        |          |            |            |      | \$ (0.08 )  |
| Weighted average number of common shares - basic and diluted | 45,026,715  |          |          |        |          |            | (14 )      |      | 50,193,672  |

Footnotes:

- (1) Reflects the historical unaudited statement of operations of the Argonaut Hotel from the beginning of the period presented through the date of acquisition. The results for the period from the date of acquisition to the end of the period presented are included in the Historical Pebblebrook Hotel Trust column of this table.
- (2) Reflects the historical unaudited statement of operations of The Westin Gaslamp Quarter, San Diego from the beginning of the period presented through the date of acquisition. The results for the period from the date of acquisition to the end of the period presented are included in the Historical Pebblebrook Hotel Trust column of this table.
- (3)

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Reflects the historical unaudited statement of operations of the Viceroy Miami from the beginning of the period presented through the date of acquisition. The results for the period from the date of acquisition to the end of the period presented are included in the Historical Pebblebrook Hotel Trust column of this table.

- (4) Reflects the historical unaudited statement of operations of the W Boston from the beginning of the period presented through the date of acquisition. The results for the period from the date of acquisition to the end of the period presented are included in the Historical Pebblebrook Hotel Trust column of this table.
- (5) Reflects the Company's pro-rata share of the Joint Venture's net income (loss).
- (6) Reflects adjustment to record management fee for The Westin Gaslamp Quarter, San Diego as no such fee is included in the historical amount presented because this hotel was previously self managed. Also included is the amortization of key money received for the Viceroy Miami.
- (7) Reflects adjustment to depreciation expense based on the Company's cost basis in the acquired hotel properties and the Company's accounting policy for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for building and seven years for furniture, fixtures and equipment.
- (8) Reflects removal of an impairment charge recognized in the 2011 historical financial statements to reduce the carrying value of the hotel asset to its estimated fair value.
- (9) Reflects removal of acquisition transaction costs as these are non-recurring charges directly related to the hotel property acquisitions.
- (10) Reflects removal of historical interest income associated with a reduction in cash invested in interest bearing accounts in conjunction with the hotel property acquisitions.
- (11) Reflects adjustment to include interest expense associated with the draw down on the credit facility to fund a portion of the investment in the Joint Venture.
- (12) Reflects adjustment to depreciation expense based on the Company's cost basis in the hotel properties of the Joint Venture and the Company's accounting policy for depreciation. This is presented as an adjustment to equity in earnings (loss) of joint venture.
- (13) Reflects adjustment to record pro forma income taxes related to the Company's taxable REIT subsidiary subsequent to the hotel acquisitions and investment in the Joint Venture. The pro forma income tax was calculated using the Company's taxable REIT subsidiary's estimated effective tax rate of 40%.
- (14) Reflects number of common shares issued and outstanding as if the Company's follow-on common share offerings had occurred on January 1, 2010.

Pebblebrook Hotel Trust  
 Unaudited Pro Forma Income Statement  
 For the twelve months ended December 31, 2010  
 (in thousands, except share and per-share data)

|   | Historical<br>Pebblebrook<br>Hotel Trust | 2010<br>Hotel<br>Acquisitions(1) | Acquisition<br>of<br>The<br>of<br>Argonaut<br>Hotel<br>San<br>Francisco<br>(2) | Acquisition<br>of<br>The<br>of<br>Westin<br>San<br>Diego<br>(3) | Acquisition<br>of<br>Viceroy<br>Miami<br>(4) | Acquisition<br>of<br>W<br>Boston<br>(5) | Acquisition<br>of<br>equity<br>interest<br>in<br>Joint<br>Venture<br>(6) | Pro<br>Forma<br>Adjustments | Pro Forma<br>Pebblebrook<br>Hotel Trust |
|---|--|----------------------------------|--|---|--|---|--|-----------------------------|---|
| <b>REVENUE</b>  |  |                                  |  |   |  |   |  |                             |   |
| Room  | \$32,804                                 | \$64,522                         | \$14,777   | \$18,509  | \$7,556                                      | \$15,719                                | \$-  | \$-                         | \$153,887                               |
| Food and<br>beverage  | 21,984                                   | 36,216                           | 4,849  | 7,134   | 6,765  | 9,636                                   | -  | -                           | 86,584                                  |
| Other<br>operating<br>department                                | 2,973                                    | 7,159                            | 918  | 2,033   | 511  | 2,002                                   | -  | -                           | 15,596                                  |
| Total revenues  | 57,761                                   | 107,897                          | 20,544   | 27,676  | 14,832                                       | 27,357                                  | -  | -                           | 256,067                                 |
| <b>EXPENSES</b>   |  |                                  |  |   |  |   |  |                             |   |
| Hotel<br>operating<br>expenses:                                 |  |                                  |  |   |  |   |  |                             |   |
| Room  | 9,718                                    | 18,164                           | 4,296  | 4,461   | 2,884  | 3,972                                   | -  | 30                          | (7) 43,525                              |
| Food and<br>beverage  | 15,113                                   | 26,441                           | 3,370  | 5,037   | 6,225  | 8,437                                   | -  | -                           | 64,623                                  |
| Other direct<br>expenses  | 1,288                                    | 4,158                            | 408  | 832   | 294  | 1,735                                   | -  | -                           | 8,715                                   |
| Other indirect<br>expenses                                      | 16,724                                   | 30,535                           | 4,820  | 6,828   | 5,605  | 8,071                                   | -  | 830                         | (7) 73,413                              |
| Total hotel<br>operating<br>expenses                            | 42,843                                   | 79,298                           | 12,894   | 17,158  | 15,008                                       | 22,215                                  | -  | 860                         | 190,276                                 |
| Depreciation<br>and<br>amortization                             |  |                                  |  |   |  |   |  |                             |   |
| Real estate<br>taxes, personal<br>property taxes<br>& insurance | 5,776                                    | 2,479                            | 1,124  | 3,644   | 1,326  | 3,986                                   | -  | 9,501                       | (8) 27,836                              |
| Impairment of<br>hotel<br>properties                            | -  | -                                | -  | -   | -  | 30,730                                  | -  | (30,730)                    | (9) -                                   |
| Ground rent   | 124                                      | 212                              | 1,393  | -   | -  | -                                       | -  | 220                         | (10) 1,949                              |
|   | 8,319                                    | -                                | -  | -   | -  | -                                       | -  | -                           | 8,319                                   |

|   |            |          |          |         |            |            |         |          |      |            |
|---|------------|----------|----------|---------|------------|------------|---------|----------|------|------------|
| General and administrative                                  |            |          |          |         |            |            |         |          |      |            |
| Acquisition transaction costs                               | 6,581      | -        | -        | -       | -          | -          | -       | (6,581 ) | (11) | -          |
| Total operating expenses                                    | 65,863     | 86,254   | 16,526   | 22,064  | 16,851     | 57,914     | -       | (26,730) |      | 238,742    |
| Operating income (loss)                                     | (8,102 )   | 21,643   | 4,018    | 5,612   | (2,019 )   | (30,557)   | -       | 26,730   |      | 17,325     |
| Interest income   | 3,020      | -        | -        | -       | -          | -          | -       | (3,020 ) | (12) | -          |
| Interest expense  | (1,640 )   | (2,235 ) | (2,449 ) | -       | -          | -          | -       | (1,956 ) | (13) | (8,280 )   |
| Equity in earnings (losses) of joint venture                | -          | -        | -        | -       | -          | -          | 3,198   | (1,217 ) | (14) | 1,981      |
| Income (loss) before income taxes                           | (6,722 )   | 19,408   | 1,569    | 5,612   | (2,019 )   | (30,557)   | 3,198   | 20,537   |      | 11,026     |
| Income tax benefit (expense)                                | 80         | -        | -        | -       | -          | -          | -       | (2,145 ) | (15) | (2,065 )   |
| Net income (loss)   | \$(6,642 ) | \$19,408 | \$1,569  | \$5,612 | \$(2,019 ) | \$(30,557) | \$3,198 | \$18,392 |      | \$8,961    |
| (Loss) income per common share, basic and diluted           | \$(0.23 )  |          |          |         |            |            |         |          |      | \$0.20     |
| Weighted average number of common shares, basic and diluted | 28,669,851 |          |          |         |            |            |         | (16 )    |      | 45,026,715 |

## Footnotes:

- (1) Reflects the historical unaudited statement of operations of the seven significant hotels acquired in 2010 for the period prior to their acquisitions. The results for the period from the date of acquisition to the end of the period presented are included in the Historical Pebblebrook Hotel Trust column of this table.
- (2) Reflects the historical unaudited statement of operations of the Argonaut Hotel San Francisco for the year ended December 31, 2010.
- (3)

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Reflects the historical audited statement of operations of The Westin Gaslamp Quarter, San Diego for the year ended December 31, 2010.

- (4) Reflects the historical audited statement of operations of Viceroy Miami for the year ended December 31, 2010.
  - (5) Reflects the historical audited statement of operations of W Boston for the year ended December 31, 2010.
  - (6) Reflects the Company's pro-rata share of the Joint Venture's net income (loss).
  - (7) Reflects adjustment to record management fee and related costs for the InterContinental Buckhead Hotel and The Westin Gaslamp Quarter, San Diego as no such fees or costs are included in the historical amounts presented because these hotels were previously self-managed. Also included is the amortization of key money received for Viceroy Miami.
  - (8) Reflects adjustment to depreciation expense based on the Company's cost basis in the acquired hotel properties and the Company's accounting policy for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for building and seven years for furniture, fixtures and equipment.
  - (9) Reflects removal of an impairment charge recognized in the 2010 historical financial statements to reduce the carrying value of the hotel asset to its estimated fair value.
  - (10) Reflects adjustment to amortize the ground lease intangible asset associated with the Hotel Monaco Washington DC.
  - (11) Reflects removal of acquisition transaction costs as these are non-recurring charges directly related to the hotel property acquisitions.
  - (12) Reflects removal of historical interest income associated with a reduction in cash invested in interest bearing accounts in conjunction with the hotel property acquisitions.
  - (13) Reflects removal of historical interest expense associated with debt which was not assumed in conjunction with the acquisition of the Sir Francis Drake Hotel, adjustment to include interest expense for the Sofitel Philadelphia Hotel where we assumed the debt, and to include interest expense associated with the draw down on the credit facility to fund a portion of the investment in the Joint Venture.
  - (14) Reflects adjustment to depreciation expense based on the Company's cost basis in the hotel properties of the Joint Venture and the Company's accounting policy for depreciation. This is presented as an adjustment to equity in earnings (loss) of joint venture.
  - (15) Reflects adjustment to record pro forma income taxes related to the Company's taxable REIT subsidiary subsequent to the hotel acquisitions and investment in the Joint Venture. The pro forma income tax was calculated using the Company's taxable REIT subsidiary's estimated effective tax rate of 40%.
  - (16) Reflects number of common shares issued and outstanding as if the Company's follow-on common share offerings had occurred on January 1, 2010.
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