
Section 1: 10-Q (10-Q)

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

FORM 10-Q

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

For the quarterly period ended June 30, 2019

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)

7315 Wisconsin Avenue, 1100 West
Bethesda, Maryland
(Address of Principal Executive Offices)

27-1055421
(I.R.S. Employer
Identification No.)

20814
(Zip Code)

(240) 507-1300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares of Beneficial Interest, \$0.01 par value per share	PEB	New York Stock Exchange
6.50% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share	PEB-PC	New York Stock Exchange
6.375% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share	PEB-PD	New York Stock Exchange
6.375% Series E Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share	PEB-PE	New York Stock Exchange
6.30% Series F Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share	PEB-PF	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding at July 22, 2019
Common shares of beneficial interest (\$0.01 par value per share)	130,633,110

Pebblebrook Hotel Trust

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Pebblebrook Hotel Trust
Consolidated Balance Sheets
(In thousands, except share data)

	June 30, 2019	December 31, 2018
	(Unaudited)	
ASSETS		
Investment in hotel properties, net	\$ 6,421,038	\$ 6,534,193
Hotels held for sale	114,166	—
Ground lease asset, net	—	199,745
Cash and cash equivalents	41,988	83,366
Restricted cash	28,274	24,445
Hotel receivables (net of allowance for doubtful accounts of \$540 and \$526, respectively)	75,394	59,897
Prepaid expenses and other assets	49,854	76,702
Total assets	<u>\$ 6,730,714</u>	<u>\$ 6,978,348</u>
LIABILITIES AND EQUITY		
Debt	\$ 2,398,726	\$ 2,746,898
Accounts payable and accrued expenses	524,145	360,279
Deferred revenues	53,116	54,741
Accrued interest	4,984	2,741
Liabilities related to hotels held for sale	1,162	—
Distribution payable	58,307	43,759
Total liabilities	<u>3,040,440</u>	<u>3,208,418</u>
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred shares of beneficial interest, \$.01 par value (liquidation preference \$510,000 at June 30, 2019 and at December 31, 2018), 100,000,000 shares authorized; 20,400,000 shares issued and outstanding at June 30, 2019 and December 31, 2018	204	204
Common shares of beneficial interest, \$.01 par value, 500,000,000 shares authorized; 130,484,956 issued and outstanding at June 30, 2019 and 130,311,289 issued and outstanding at December 31, 2018	1,305	1,303
Additional paid-in capital	4,065,672	4,065,804
Accumulated other comprehensive income (loss)	(28,798)	1,330
Distributions in excess of retained earnings	(358,615)	(308,806)
Total shareholders' equity	<u>3,679,768</u>	<u>3,759,835</u>
Non-controlling interests	10,506	10,095
Total equity	<u>3,690,274</u>	<u>3,769,930</u>
Total liabilities and equity	<u>\$ 6,730,714</u>	<u>\$ 6,978,348</u>

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Revenues:				
Room	\$ 306,291	\$ 142,018	\$ 555,277	\$ 264,489
Food and beverage	97,965	49,210	184,715	93,778
Other operating	37,827	15,273	69,260	29,289
Total revenues	442,083	206,501	809,252	387,556
Expenses:				
Hotel operating expenses:				
Room	70,454	33,157	137,829	64,865
Food and beverage	66,934	32,328	130,291	62,924
Other direct and indirect	113,620	54,523	219,695	106,362
Total hotel operating expenses	251,008	120,008	487,815	234,151
Depreciation and amortization	53,299	24,562	107,601	49,464
Real estate taxes, personal property taxes, property insurance, and ground rent	30,984	12,488	62,421	24,603
General and administrative	8,809	5,794	17,438	8,131
Transaction costs	1,044	1,979	3,541	2,357
(Gain) loss and other operating expenses	1,130	(6,811)	4,690	(11,019)
Total operating expenses	346,274	158,020	683,506	307,687
Operating income (loss)	95,809	48,481	125,746	79,869
Interest expense	(28,719)	(10,816)	(58,047)	(20,627)
Other	7	22,968	16	25,478
Income (loss) before income taxes	67,097	60,633	67,715	84,720
Income tax (expense) benefit	(6,579)	(2,338)	(1,542)	(1,909)
Net income (loss)	60,518	58,295	66,173	82,811
Net income (loss) attributable to non-controlling interests	145	192	165	299
Net income (loss) attributable to the Company	60,373	58,103	66,008	82,512
Distributions to preferred shareholders	(8,139)	(4,024)	(16,278)	(8,047)
Net income (loss) attributable to common shareholders	\$ 52,234	\$ 54,079	\$ 49,730	\$ 74,465
Net income (loss) per share available to common shareholders, basic	\$ 0.40	\$ 0.78	\$ 0.38	\$ 1.08
Net income (loss) per share available to common shareholders, diluted	\$ 0.40	\$ 0.78	\$ 0.38	\$ 1.07
Weighted-average number of common shares, basic	130,484,956	68,912,185	130,458,164	68,894,413
Weighted-average number of common shares, diluted	130,595,854	69,204,571	130,662,407	69,227,098

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 June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Comprehensive Income:				
Net income (loss)	\$ 60,518	\$ 58,295	\$ 66,173	\$ 82,811
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments	(21,089)	2,012	(30,128)	7,290
Other	—	579	—	—
Comprehensive income (loss)	39,429	60,886	36,045	90,101
Comprehensive income (loss) attributable to non-controlling interests	86	201	80	324
Comprehensive income (loss) attributable to the Company	<u>\$ 39,343</u>	<u>\$ 60,685</u>	<u>\$ 35,965</u>	<u>\$ 89,777</u>

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

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

Three Months Ended June 30, 2019

	Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non-Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount						
Balance at March 31, 2019	20,400,000	\$ 204	130,484,956	\$ 1,305	\$4,063,830	\$ (7,709)	\$ (361,081)	\$ 3,696,549	\$ 10,250	\$3,706,799
Share-based compensation	—	—	—	—	1,842	—	—	1,842	276	2,118
Distributions on common shares/units	—	—	—	—	—	—	(49,768)	(49,768)	(165)	(49,933)
Distributions on preferred shares	—	—	—	—	—	—	(8,139)	(8,139)	—	(8,139)
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	(21,089)	—	(21,089)	—	(21,089)
Net income (loss)	—	—	—	—	—	—	60,373	60,373	145	60,518
Balance at June 30, 2019	<u>20,400,000</u>	<u>\$ 204</u>	<u>130,484,956</u>	<u>\$ 1,305</u>	<u>\$4,065,672</u>	<u>\$ (28,798)</u>	<u>\$ (358,615)</u>	<u>\$ 3,679,768</u>	<u>\$ 10,506</u>	<u>\$3,690,274</u>

Three Months Ended June 30, 2018

	Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non-Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount						
Balance at March 31, 2018	10,000,000	\$ 100	68,912,185	\$ 689	\$1,683,046	\$ 8,936	\$ (197,359)	\$ 1,495,412	\$ 4,918	\$1,500,330
Share-based compensation	—	—	—	—	1,592	—	—	1,592	276	1,868
Distributions on common shares/units	—	—	—	—	—	—	(26,320)	(26,320)	(90)	(26,410)
Distributions on preferred shares	—	—	—	—	—	—	(4,024)	(4,024)	(16)	(4,040)
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	2,012	—	2,012	—	2,012
Other	—	—	—	—	—	579	—	579	—	579
Net income (loss)	—	—	—	—	—	—	58,103	58,103	192	58,295
Balance at June 30, 2018	<u>10,000,000</u>	<u>\$ 100</u>	<u>68,912,185</u>	<u>\$ 689</u>	<u>\$1,684,638</u>	<u>\$ 11,527</u>	<u>\$ (169,600)</u>	<u>\$ 1,527,354</u>	<u>\$ 5,280</u>	<u>\$1,532,634</u>

on preferred shares	—	—	—	—	—	—	(8,047)	(8,047)	(16)	(8,063)
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	7,290	—	7,290	—	7,290
Cumulative effect adjustment from adoption of new accounting standard	—	—	—	—	—	548	(548)	—	—	—
Net income (loss)	—	—	—	—	—	—	82,512	82,512	299	82,811
Balance at June 30, 2018	<u>10,000,000</u>	<u>\$ 100</u>	<u>68,912,185</u>	<u>\$ 689</u>	<u>\$1,684,638</u>	<u>\$ 11,527</u>	<u>\$ (169,600)</u>	<u>\$ 1,527,354</u>	<u>\$ 5,280</u>	<u>\$1,532,634</u>

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

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

	For the six months ended June 30,	
	2019	2018
Operating activities:		
Net income (loss)	\$ 66,173	\$ 82,811
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	107,601	49,464
Share-based compensation	3,966	1,599
(Gain) loss on marketable securities	—	(20,477)
Amortization of deferred financing costs and mortgage loan premiums	3,901	1,043
Non-cash ground rent	3,051	1,350
Other	4,735	1,146
Changes in assets and liabilities:		
Hotel receivables	(17,150)	(5,731)
Prepaid expenses and other assets	9,019	(11,355)
Accounts payable and accrued expenses	13,461	3,140
Deferred revenues	(637)	(501)
Net cash provided by (used in) operating activities	194,120	102,489
Investing activities:		
Improvements and additions to hotel properties	(75,907)	(35,301)
Proceeds from sales of hotel properties	302,323	—
Investment in marketable securities	—	(356,180)
Sale of marketable securities	—	6,658
Purchase of corporate office equipment, software, and furniture	(398)	(26)
Property insurance proceeds	—	2,648
Net cash provided by (used in) investing activities	226,018	(382,201)
Financing activities:		
Payment of offering costs — common and preferred shares	(275)	—
Payment of deferred financing costs	(237)	(42)
Borrowings under revolving credit facilities	56,893	465,373
Repayments under revolving credit facilities	(226,893)	(127,373)
Repayments of debt	(181,219)	(1,175)
Repurchases of common shares	(4,009)	(2,507)
Distributions — common shares/units	(85,273)	(53,078)
Distributions — preferred shares	(16,278)	(8,047)
Proceeds from refundable membership deposits	—	30
Repayments of refundable membership deposits	(396)	(486)
Net cash provided by (used in) financing activities	(457,687)	272,695
Net change in cash and cash equivalents and restricted cash	(37,549)	(7,017)
Cash and cash equivalents and restricted cash, beginning of year	107,811	32,533
Cash and cash equivalents and restricted cash, end of period	\$ 70,262	\$ 25,516

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

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 June 30, 2019, the Company owned 60 hotels with a total of 14,463 guest rooms. The hotels are located in the following markets: Atlanta (Buckhead), Georgia; Boston, Massachusetts; Chicago, Illinois; Key West, Florida; Miami (Coral Gables), Florida; Los Angeles, California (Beverly Hills, Santa Monica, and West Hollywood); Naples, Florida; Nashville, Tennessee; New York, New York; Philadelphia, Pennsylvania; Portland, Oregon; San Diego, California; San Francisco, California; Seattle, Washington; Stevenson, Washington; and Washington, D.C.

Substantially all of the Company's assets are held by, and all of the Company's operations are conducted through, Pebblebrook Hotel, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At June 30, 2019, the Company owned 99.7% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 0.3% 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 with its subsidiaries, "PHL") and LaSalle Hotel Lessee Inc. (collectively with its subsidiaries, "LHL"), the Company's taxable REIT subsidiaries ("TRSs"), which in turn engage third-party eligible independent contractors to manage the hotels. PHL and LHL are 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 U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements include all adjustments considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and comprehensive income, consolidated statements of equity 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 and or dispositions 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, 2018.

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.

Certain reclassifications have been made to the prior period's financial statements to conform to the current year presentation.

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.
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. Marketable securities are carried at fair value using Level 1 inputs. See Note 5 to the accompanying financial statements for disclosures on the fair value of debt and derivative instruments.

Investment in Hotel Properties

Upon acquisition of a hotel property, 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 arrangements in connection with the transaction, including 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. Hotel acquisitions are generally considered to be asset acquisitions defined by ASU 2017-01 and transaction costs related to asset acquisitions are capitalized. Acquisition costs related to business combinations are expensed as incurred and are included in general and administrative expenses on the consolidated statements of operations and comprehensive income.

Hotel renovations and replacements of assets that improve or extend the life of an asset are recorded at cost and depreciated over their estimated useful lives. Assets 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 is 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 and will cease recording depreciation expense when a binding agreement to sell the property has been signed under which the buyer has committed a significant amount of nonrefundable cash, approval of the Board of Trustees has been obtained, no significant financing contingencies exist, and the sale is expected to close within one year. If the fair value less costs to sell is lower than the carrying value of the hotel, the Company will record an impairment loss. The Company will classify the loss, together with the related operating results, as continuing or

discontinuing operations on the consolidated statements of operations and comprehensive income and classify the assets and related liabilities as held for sale on the consolidated balance sheets.

Revenue Recognition

Revenue consists of amounts derived from hotel operations, including the sales of rooms, food and beverage, and other ancillary services. Room revenue is recognized over the length of a customer's hotel stay. Revenue from food and beverage and other ancillary services is generated when a customer chooses to purchase goods or services separately from a hotel room and revenue is recognized on these distinct goods and services at the point in time or over the time period that goods or services are provided to the customer. Certain ancillary services are provided by third parties and the Company assesses whether it is the principal or agent in these arrangements. If the Company is the agent, revenue is recognized based upon the commission earned from the third party. If the Company is the principal, the Company recognizes revenue based upon the gross sales price. Some contracts for rooms or food and beverage services require an upfront deposit which is recorded as deferred revenues (or contract liabilities) and recognized once the performance obligations are satisfied.

The Company recognizes revenue related to nonrefundable membership initiation fees and refundable membership initiation deposits over the expected life of an active membership. For refundable membership initiation deposits, the difference between the amount paid by the member and the present value of the refund obligation is deferred and recognized as other operating revenues on the consolidated statements of operations and comprehensive income over the expected life of an active membership. The present value of the refund obligation is recorded as a membership initiation deposit liability in the consolidated balance sheets and accretes over the nonrefundable term using the effective interest method using the Company's incremental borrowing rate. The accretion is included in interest expense.

Certain of the Company's hotels have retail spaces, restaurants or other spaces which the Company leases to third parties. Lease revenue is recognized on a straight-line basis over the life of the lease and included in other operating revenues in the Company's consolidated statements of operations and comprehensive income.

The Company collects sales, use, occupancy and similar taxes at its hotels which are presented on a net basis on the consolidated statements of operations and comprehensive income. Accounts receivable primarily represents receivables from hotel guests who occupy hotel rooms and utilize hotel services. The Company maintains an allowance for doubtful accounts sufficient to cover estimated potential credit losses.

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 and LHL, which leases the Company's hotels from the Operating Partnership, is subject to federal and state income taxes. The Company accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Share-based Compensation

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

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing the net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss)

available 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.

Recent Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, to clarify how to apply certain aspects of the new leases standard. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, to give companies another option for transition and to provide lessors with a practical expedient to reduce the cost and complexity of implementing the new standard. The transition option allows companies to not apply the new leases standard in the comparative periods they present in their financial statements in the year of adoption. The Company adopted this standard on January 1, 2019. The Company elected the practical expedients allowed under the guidance and retained the original lease classification and historical accounting for initial direct costs for leases existing prior to the adoption date. The Company also elected not to restate prior periods for the impact of the adoption of the new standard. The adoption of this standard has resulted in the recognition of right-of-use assets and related liabilities to account for the Company's future obligations under the ground lease and corporate office arrangements for which the Company is the lessee. See Notes 4 and 11 to the accompanying financial statements for additional disclosures of the adoption of this standard.

Note 3. Business Combinations and Acquisition and Disposition of Hotel Properties

Merger with LaSalle Hotel Properties

On November 30, 2018, the Company completed its merger with LaSalle Hotel Properties ("LaSalle") pursuant to the Agreement and Plan of Merger, dated as of September 6, 2018, as amended on September 18, 2018 (the "Merger Agreement"), by and among the Company, the Operating Partnership, Ping Merger Sub, LLC ("Merger Sub"), Ping Merger OP, LP ("Merger OP"), LaSalle and LaSalle Hotel Operating Partnership, L.P. ("LaSalle OP").

Pursuant to the Merger Agreement, on November 30, 2018, Merger OP merged with and into LaSalle OP (the "Partnership Merger") with LaSalle OP surviving as a subsidiary of the Operating Partnership. Immediately following the Partnership Merger, LaSalle merged with and into Merger Sub (the "Company Merger" and, together with the Partnership Merger, the "Mergers") with Merger Sub surviving as a wholly owned subsidiary of the Company. On December 3, 2018, Merger Sub assigned all of its rights and obligations to the Company and was liquidated and dissolved.

Upon completion of the Company Merger and pursuant to the Merger Agreement, each issued and outstanding LaSalle common share of beneficial interest, \$0.01 par value per share ("LaSalle common shares") (other than the 10.8 million LaSalle common shares held by the Company) was converted into the right to receive either (i) 0.92 of the Company's common shares and cash in lieu of fractional shares, if any; or (ii) \$37.80 in cash, subject to certain adjustments and to any applicable withholding tax (the "Cash Consideration"). The maximum number of LaSalle common shares that were eligible to be converted into the right to receive the Cash Consideration was equal to 30% of the aggregate number of LaSalle common shares issued and outstanding immediately prior to completion of the Company Merger. The LaSalle common shares held by the Company were excluded from the cash election in the Company Merger and were cancelled. In addition, each issued and outstanding LaSalle 6.375% Series I cumulative redeemable preferred share was converted into the right to receive one of the Company's 6.375% Series E cumulative redeemable preferred shares and each issued and outstanding LaSalle 6.3% Series J cumulative redeemable preferred share was converted into the right to receive one of the Company's 6.3% Series F cumulative redeemable preferred shares.

Upon completion of the Partnership Merger and pursuant to the Merger Agreement, each common unit of LaSalle OP (a "LaSalle OP Common Unit") that was issued and outstanding immediately prior to completion of the Partnership Merger, other than LaSalle OP Common Units held by LaSalle and its subsidiaries, was cancelled and converted into the right to receive 0.92 common units of the Operating Partnership, without interest. No fractional common shares or OP units were issued in the Mergers, and the value of any fractional interests was paid in cash.

The Company accounted for the Mergers under the acquisition method of accounting in ASC 805, *Business Combinations*. As a result of the Mergers, the Company acquired an ownership interest in the following 36 hotel properties:

Property	Location	Ownership Interest	Guest Rooms
Villa Florence San Francisco on Union Square	San Francisco, CA	100%	189
Hotel Vitale	San Francisco, CA	100%	200
The Marker San Francisco	San Francisco, CA	100%	208
Hotel Spero	San Francisco, CA	100%	236
Chaminade Resort & Spa	Santa Cruz, CA	100%	156
Harbor Court Hotel San Francisco	San Francisco, CA	100%	131
Viceroy Santa Monica Hotel	Santa Monica, CA	100%	162
Le Parc Suite Hotel	West Hollywood, CA	100%	154
Montrose West Hollywood	West Hollywood, CA	100%	133
Chamberlain West Hollywood Hotel	West Hollywood, CA	100%	115
Grafton on Sunset	West Hollywood, CA	100%	108
The Westin Copley Place, Boston	Boston, MA	100%	803
The Liberty, A Luxury Collection Hotel, Boston	Boston, MA	99.99%	298
Hyatt Regency Boston Harbor	Boston, MA	100%	270
Sofitel Washington DC Lafayette Square	Washington, DC	100%	237
George Hotel	Washington, DC	100%	139
Mason & Rook Hotel	Washington, DC	100%	178
Donovan Hotel	Washington, DC	100%	193
Rouge Hotel	Washington, DC	100%	137
Topaz Hotel	Washington, DC	100%	99
Hotel Madera	Washington, DC	100%	82
Paradise Point Resort & Spa	San Diego, CA	100%	462
Hilton San Diego Gaslamp Quarter	San Diego, CA	100%	286
Solamar Hotel	San Diego, CA	100%	235
L'Auberge Del Mar	Del Mar, CA	100%	121
Hilton San Diego Resort & Spa	San Diego, CA	100%	357
The Heathman Hotel	Portland, OR	100%	151
Southernmost Beach Resort	Key West, FL	100%	262
The Marker Key West	Key West, FL	100%	96
The Roger New York	New York, NY	100%	194
Hotel Chicago Downtown, Autograph Collection	Chicago, IL	100%	354
The Westin Michigan Avenue Chicago	Chicago, IL	100%	752
Hotel Palomar Washington DC ⁽¹⁾	Washington, DC	100%	335
The Liaison Capitol Hill ⁽²⁾	Washington, DC	100%	343
Onyx Hotel ⁽³⁾	Boston, MA	100%	112
Hotel Amarano Burbank ⁽⁴⁾	Burbank, CA	100%	132
			8,420

⁽¹⁾ In February 2019, the Company sold this hotel property for \$141.5 million.

⁽²⁾ In February 2019, the Company sold this hotel property for \$111.0 million.

⁽³⁾ In May 2019, the Company sold this hotel property for \$58.3 million.

⁽⁴⁾ In July 2019, the Company sold this hotel property for \$72.9 million.

The total consideration for the Mergers was approximately \$4.1 billion, which included the Company's issuance of approximately 61.4 million common shares valued at \$34.92 per share to LaSalle common shareholders, the Company's issuance of 4.4 million Series E Preferred Shares valued at \$23.10 per share to former LaSalle Series I preferred shareholders and 6.0 million Series F Preferred Shares valued at \$22.10 per share to former LaSalle Series J preferred shareholders, the

Operating Partnership's issuance of approximately 0.1 million OP units valued at \$34.92 per unit to former LaSalle limited partners, and cash. Additionally, the Company's investment of 10.8 million of LaSalle common shares valued at \$346.5 million is included in the total consideration.

The total consideration, excluding the net working capital assumed, consisted of the following (in thousands):

	Total Consideration
Common shares	\$ 2,144,057
Series E preferred shares	101,622
Series F preferred shares	132,600
OP units	4,665
Cash	1,719,150
Total consideration	\$ 4,102,094

The Company preliminarily allocated the purchase price as follows (in thousands):

	November 30, 2018
Investment in hotel properties	\$ 4,120,370
Restricted cash reserves	14,784
Hotel and other receivables	34,669
Intangible assets	171,660
Prepaid expenses and other assets	47,808
Accounts payable and accrued expenses	(258,036)
Deferred revenues	(23,816)
Accrued interest	(2,496)
Distributions payable	(2,744)
Other	(105)
Total consideration	\$ 4,102,094

The estimated fair values for the assets acquired and the liabilities assumed are preliminary and are subject to change during the measurement period as additional information related to the inputs and assumptions used in determining the fair value of the assets and liabilities becomes available. These estimated fair values are based on a valuation prepared by the Company with assistance of a third-party valuation specialist. The Company reviewed the inputs used by the third-party specialist as well as the allocation of the purchase price to ensure reasonableness. The Company and the third party valuation specialist have prepared the fair value estimates for each of the hotel properties acquired, and continue reviewing the underlying inputs and assumptions; therefore, the purchase price and its allocation, in their entirety, are not yet complete as of the date of this filing. Once the purchase price and allocation are complete, additional adjustment to the purchase price or allocation may occur.

The Company used the following valuation methodologies, inputs, and assumptions to estimate the fair value of the assets acquired, the liabilities assumed, and the equity interests acquired:

- Investment in hotel properties — The Company estimated the fair values of the land and improvements, buildings and improvements, and furniture, fixtures, and equipment at the hotel properties by using a combination of the market, cost, and income approaches. These valuation methodologies are based on significant Level 2 and Level 3 inputs in the fair value hierarchy, such as estimates of future income growth, capitalization rates, discount rates, capital expenditures, and cash flow projections at the respective hotel properties.
- Intangible assets — The Company estimated the fair value of its lease intangible assets by calculating the present value of the difference between the contractual rental amounts paid according to the in-place lease agreements and the market rental rates for similar leased space, measured over a period equal to the remaining non-cancellable term of the lease. This valuation methodology is based on Level 2 and Level 3 inputs in the fair value hierarchy. The market lease intangible assets are amortized as adjustments to ground rent expense over the remaining terms of the respective leases.

- Above market lease liabilities — The Company estimated the fair value of its above market lease liabilities by calculating the present value of the difference between the contractual rental amounts paid according to the in-place lease agreements and the market rental rates for similar leased space, measured over a period equal to the remaining non-cancellable term of the lease. This valuation methodology is based on Level 2 and Level 3 inputs in the fair value hierarchy. The above market lease liabilities were included in accounts payable and other liabilities in the accompanying consolidated balance sheet prior to the adoption of ASC 842 *Leases*. The above market lease liabilities are amortized as adjustments to ground rent expense over the remaining terms of the respective leases.
- Restricted cash reserves, hotel and other receivables, prepaid expenses and other assets, accounts payable and other liabilities, deferred revenues, accrued interest, and distributions payable — the carrying amounts of the assets acquired, the liabilities assumed, and the equity interests acquired approximate fair value because of their short term maturities.

For the hotel properties acquired during the Mergers, total revenues of \$236.0 million and \$420.0 million and operating income of \$106.1 million and \$169.3 million for the three and six months ended June 30, 2019, respectively, are included in the accompanying consolidated statements of operations and comprehensive income.

There were no acquisitions of hotel properties during the six months ended June 30, 2019. For the three months ended June 30, 2019, the Company incurred \$0.1 million in transaction costs and \$0.9 million in integration costs in connection with the Mergers. For the six months ended June 30, 2019, the Company incurred \$0.3 million in transaction costs and \$3.1 million in integration costs in connection with the Mergers. The transaction costs primarily related to transfer taxes, financial advisory fees, loan commitment fees, legal, and other professional service fees in connection with the Mergers. The integration costs primarily related to professional fees and employee-related costs. The merger-related costs noted above are included in transaction costs in the accompanying consolidated statements of operations and comprehensive income.

The following unaudited condensed pro forma financial information presents the results of operations as if the Mergers had taken place on January 1, 2017. The unaudited condensed pro forma financial information is not necessarily indicative of what the actual results of operations of the Company would have been assuming the Mergers had taken place on January 1, 2017, nor is it indicative of the results of operations for future periods. The unaudited condensed pro forma financial information is as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
	<i>(unaudited)</i>			
Total revenues	\$ 442,083	\$ 459,484	\$ 809,252	\$ 823,643
Operating income (loss)	\$ 95,809	\$ 110,482	\$ 125,746	\$ 152,211
Net income (loss) attributable to common shareholders	\$ 52,234	\$ 64,842	\$ 49,730	\$ 74,156
Net income (loss) per share available to common shareholders — basic	\$ 0.40	\$ 0.50	\$ 0.38	\$ 0.57
Net income (loss) per share available to common shareholders — diluted	\$ 0.40	\$ 0.50	\$ 0.38	\$ 0.57

Disposition of Hotel Properties

The Company will report a disposed or held for sale hotel property or group of hotel properties in discontinued operations only if the disposal represents a strategic shift that has, or will have, a major effect on its operations and financial results. All other disposed hotel properties will have their operating results reflected within continuing operations on the Company's consolidated statements of operations and comprehensive income for all periods presented.

On February 14, 2019, the Company sold The Liaison Capitol Hill for \$111.0 million and recognized no gain or loss on the disposition.

On February 22, 2019, the Company sold the Hotel Palomar Washington DC for \$141.5 million and recognized no gain or loss on the disposition.

On May 29, 2019, the Company sold the Onyx Hotel for \$58.3 million and recognized no gain or loss on the disposition.

For the three and six months ended June 30, 2019, the Company's consolidated statements of operations and comprehensive income included operating (loss) income of \$1.1 million and \$1.5 million, respectively, related to the hotel properties sold. For the three and six months ended June 30, 2018, the Company's consolidated statements of operations and

comprehensive income included operating (loss) income of \$1.3 million and \$2.2 million, respectively, related to the hotel properties sold.

As of June 30, 2019, the Company had entered into agreements to sell the Hotel Amarano Burbank for \$72.9 million and the Rouge Hotel for \$42.0 million. Both of these hotels were designated as held for sale as they met all of the Company's held for sale criteria. Accordingly, the Company classified all of the assets and liabilities related to these hotels as assets and liabilities held for sale in the accompanying consolidated balance sheets and ceased depreciating the assets. On July 16, 2019, the Company completed the sale of the Hotel Amarano Burbank. The Company expects the sale of the Rouge Hotel to be completed during the third quarter of 2019, subject to customary closing conditions, although no assurances can be given that the sale will be completed on these terms, or if at all.

The sales of the hotel properties described above did not represent a strategic shift that had a major effect on the Company's operations and financial results, and therefore, did not qualify as discontinued operations.

Note 4. Investment in Hotel Properties

Investment in hotel properties as of June 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
Land	\$ 991,793	\$ 1,056,862
Buildings and improvements	5,169,832	5,440,513
Furniture, fixtures and equipment	460,887	462,620
Right-of-use asset, operating leases	323,910	—
Capital lease asset	91,985	91,985
Construction in progress	25,260	25,643
Investment in hotel properties	\$ 7,063,667	\$ 7,077,623
Less: Accumulated depreciation	(642,629)	(543,430)
Investment in hotel properties, net	\$ 6,421,038	\$ 6,534,193

On January 1, 2019, the Company adopted ASU 842, *Leases* and applied it prospectively. At adoption, the Company also elected the practical expedients which permitted it to not reassess its prior conclusions about lease identification, classification, and initial direct costs. Consequently on January 1, 2019, the Company recognized right-of-use assets and related liabilities related to its ground leases, all of which are operating leases. Since most of the Company's leases do not provide an implicit rate, the Company used incremental borrowing rates, which ranged from 5.5% to 7.6%. All of these ground leases have long terms, ranging from 10 years to 88 years and the Company included the exercise of options to extend when it is reasonably certain the Company will exercise such option. See Note 11 for additional information about the ground leases. The right-of-use assets and liabilities are amortized to ground rent expense over the term of the underlying lease agreements. As of June 30, 2019, the Company's right-of-use assets of \$323.9 million, which included favorable and unfavorable intangibles, are included in the investment in hotel properties and its related lease liabilities of \$247.2 million are presented in accounts payable and accrued expenses in the Company's consolidated balance sheets. The adoption of this standard had minimal impact on the Company's consolidated statements of operations and comprehensive income.

On September 10, 2017, Hotel Colonnade Coral Gables, Autograph Collection ("Hotel Colonnade") located in Coral Gables, Florida and LaPlaya Beach Resort and Club ("LaPlaya") located in Naples, Florida were impacted by Hurricane Irma. Hotel Colonnade did not suffer any material damage and remained open. LaPlaya was closed in anticipation of the storm and re-opened in stages beginning in the fourth quarter of 2017 and was fully reopened in January 2018.

The Company's insurance policies provide coverage for property damage, business interruption, and reimbursement for other costs that were incurred relating to damages sustained during Hurricane Irma. Insurance proceeds are subject to deductibles. As of June 30, 2018, the Company reached a final agreement with the insurance carriers related to LaPlaya totaling \$20.5 million, and the Company recognized a gain of \$8.2 million and \$13.1 million for the three and six months ended June 30, 2018, respectively.

Note 5. Debt

The Company's debt consisted of the following as of June 30, 2019 and December 31, 2018 (dollars in thousands):

	Interest Rate	Maturity Date	Balance Outstanding as of	
			June 30, 2019	December 31, 2018
Revolving credit facilities				
Senior unsecured credit facility	Floating ⁽¹⁾	January 2022	\$ —	\$ 170,000
PHL unsecured credit facility	Floating ⁽²⁾	January 2022	—	—
Total revolving credit facilities			\$ —	\$ 170,000
Unsecured term loans				
First Term Loan	Floating ⁽³⁾	January 2023	300,000	300,000
Second Term Loan	Floating ⁽³⁾	April 2022	65,000	65,000
Third Term Loan	Floating ⁽³⁾	January 2021	200,000	200,000
Fourth Term Loan	Floating ⁽³⁾	October 2024	110,000	110,000
Sixth Term Loan				
Tranche 2020	Floating ⁽³⁾	December 2020	70,000	250,000
Tranche 2021	Floating ⁽³⁾	November 2021	300,000	300,000
Tranche 2022	Floating ⁽³⁾	November 2022	400,000	400,000
Tranche 2023	Floating ⁽³⁾	November 2023	400,000	400,000
Tranche 2024	Floating ⁽³⁾	January 2024	400,000	400,000
Total Sixth Term Loan			1,570,000	1,750,000
Total term loans at stated value			2,245,000	2,425,000
Deferred financing costs, net			(12,747)	(15,716)
Total term loans			\$ 2,232,253	\$ 2,409,284
Senior unsecured notes				
Series A Notes	4.70%	December 2023	60,000	60,000
Series B Notes	4.93%	December 2025	40,000	40,000
Total senior unsecured notes at stated value			100,000	100,000
Deferred financing costs, net			(484)	(531)
Total senior unsecured notes			\$ 99,516	\$ 99,469
Mortgage loans				
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	66,987	68,207
Deferred financing costs, net			(30)	(62)
Total mortgage loans			\$ 66,957	\$ 68,145
Total debt			\$ 2,398,726	\$ 2,746,898

⁽¹⁾ Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) an Adjusted Base Rate (as defined in the applicable credit agreement) plus an applicable margin.

⁽²⁾ Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) an Eurocurrency Rate (as defined in the applicable credit agreement) plus an applicable margin.

⁽³⁾ Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin.

Unsecured Revolving Credit Facilities

The Company has a \$650.0 million senior unsecured revolving credit facility maturing in January 2022, with options to extend the maturity date to January 2023, pursuant to certain terms and conditions and payment of an extension fee. As of June 30, 2019, the Company had no outstanding borrowings and \$650.0 million borrowing capacity remaining on its senior unsecured credit facility. Interest is paid on the periodic advances under the senior unsecured revolving credit facility at varying rates, based upon either LIBOR or the alternate base rate, plus an additional margin amount. The Company has the ability to further increase the aggregate borrowing capacity under the credit agreement to up to \$1.3 billion, subject to lender approval. Borrowings on the revolving credit facility bear interest at LIBOR plus 1.45% to 2.25%, depending on the Company's leverage ratio. Additionally, the Company is required to pay an unused commitment fee at an annual rate of 0.20% or 0.30% 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 minimum fixed charge coverage ratio, and a maximum percentage of secured debt to total asset value.

The Company also has a \$10.0 million unsecured revolving credit facility (the "PHL Credit Facility") to be used for PHL's working capital and general corporate purposes. This credit facility has substantially similar terms as the Company's senior unsecured revolving credit facility and matures in January 2022. Borrowings on the PHL Credit Facility bear interest at LIBOR plus 1.45% to 2.25%, depending on the Company's leverage ratio. The PHL Credit Facility is subject to debt covenants substantially similar to the covenants under the Company's credit agreement that governs the Company's senior unsecured revolving credit facility. As of June 30, 2019, the Company had no borrowings under the PHL Credit Facility and had \$10.0 million borrowing capacity remaining under the PHL Credit Facility.

Under the terms of the credit agreement for the unsecured revolving credit facility, one or more standby letters of credit, up to a maximum aggregate outstanding balance of \$30.0 million, may be issued on behalf of the Company by the lenders under the unsecured revolving credit facility. The Company will incur a fee that shall be agreed upon with the issuing bank. Any outstanding standby letters of credit reduce the available borrowings on the senior unsecured revolving credit facility by a corresponding amount. Standby letters of credit of \$2.3 million and zero were outstanding as of June 30, 2019 and December 31, 2018, respectively.

As of June 30, 2019, the Company was in compliance with the debt covenants of the credit agreements that govern the unsecured revolving credit facilities.

Unsecured Term Loan Facilities

The Company has senior unsecured term loans with different maturities. Each unsecured term loan bears interest at a variable rate of a benchmark interest rate plus an applicable margin, depending on the Company's leverage ratio. Each of the term loan facilities is subject to debt covenants substantially similar to the covenants under the credit agreement that governs the revolving credit facility. During the six months ended June 30, 2019, the Company repaid \$180.0 million of the tranche maturing in 2020 of the Company's sixth term loan. As of June 30, 2019, the Company was in compliance with all debt covenants of its term loan facilities. The Company entered into interest rate swap agreements to fix the LIBOR rate on a portion of these unsecured term loan facilities, see Derivative and Hedging Activities below. In July 2019, the Company repaid the remaining \$70.0 million of the tranche maturing in 2020 of the Company's sixth term loan.

Senior Unsecured Notes

The Company has outstanding \$60.0 million of senior unsecured notes bearing a fixed interest rate of 4.70% per annum and maturing in December 2023 (the "Series A Notes") and \$40.0 million of senior unsecured notes bearing a fixed interest rate of 4.93% per annum and maturing in December 2025 (the "Series B Notes"). The debt covenants of the Series A Notes and the Series B Notes are substantially similar to those of the Company's senior unsecured revolving credit facility. As of June 30, 2019, the Company was in compliance with all such debt covenants.

Mortgage Debt

The Company's sole mortgage loan is secured by a first mortgage lien on the underlying hotel property. The mortgage is non-recourse to the Company except for customary carve-outs such as fraud or misapplication of funds.

Interest Expense

The components of the Company's interest expense consisted of the following (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Unsecured revolving credit facilities	\$ 624	\$ 2,375	\$ 2,024	\$ 3,860
Unsecured term loan facilities	21,350	5,814	43,215	11,336
Senior unsecured notes	1,198	1,092	2,396	2,290
Mortgage debt	626	650	1,252	1,297
Amortization of deferred financing fees	2,413	525	3,901	1,042
Other	2,508	360	5,259	802
Total interest expense	<u>\$ 28,719</u>	<u>\$ 10,816</u>	<u>\$ 58,047</u>	<u>\$ 20,627</u>

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 fixed rate debt (unsecured senior notes and mortgage loans) as of June 30, 2019 and December 31, 2018 was \$167.4 million and \$164.3 million, respectively.

Derivative and Hedging Activities

The Company enters into interest rate swap agreements to hedge against interest rate fluctuations. All of the Company's interest rate swaps are cash flow hedges. On January 1, 2018, the Company adopted ASU No. 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. All unrealized gains and losses on these hedging instruments are reported in accumulated other comprehensive income (loss) and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

The Company's interest rate swaps at June 30, 2019 and December 31, 2018 consisted of the following (in thousands):

Hedge Type	Interest Rate		Maturity	Notional Value as of	
				June 30, 2019	December 31, 2018
Swap - cash flow	1.57%	⁽¹⁾	May 2019	\$ —	\$ 100,000
Swap - cash flow	1.57%	⁽¹⁾	May 2019	—	62,500
Swap - cash flow	1.57%	⁽¹⁾	May 2019	—	15,000
Swap - cash flow	1.63%		January 2020	50,000	50,000
Swap - cash flow	1.63%		January 2020	50,000	50,000
Swap - cash flow	2.46%		January 2020	50,000	50,000
Swap - cash flow	2.46%		January 2020	50,000	50,000
Swap - cash flow	1.66%		January 2020	50,000	50,000
Swap - cash flow	1.66%		January 2020	50,000	50,000
Swap - cash flow	1.74%		January 2021	75,000	75,000
Swap - cash flow	1.75%		January 2021	50,000	50,000
Swap - cash flow	1.53%		January 2021	37,500	37,500
Swap - cash flow	1.53%		January 2021	37,500	37,500
Swap - cash flow	1.46%	⁽¹⁾	January 2021	100,000	100,000
Swap - cash flow	1.47%	⁽¹⁾	January 2021	47,500	47,500
Swap - cash flow	1.47%	⁽¹⁾	January 2021	47,500	47,500
Swap - cash flow	1.47%	⁽¹⁾	January 2021	47,500	47,500
Swap - cash flow	1.47%	⁽¹⁾	January 2021	47,500	47,500
Swap - cash flow	2.60%	⁽²⁾	October 2021	55,000	55,000
Swap - cash flow	2.60%	⁽²⁾	October 2021	55,000	55,000
Swap - cash flow	1.78%	⁽¹⁾	January 2022	100,000	100,000
Swap - cash flow	1.78%	⁽¹⁾	January 2022	50,000	50,000
Swap - cash flow	1.79%	⁽¹⁾	January 2022	30,000	30,000
Swap - cash flow	1.68%		April 2022	25,000	25,000
Swap - cash flow	1.68%		April 2022	25,000	25,000
Swap - cash flow	1.64%		April 2022	25,000	25,000
Swap - cash flow	1.64%		April 2022	25,000	25,000
Swap - cash flow	2.60%	⁽³⁾	January 2024	75,000	75,000
Swap - cash flow	2.60%	⁽³⁾	January 2024	50,000	50,000
Swap - cash flow	2.60%	⁽³⁾	January 2024	25,000	25,000
Swap - cash flow	2.60%	⁽³⁾	January 2024	75,000	75,000
Swap - cash flow	2.60%	⁽³⁾	January 2024	75,000	75,000
Swap - cash flow	1.99%	⁽⁴⁾	November 2023	85,000	—
Swap - cash flow	1.99%	⁽⁴⁾	November 2023	85,000	—
Swap - cash flow	1.99%	⁽⁴⁾	November 2023	50,000	—
Swap - cash flow	1.99%	⁽⁴⁾	November 2023	30,000	—
Swap - cash flow	2.12%	⁽⁴⁾	December 2020	100,000	—
Swap - cash flow	2.12%	⁽⁴⁾	December 2020	100,000	—

⁽¹⁾ Swaps assumed in connection with the LaSalle merger on November 30, 2018.

⁽²⁾ Swaps became effective January 2019.

⁽³⁾ Swaps will become effective January 2020.

⁽⁴⁾ Swaps became effective June 2019.

The Company records all derivative instruments at fair value in the accompanying 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 incorporates these counterparty credit risks in its fair value measurements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions.

As of June 30, 2019, the Company's derivative instruments were in both asset and liability positions, with aggregate asset and liability fair values of \$1.8 million and \$20.2 million, respectively, in the accompanying consolidated balance sheets. For the three and six months ended June 30, 2019, there was \$(21.1) million and \$(30.1) million in unrealized (loss) gain, respectively, recorded in accumulated other comprehensive income (loss). For the three and six months ended June 30, 2018, there was \$2.0 million and \$7.3 million in unrealized (loss) gain, respectively, recorded in accumulated other comprehensive income (loss). For the three and six months ended June 30, 2019, the Company reclassified \$(2.3) million and \$(4.8) million, respectively, from accumulated other comprehensive income (loss) to interest expense. For the three and six months ended June 30, 2018, the Company reclassified \$(0.2) million and \$0.1 million, respectively, from accumulated other comprehensive income (loss) to interest expense. The Company expects approximately \$6.5 million will be reclassified from accumulated other comprehensive income (loss) to interest expense in the next 12 months.

Note 6. Revenue

The Company presents revenue on a disaggregated basis in the accompanying consolidated statements of operations and comprehensive income. The following table presents revenues by geographic location for the three and six months ended June 30, 2019 and 2018 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
San Francisco, CA	\$ 79,853	\$ 48,285	\$ 163,096	\$ 92,733
Los Angeles, CA	54,682	32,736	102,046	62,465
San Diego, CA	62,851	16,995	120,139	34,124
Boston, MA	81,842	21,770	129,374	34,088
Seattle, WA	8,121	9,104	14,762	15,525
Portland, OR	28,585	26,492	47,288	44,905
Washington DC	35,828	8,123	63,756	13,508
Southern FL	29,501	14,784	69,031	35,767
Chicago, IL	25,324	—	36,423	—
Other ⁽¹⁾	35,496	28,212	63,337	54,441
	<u>\$ 442,083</u>	<u>\$ 206,501</u>	<u>\$ 809,252</u>	<u>\$ 387,556</u>

⁽¹⁾ Other includes: Atlanta (Buckhead), GA, Minneapolis, MN, Nashville, TN, New York City, NY, Philadelphia, PA and Santa Cruz, CA.

Payments from customers are primarily made when services are provided. Due to the short-term nature of the Company's contracts and the almost simultaneous receipt of payment, almost all of the contract liability balance at the beginning of the year is expected to be recognized as revenue over the following 12 months.

Note 7. Equity

Common Shares

The Company is authorized to issue up to 500,000,000 common shares of beneficial interest, \$0.01 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.

On February 22, 2016, the Company announced that the Board of Trustees authorized a share repurchase program of up to \$150.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. Upon repurchase by the Company, common shares cease to be outstanding and become authorized but unissued common shares. For the six months ended June 30, 2019, the Company had no repurchases under this program and as of June 30, 2019, \$56.6 million of common shares remained available for repurchase under this program.

On July 27, 2017, the Company announced that the Board of Trustees authorized a new share repurchase program of up to \$100.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. This \$100.0 million share repurchase program will commence upon completion of the Company's \$150.0 million share repurchase program.

Common Dividends

The Company declared the following dividends on common shares/units for the six months ended June 30, 2019:

Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
\$ 0.38	March 31, 2019	March 29, 2019	April 15, 2019
\$ 0.38	June 30, 2019	June 28, 2019	July 15, 2019

Preferred Shares

The Company is authorized to issue up to 100,000,000 preferred shares of beneficial interest, \$0.01 par value per share ("preferred shares").

On November 30, 2018, in connection with the LaSalle merger, the Company issued 4,400,000 of its 6.375% Series E Cumulative Redeemable Preferred Shares ("Series E Preferred Shares") and 6,000,000 of its 6.30% Series F Cumulative Redeemable Preferred Shares ("Series F Preferred Shares").

The following Preferred Shares were outstanding as of June 30, 2019 and December 31, 2018:

Security Type	As of June 30, 2019	As of December 31, 2018
6.50% Series C	5,000,000	5,000,000
6.375% Series D	5,000,000	5,000,000
6.375% Series E	4,400,000	4,400,000
6.30% Series F	6,000,000	6,000,000
	<u>20,400,000</u>	<u>20,400,000</u>

The Series C Preferred Shares, Series D Preferred Shares, Series E Preferred Shares and Series F Preferred Shares (collectively, the "Preferred Shares") rank senior to the common shares and on parity with each other with respect to payment of distributions. The Preferred Shares are cumulative redeemable preferred shares, do not have any maturity date and are not subject to mandatory redemption. The Company could not redeem the Series C Preferred Shares prior to March 18, 2018, may not redeem the Series D Preferred Shares prior to June 9, 2021, could not redeem the Series E Preferred Shares prior to March 4, 2018 and may not redeem the Series F Preferred Shares prior to May 25, 2021, except in limited circumstances relating to the Company's continuing qualification as a REIT or as discussed below. On or after May 25, 2021 and June 9, 2021, the Company may, at its option, redeem the Series F Preferred Shares and Series D Preferred Shares, respectively, and at any time the Company may, at its option, redeem the Series C Preferred Shares or the Series E Preferred Shares, or both, in each case 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 defined formulas subject to share caps. The share cap on each

Series C Preferred Share is 2.0325 common shares, on each Series D Preferred Share is 1.9794 common shares, on each Series E Preferred Share is 1.9372 common shares and on each Series F Preferred Share is 2.0649 common shares.

Preferred Dividends

The Company declared the following dividends on preferred shares for the six months ended June 30, 2019:

Security Type	Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
6.50% Series C	\$ 0.41	March 31, 2019	March 29, 2019	April 15, 2019
6.50% Series C	\$ 0.41	June 30, 2019	June 28, 2019	July 15, 2019
6.375% Series D	\$ 0.40	March 31, 2019	March 29, 2019	April 15, 2019
6.375% Series D	\$ 0.40	June 30, 2019	June 28, 2019	July 15, 2019
6.375% Series E	\$ 0.40	March 31, 2019	March 29, 2019	April 15, 2019
6.375% Series E	\$ 0.40	June 30, 2019	June 28, 2019	July 15, 2019
6.30% Series F	\$ 0.39	March 31, 2019	March 29, 2019	April 15, 2019
6.30% Series F	\$ 0.39	June 30, 2019	June 28, 2019	July 15, 2019

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 the Company’s common shares on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of share splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the Operating Partnership’s limited partners or the Company’s shareholders.

As of June 30, 2019 and December 31, 2018, the Operating Partnership had 236,351 long-term incentive partnership units (“LTIP units”) outstanding. Of the 236,351 LTIP units outstanding at June 30, 2019, 190,975 LTIP units have vested. Only vested LTIP units may be converted to common units of the Operating Partnership, which in turn can be tendered for redemption as described above.

On November 30, 2018, in connection with the LaSalle merger, the Company issued 133,605 OP units in the Operating Partnership to third-party limited partners of LaSalle OP. As of June 30, 2019 and December 31, 2018, the Operating Partnership had 133,605 and 133,605 OP units held by third parties, respectively, excluding LTIP units.

Note 8. Share-Based Compensation Plan

The Company maintains the 2009 Equity Incentive Plan, as amended and restated (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 vest over a period determined by the Board of Trustees, generally over three to five years, with certain awards vesting over periods of up to six years. The Company pays or accrues for dividends on share-based awards. 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 June 30, 2019, there were 1,036,935 common shares available for issuance under the Plan, assuming performance-based equity awards vest at target.

Service Condition Share Awards

From time to time, the Company awards restricted common shares under the Plan to members of the Board of Trustees, officers and employees. These shares generally vest over three to five years based on continued service or employment.

The following table provides a summary of service condition restricted share activity as of June 30, 2019:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2018	127,732	\$ 32.22
Granted	87,405	\$ 32.70
Vested	(66,276)	\$ 30.20
Forfeited	(707)	\$ 32.70
Unvested at June 30, 2019	148,154	\$ 33.41

The fair value of each of these service condition restricted share awards is determined based on the closing price of the Company's common shares on the grant date and compensation expense is recognized on a straight-line basis over the vesting period. For the three and six months ended June 30, 2019, the Company recognized approximately \$0.6 million and \$1.1 million, respectively, of share-based compensation expense related to these service condition restricted shares in the accompanying consolidated statements of operations and comprehensive income. For the three and six months ended June 30, 2018, the Company recognized approximately \$0.5 million and \$0.9 million, respectively, of share-based compensation expense related to these service condition restricted shares in the accompanying consolidated statements of operations and comprehensive income. As of June 30, 2019, there was \$3.9 million of total unrecognized share-based compensation expense related to unvested restricted shares. The unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 2.0 years.

Performance-Based Equity Awards

On December 13, 2013, the Board of Trustees approved a target award of 252,088 performance-based equity awards to officers and employees of the Company. The awards vest ratably, if at all, on January 1, 2016, 2017, 2018, 2019 and 2020. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined on each vesting date based upon the two performance criteria defined in the award agreements for the period of performance beginning on the grant date and ending on the applicable vesting date. In January 2016, the Company issued 25,134 of common shares which represented achieving 49% of the 50,418 target number of shares for that measurement period. In January 2017, the Company issued 12,285 of common shares which represented achieving 25% of the 49,914 target number of shares for that measurement period. In January 2018, the Company issued 72,236 of common shares which represented achieving 145% of the 49,914 target number of shares for that measurement period. In January 2019, the Company issued 35,471 of common shares which represented achieving 71% of the 49,914 target number of shares for that measurement period.

On February 4, 2014, the Board of Trustees approved a target award of 66,483 performance-based equity awards to officers and employees of the Company. In January 2017, these awards vested and the Company issued 112,782 and 25,619 common shares to officers and non-executive management employees, respectively. The actual number of common shares that ultimately vested was based on the three performance criteria defined in the award agreements for the period of performance from January 1, 2014 through December 31, 2016.

On February 11, 2015, the Board of Trustees approved a target award of 44,962 performance-based equity awards to officers and employees of the Company. In January 2018, these awards vested and the Company issued 14,089 and 2,501 common shares to officers and non-executive management employees, respectively. The actual number of common shares that ultimately vested was based on the three performance criteria defined in the award agreements for the period of performance from January 1, 2015 through December 31, 2017.

On July 27, 2015, a target award of 771 performance-based equity awards was granted to an employee of the Company. In January 2018, these awards vested and the Company issued 1,079 common shares to the employee. The actual number of common shares that ultimately vested was based on the three performance criteria defined in the award agreements for the period of performance from January 1, 2016 through December 31, 2017.

On February 10, 2016, the Board of Trustees approved a target award of 100,919 performance-based equity awards to officers and employees of the Company. In January 2019, these awards vested and the Company issued 142,173 and 31,146 common shares to officers and employees, respectively. The actual number of common shares that ultimately vested was based on the three performance criteria defined in the award agreements for the period of performance from January 1, 2016 through December 31, 2018.

On February 15, 2017, the Board of Trustees approved a target award of 81,939 performance-based equity awards to officers and employees of the Company. These awards will vest, if at all, in 2020. The actual number of common shares that

ultimately vest will range from 0% to 200% of the target award and will be determined in 2020 based on the two performance criteria defined in the award agreements for the period of performance from January 1, 2017 through December 31, 2019.

On February 14, 2018, the Board of Trustees approved a target award of 78,918 performance-based equity awards to officers and employees of the Company. These awards will vest, if at all, in 2021. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined in 2021 based on the two performance criteria defined in the award agreements for the period of performance from January 1, 2018 through December 31, 2020.

On February 13, 2019, the Board of Trustees approved a target award of 126,891 performance-based equity awards to officers and employees of the Company. These awards will vest, if at all, in 2022. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined in 2022 based on the two performance criteria defined in the award agreements for the period of performance from January 1, 2019 through December 31, 2021.

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The grant date fair value of the performance awards, with market conditions, were determined using a Monte Carlo simulation method with the following assumptions:

Performance Award Grant Date	Percentage of Total Award	Grant Date Fair Value by Component (\$ in millions)	Volatility	Interest Rate	Dividend Yield
December 13, 2013					
Relative Total Shareholder Return	50.00%	\$4.7	29.00%	0.34% - 2.25%	2.40%
Absolute Total Shareholder Return	50.00%	\$2.9	29.00%	0.34% - 2.25%	2.40%
February 4, 2014					
Relative Total Shareholder Return	30.00%	\$0.7	29.00%	0.62%	2.40%
Absolute Total Shareholder Return	30.00%	\$0.5	29.00%	0.62%	2.40%
EBITDA Comparison	40.00%	\$0.8	29.00%	0.62%	2.40%
February 11, 2015					
Relative Total Shareholder Return	30.00%	\$0.9	22.00%	1.02%	2.50%
Absolute Total Shareholder Return	40.00%	\$0.7	22.00%	1.02%	2.50%
EBITDA Comparison	30.00%	\$0.7	22.00%	1.02%	2.50%
July 27, 2015					
Relative Total Shareholder Return	30.00%	—	⁽¹⁾ 22.00%	0.68%	2.50%
Absolute Total Shareholder Return	40.00%	—	⁽¹⁾ 22.00%	0.68%	2.50%
EBITDA Comparison	30.00%	—	⁽¹⁾ 22.00%	0.68%	2.50%
February 10, 2016					
Relative Total Shareholder Return	70.00%	\$1.6	25.00%	0.71%	3.00%
Absolute Total Shareholder Return	15.00%	\$0.2	25.00%	0.71%	3.00%
EBITDA Comparison	15.00%	\$0.4	25.00%	0.71%	3.00%
February 15, 2017					
Relative and Absolute Total Shareholder Return	65.00% / 35.00%	\$2.7	28.00%	1.27%	5.60%
February 14, 2018					
Relative and Absolute Total Shareholder Return	65.00% / 35.00%	\$3.5	28.00%	2.37%	4.70%
February 13, 2019					
Relative and Absolute Total Shareholder Return	65.00% / 35.00%	\$4.5	26.00%	2.52%	4.20%

⁽¹⁾Amounts round to zero.

In the table above, the Relative Total Shareholder Return and Absolute Total Shareholder Return components are market conditions as defined by ASC 718. The EBITDA Comparison component is a performance condition as defined by ASC 718, and, therefore, compensation expense related to this component will be reassessed at each reporting date based on the

Company's estimate of the probable level of achievement, and the accrual of compensation expense will be adjusted as appropriate.

Dividends on unvested performance-based equity awards accrue over the vesting period and will be paid on the actual number of shares that vest at the end of the applicable period. The Company recognizes compensation expense on a straight-line basis through the vesting date. As of June 30, 2019, there was approximately \$6.8 million of unrecognized compensation expense related to these performance-based equity awards which will be recognized over the weighted-average remaining vesting period of 1.9 years. For the three and six months ended June 30, 2019, the Company recognized \$1.2 million and \$2.3 million, respectively, in expense related to these awards. For the three and six months ended June 30, 2018, the Company recognized \$1.1 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 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 June 30, 2019, the Operating Partnership had two classes of LTIP units, LTIP Class A units and LTIP Class B units. All of the outstanding LTIP units are held by officers of the Company.

On December 13, 2013, the Board of Trustees approved a grant of 226,882 LTIP Class B units to executive officers of the Company. These LTIP units are subject to time-based vesting in five equal annual installments beginning January 1, 2016 and ending on January 1, 2020. The fair value of each award was determined based on the closing price of the Company's common shares on the grant date of \$29.19 per unit. The aggregate grant date fair value of the LTIP Class B units was \$6.6 million.

As of June 30, 2019, the Company had 236,351 LTIP units outstanding. All unvested LTIP units will vest upon a change in control. As of June 30, 2019, of the 236,351 units outstanding, 190,975 LTIP units have vested.

For the three and six months ended June 30, 2019, the Company recognized \$0.3 million and \$0.6 million, respectively, in expense related to these LTIP units. For the three and six months ended June 30, 2018, the Company recognized \$0.3 million and \$0.6 million, respectively, in expense related to these LTIP units. As of June 30, 2019, there was \$0.5 million of total unrecognized share-based compensation expense related to LTIP units. This unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 0.3 years. The aggregate expense related to the LTIP unit grants is presented as non-controlling interest in the Company's accompanying consolidated balance sheets.

Note 9. Income Taxes

The Company's TRSs, PHL and LHL, are subject to federal and state corporate income taxes at statutory tax rates. The Company has estimated its TRSs' income tax expense (benefit) for the six months ended June 30, 2019 using an estimated combined federal and state statutory tax rate of 30.0%.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state and local jurisdictions, where applicable. As of June 30, 2019 and December 31, 2018, the statute of limitations remains open for all major jurisdictions for tax years dating back to 2014.

Note 10. Earnings Per 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 June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net income (loss) attributable to common shareholders	\$ 52,234	\$ 54,079	\$ 49,730	\$ 74,465
Less: dividends paid on unvested share-based compensation	(74)	(83)	(147)	(166)
Undistributed earnings attributable to share-based compensation	(3)	(88)	—	(69)
Net income (loss) available to common shareholders	<u>\$ 52,157</u>	<u>\$ 53,908</u>	<u>\$ 49,583</u>	<u>\$ 74,230</u>
Denominator:				
Weighted-average number of common shares — basic	130,484,956	68,912,185	130,458,164	68,894,413
Effect of dilutive share-based compensation	110,898	292,386	204,243	332,685
Weighted-average number of common shares — diluted	130,595,854	69,204,571	130,662,407	69,227,098
Net income (loss) per share available to common shareholders — basic	\$ 0.40	\$ 0.78	\$ 0.38	\$ 1.08
Net income (loss) per share available to common shareholders — diluted	\$ 0.40	\$ 0.78	\$ 0.38	\$ 1.07

For the three and six months ended June 30, 2019, 163,100 and 37,137, respectively, of 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. There were 83,130 and 4,212 unvested service condition restricted shares and performance-based equity awards excluded from diluted weighted-average common shares for the three and six months ended June 30, 2018, respectively, as their effect would have been anti-dilutive. The LTIP and OP 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 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 terms of these management agreements range from 1 year to 22 years, not including renewals, and 1 year to 52 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 seven 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 \$13.3 million and \$22.8 million for the three and six months ended June 30, 2019, respectively, and \$6.1 million and \$11.4 million for the three and six months ended June 30, 2018, respectively. Base and incentive management fees are included in other direct and indirect expenses in the Company's accompanying consolidated statements of operations and comprehensive income.

Reserve Funds

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

Restricted Cash

At June 30, 2019 and December 31, 2018, the Company had \$28.3 million and \$24.4 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 loan agreements.

Ground and Hotel Leases

As of June 30, 2019, the following hotels were subject to leases as follows:

Lease Properties	Lease Type	Lease Expiration Date
Hotel Monaco Washington DC	Operating lease	November 2059
Argonaut Hotel	Operating lease	December 2059
Hotel Zelos San Francisco	Operating lease	June 2097
Hotel Zephyr Fisherman's Wharf	Operating lease	February 2062
Hotel Palomar Los Angeles Beverly Hills	Operating lease	January 2107 ⁽¹⁾
Union Station Hotel Nashville, Autograph Collection	Operating lease	December 2105
Southernmost Beach Resort	Operating lease	April 2029
Hyatt Regency Boston Harbor	Operating lease	April 2077
Hilton San Diego Resort & Spa	Operating lease	July 2068
Paradise Point Resort & Spa	Operating lease	May 2050
Hotel Vitale	Operating lease	March 2056 ⁽²⁾
Viceroy Santa Monica Hotel	Operating lease	September 2065
The Westin Copley Place, Boston	Operating lease	December 2077 ⁽³⁾
The Liberty, A Luxury Collection Hotel, Boston	Operating lease	May 2080
Hotel Zeppelin San Francisco	Operating and capital lease	June 2059 ⁽⁴⁾
Harbor Court Hotel San Francisco	Capital lease	August 2052
The Roger New York	Capital lease	December 2044

⁽¹⁾ The expiration date assumes the exercise of all 19 five-year extension options.

⁽²⁾ The Company has the option, subject to certain terms and conditions, to extend the ground lease for 14 years to 2070.

⁽³⁾ No payments are required through maturity.

⁽⁴⁾ The Company has the option, subject to certain terms and conditions, to extend the ground lease for 30 years to 2089.

The Company's leases may require minimum fixed rent payments, percentage rent payments based on a percentage of revenues in excess of certain thresholds or rent payments equal to the greater of a minimum fixed rent or percentage rent. Minimum fixed rent may be adjusted annually by increases in consumer price index ("CPI") and may be subject to minimum and maximum increases. Some leases also contain certain restrictions on modifications that can be made to the hotel structures due to their status as national historic landmarks.

The Company records expense on a straight-line basis for leases that provide for minimum rental payments that increase in pre-established amounts over the remaining terms of the leases. Ground rent expense was \$7.8 million and \$15.4 million for the three and six months ended June 30, 2019, respectively, and \$3.4 million and \$6.5 million for the three and six months ended June 30, 2018, respectively. For the three and six months ended June 30, 2019, fixed ground rent expense was \$4.2 million and \$8.5 million, respectively, and variable ground rent expense was \$3.6 million and \$6.9 million, respectively. Ground rent expense is included in real estate taxes, personal property taxes, property insurance and ground rent in the Company's accompanying consolidated statements of operations and comprehensive income.

In January 2019, the Company acquired the ground lease underlying the land of the Solamar Hotel for \$6.9 million.

Maturity of lease liabilities for the Company's operating leases is as follows (in thousands):

Year ending December 31,		
2019 (excluding the six months ended June 30, 2019)	\$	8,590
2020		17,345
2021		17,434
2022		17,505
2023		17,578
Thereafter		1,159,743
Total lease payments	\$	1,238,195
Less: Imputed interest		(991,042)
Present value of lease liabilities	\$	247,153

Future minimum annual rental payments, including capital lease payments, assuming fixed rent for all periods and excludes percentage rent and CPI adjustments, prior to adoption of ASC 842 is as follows as of December 31, 2018 (in thousands):

Year ending December 31,		
2019	\$	18,882
2020		19,091
2021		19,223
2022		19,325
2023		19,429
Thereafter		1,219,303
Total	\$	1,315,253

Note 12. Supplemental Information to Statements of Cash Flows

	For the six months ended June 30,	
	2019	2018
	(in thousands)	
Interest paid, net of capitalized interest	\$ 47,741	\$ 18,729
Income taxes paid	\$ 1,461	\$ 99
Non-Cash Investing and Financing Activities:		
Distributions payable on common shares/units	\$ 50,749	\$ 27,987
Distributions payable on preferred shares	\$ 7,558	\$ 3,442
Issuance of common shares for Board of Trustees compensation	\$ 740	\$ 662
Accrued additions and improvements to hotel properties	\$ 4,040	\$ 1,566
Right of use assets obtained in exchange for lease liabilities	\$ 247,139	\$ —
Purchase of ground lease	\$ 16,444	\$ —
Write-off of deferred financing costs	\$ 1,281	\$ —

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 real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Substantially all of the operations are conducted through Pebblebrook Hotel, L.P. (our "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 us, contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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", "seek", "assume", "forecast", "believe", "expect", "intend", "anticipate", "estimate", "project" or similar expressions. Forward-looking statements in this report include, among others, statements about our business strategy, including acquisition and development strategies, industry trends, estimated revenues and expenses, estimated costs and durations of renovation or restoration projects, estimated insurance recoveries, our 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, performance or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- risks associated with the hotel industry, including competition, changes in visa and other travel policies by the U.S. government making it less convenient, more difficult or less desirable for international travelers to enter the U.S., increases in employment costs, energy costs and other operating costs, or decreases in demand caused by events beyond our control including, without limitation, actual or threatened terrorist attacks, cyber 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 global economy and 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 REIT under the Code and the risk of changes in laws affecting REITs;
- the timing and availability of potential hotel acquisitions and our ability to identify and complete hotel acquisitions in accordance with our business strategy;
- the possibility of uninsured losses;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns; and
- the other factors discussed under the heading "Risk Factors" in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2018.

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

On November 30, 2018, we completed our merger with LaSalle Hotel Properties. The combined company, headquartered in Bethesda, Maryland, continues to be led by the senior management team leading us immediately prior to the merger. As of June 30, 2019, the Company owned 60 hotels with a total of 14,463 guest rooms.

Our second quarter operating results were in line with our outlook due to modest RevPAR growth, solid growth in other revenues, including food and beverage revenues, and margins in line with forecast. Although demand trends during the second quarter were weaker than expected for the hotel industry, we continue to experience solid group and transient business and leisure travel demand. Our 2019 outlook for the hotel industry and Pebblebrook remains positive, as the U.S. economy continues to grow despite geopolitical uncertainty, employment and wages continue to increase, inflation remains low and consumer confidence remain strong.

During the six months ended June 30, 2019, we had the following transactions:

- On February 14, 2019, we sold The Liaison Capitol Hill for \$111.0 million.
- On February 22, 2019, we sold Hotel Palomar Washington DC for \$141.5 million.
- On May 29, 2019, we sold Onyx Hotel for \$58.3 million.
- We repaid \$180.0 million of a portion of the tranche maturing in 2020 of our sixth term loan.
- We acquired the ground lease underlying the land of the Solamar Hotel.

On July 16, 2019, we sold the Hotel Amarano Burbank for \$72.9 million and repaid the remaining \$70.0 million of the tranche maturing in 2020 of our sixth term loan.

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 and expense 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.

Key Indicators of Financial Condition and Operating Performance

We measure hotel results of operations and the operating performance of our business by evaluating financial and non-financial metrics such as room revenue per available room ("RevPAR"); total revenue per available room ("Total RevPAR"); average daily rate ("ADR"); occupancy rate ("Occupancy"); funds from operations ("FFO"); earnings before interest, income taxes, depreciation and amortization ("EBITDA"); and EBITDA for real estate ("EBITDA_{re}"). 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, EBITDA and EBITDA_{re}.

Hotel Operating Statistics

The following table represents the key same-property hotel operating statistics for our hotels for the three and six months ended June 30, 2019 and 2018.

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Same-Property Occupancy	86.8%	87.1%	81.1%	81.6%
Same-Property ADR	\$ 266.56	\$ 262.00	\$ 258.42	\$ 250.08
Same-Property RevPAR	\$ 231.47	\$ 228.30	\$ 209.65	\$ 204.18
Same-Property Total RevPAR	\$ 334.96	\$ 328.43	\$ 305.91	\$ 296.87

This schedule of hotel results for the three months ended June 30 includes information from all of the hotels we owned as of June 30, 2019. This schedule of hotel results for the six months ended June 30 includes information from all of the hotels we owned as of June 30, 2019 and excludes Onyx Hotel for Q2 in both 2019 and 2018 due to its sale in the second quarter of 2019. These hotel results for the respective periods may include information reflecting operational performance prior to the Company's ownership of the hotels.

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, EBITDA and EBITDAre, 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 Nareit, formerly known as the National Association of Real Estate Investment Trusts, which defines FFO as net income (calculated in accordance with U.S. GAAP), excluding real estate related depreciation and amortization, gains (losses) from sales of real estate, impairments of real estate assets (including impairment of real estate related joint ventures), 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, gains (losses) from sales of real estate and impairments of real estate assets (including impairment of real estate related joint ventures), all of which are based on historical cost accounting and which may be of lesser significance in evaluating current performance, we believe that FFO provides investors a useful financial measure to evaluate our operating performance.

The following table reconciles net income (loss) to FFO and FFO available to common share and unit holders for the three and six months ended June 30, 2019 and 2018 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 60,518	\$ 58,295	\$ 66,173	\$ 82,811
Adjustments:				
Depreciation and amortization	53,239	24,510	107,483	49,359
FFO	\$ 113,757	\$ 82,805	\$ 173,656	\$ 132,170
Distribution to preferred shareholders	(8,139)	(4,024)	(16,278)	(8,047)
FFO available to common share and unit holders	\$ 105,618	\$ 78,781	\$ 157,378	\$ 124,123

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. The white paper issued by Nareit entitled “Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate” defines EBITDAre as net income or loss (computed in accordance with U.S. GAAP), excluding interest expense, income tax, depreciation and amortization, gains or losses on the disposition of depreciated property (including gains or losses on change of control), impairment write-downs of depreciated property and of investments in unconsolidated affiliates caused by a decrease in value of depreciated property in the affiliate, and after comparable adjustments for our portion of these items related to unconsolidated affiliates. We believe that EBITDA and EBITDAre provide investors useful financial measures 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 and EBITDAre for the three and six months ended June 30, 2019 and 2018 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 60,518	\$ 58,295	\$ 66,173	\$ 82,811
Adjustments:				
Interest expense	28,719	10,816	58,047	20,627
Income tax expense (benefit)	6,579	2,338	1,542	1,909
Depreciation and amortization	53,299	24,562	107,601	49,464
EBITDA and EBITDAre	\$ 149,115	\$ 96,011	\$ 233,363	\$ 154,811

FFO, EBITDA and EBITDAre do not represent cash generated from operating activities as determined by U.S. GAAP and should not be considered as alternatives to U.S. GAAP net income (loss), as indications of our financial performance, or to U.S. GAAP cash flow from operating activities, as measures of liquidity. In addition, FFO, EBITDA and EBITDAre are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Results of Operations

At June 30, 2019 and 2018, we had 60 and 28, respectively, wholly owned properties and leasehold interests. All properties owned during these periods have been included in our results of operations during the respective periods since their dates of acquisition and through the dates of disposition, as applicable. Based on when a property was acquired or disposed, operating results for certain properties are not comparable for the three and six months ended June 30, 2019 and 2018. The properties listed in the table below are hereinafter referred to as "non-comparable properties" for the periods indicated and all other properties are referred to as "comparable properties":

<u>Property</u>	<u>Location</u>	<u>Acquisition/Disposition Date</u>	<u>Non-comparable property for the three months ended June 30, 2019 and 2018</u>	<u>Non-comparable property for the six months ended June 30, 2019 and 2018</u>
LaSalle portfolio ⁽¹⁾	Various	November 30, 2018	X	X
The Grand Hotel Minneapolis	Minneapolis, MN	December 4, 2018	X	X
The Liaison Capitol Hill	Washington, DC	February 14, 2019	X	X
Hotel Palomar Washington DC	Washington, DC	February 22, 2019	X	X
Onyx Hotel	Boston, MA	May 29, 2019	X	X

⁽¹⁾ As a result of our merger with LaSalle, we acquired a portfolio of 36 properties. We subsequently sold The Liaison Capitol Hill on February 14, 2019, the Hotel Palomar Washington DC on February 22, 2019 and the Onyx Hotel on May 29, 2019.

Comparison of the three months ended June 30, 2019 to the three months ended June 30, 2018

Revenues — Total hotel revenues increased by \$235.6 million, of which \$2.9 million was contributed by the comparable properties and \$232.7 million was contributed by the non-comparable properties. LaPlaya contributed to the comparable properties increases as it was under renovation for a part of 2018.

Hotel operating expenses — Total hotel operating expenses increased by \$131.0 million, of which \$3.1 million was contributed by the comparable properties and the balance was contributed by the non-comparable properties.

Depreciation and amortization — Depreciation and amortization expense increased by \$28.7 million, the majority of which was a result of the acquisition of the LaSalle portfolio as part of the merger with LaSalle.

Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent increased by \$18.5 million due to the acquisition of the LaSalle portfolio as part of the merger with LaSalle.

General and administrative — General and administrative expenses increased by \$3.0 million primarily due to additional employee and share-based compensation costs relating to the merger with LaSalle. General and administrative expenses consist of employee compensation costs, legal and professional fees, costs related to strategic transactions, insurance, state franchise taxes and other expenses.

Transaction costs — Transaction costs decreased by \$0.9 million as a result of costs incurred in 2018 related to the merger with LaSalle. Transaction costs consist of transfer taxes and financial advisory, legal and other professional service fees in connection with the Mergers and integration costs related to professional fees and employee-related costs, including compensation for transition employees.

(Gain) loss and other operating expenses — (Gain) loss and other operating expenses changed from a \$6.8 million gain to a \$1.1 million loss due to the business interruption and property damage insurance claims relating to Hurricane Irma at LaPlaya in 2018. In 2019, the Company incurred \$0.8 million in hotel management transition expenses.

Interest expense — Interest expense increased by \$17.9 million as a result of higher debt balances.

Other — Other income decreased by \$23.0 million due to unrealized gain from marketable securities in 2018.

Income tax (expense) benefit — Income tax expense increased by \$4.2 million due primarily to an increase in taxable income of our TRSs during the quarter compared to the same period in the prior year.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the LTIP unit holders.

Comparison of the six months ended June 30, 2019 to the six months ended June 30, 2018

Revenues — Total hotel revenues increased by \$421.7 million, of which \$8.0 million was contributed by the comparable properties and \$413.7 million was contributed by the non-comparable properties. LaPlaya contributed to the comparable properties increases as it was under renovation for a part of 2018.

Hotel operating expenses — Total hotel operating expenses increased by \$253.7 million, of which \$7.0 million was contributed by the comparable properties and the balance was contributed by the non-comparable properties.

Depreciation and amortization — Depreciation and amortization expense increased by \$58.1 million, the majority of which was a result of the acquisition of the LaSalle portfolio as part of the merger with LaSalle.

Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent increased by \$37.8 million due to the acquisition of the LaSalle portfolio as part of the merger with LaSalle.

General and administrative — General and administrative expenses increased by \$9.3 million primarily due to additional employee and share-based compensation costs relating to the merger with LaSalle. General and administrative expenses consist of employee compensation costs, legal and professional fees, costs related to strategic transactions, insurance, state franchise taxes and other expenses.

Transaction costs — Transaction costs increased by \$1.2 million as a result of the merger with LaSalle. Transaction costs consist of transfer taxes and financial advisory, legal and other professional service fees in connection with the Mergers and integration costs related to professional fees and employee-related costs, including compensation for transition employees.

(Gain) loss and other operating expenses — (Gain) loss and other operating expenses changed from a \$11.0 million gain to a \$4.7 million loss due to the \$13.1 million gain from insurance settlement of business interruption claim for the Hurricane Irma costs and lost profits at LaPlaya in 2018. In 2019, the Company incurred \$4.0 million in hotel management transition expenses.

Interest expense — Interest expense increased by \$37.4 million as a result of higher debt balances.

Other — Other income decreased by \$25.5 million due to unrealized gain from marketable securities in 2018.

Income tax (expense) benefit — Income tax expense decreased by \$0.4 million due primarily to a decrease in taxable income of our TRSs during the six months ended June 30, 2019 compared to the same period in the prior year.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the LTIP unit holders.

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, 2018.

Recent Accounting Standards

See Note 2, “Summary of Significant Accounting Policies,” to our consolidated interim financial statements for additional information relating to recently issued accounting pronouncements.

Liquidity and Capital Resources

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

As a result of the approximately 61.5 million common shares and units issued on November 30, 2018 in connection with our merger with LaSalle, we anticipate an increase in cash outflows due to the increased dividend payment requirements. We expect to fund the dividends from increased cash flows generated from the hotel properties acquired in the Mergers.

Our debt consisted of the following as of June 30, 2019 and December 31, 2018 (dollars in thousands):

	Interest Rate	Maturity Date	Balance Outstanding as of	
			June 30, 2019	December 31, 2018
Revolving credit facilities				
Senior unsecured credit facility	Floating ⁽¹⁾	January 2022	\$ —	\$ 170,000
PHL unsecured credit facility	Floating ⁽²⁾	January 2022	—	—
Total revolving credit facilities			\$ —	\$ 170,000
Unsecured term loans				
First Term Loan	Floating ⁽³⁾	January 2023	300,000	300,000
Second Term Loan	Floating ⁽³⁾	April 2022	65,000	65,000
Third Term Loan	Floating ⁽³⁾	January 2021	200,000	200,000
Fourth Term Loan	Floating ⁽³⁾	October 2024	110,000	110,000
Sixth Term Loan:				
Tranche 2020	Floating ⁽³⁾	December 2020	70,000	250,000
Tranche 2021	Floating ⁽³⁾	November 2021	300,000	300,000
Tranche 2022	Floating ⁽³⁾	November 2022	400,000	400,000
Tranche 2023	Floating ⁽³⁾	November 2023	400,000	400,000
Tranche 2024	Floating ⁽³⁾	January 2024	400,000	400,000
Total Sixth Term Loan			1,570,000	1,750,000
Total term loans at stated value			2,245,000	2,425,000
Deferred financing costs, net			(12,747)	(15,716)
Total term loans			\$ 2,232,253	\$ 2,409,284
Senior unsecured notes				
Series A Notes	4.70%	December 2023	60,000	60,000
Series B Notes	4.93%	December 2025	40,000	40,000
Total senior unsecured notes at stated value			100,000	100,000
Deferred financing costs, net			(484)	(531)
Total senior unsecured notes			\$ 99,516	\$ 99,469
Mortgage loans				
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	66,987	68,207
Deferred financing costs, net			(30)	(62)
Total mortgage loans			\$ 66,957	\$ 68,145
Total debt			\$ 2,398,726	\$ 2,746,898

⁽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 applicable credit agreement) plus an applicable margin.

⁽²⁾ Borrowings bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) a Eurocurrency Rate (as defined in the applicable credit agreement) plus an applicable margin.

⁽³⁾ Borrowings under the term loan facilities bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin.

Unsecured Revolving Credit Facilities

We are party to a \$650.0 million senior unsecured revolving credit facility maturing in January 2022, with options to extend the maturity date to January 2023, pursuant to certain terms and conditions and payment of an extension fee. As of June 30, 2019, we had no outstanding borrowings and \$650.0 million borrowing capacity remaining on our senior unsecured revolving credit facility. Interest is paid on the periodic advances under the senior unsecured revolving credit facility at varying rates, based upon either LIBOR or the alternate base rate, plus an additional margin amount. The interest rate depends upon our leverage ratio pursuant to the provisions of the credit facility agreement. We have the ability to increase the aggregate borrowing capacity of our senior unsecured revolving credit facility to up to \$1.3 billion, subject to lender approval. We intend to repay indebtedness incurred under the senior unsecured revolving credit facility from time to time out of cash flows from operations and, as market conditions permit, from the net proceeds of issuances of additional equity and debt securities and from the net proceeds of dispositions of hotel properties.

We also have a \$10.0 million unsecured revolving credit facility (the "PHL Credit Facility") to be used for PHL's working capital and general corporate purposes. This credit facility has substantially similar terms as our senior unsecured revolving credit facility and matures in January 2022. Borrowings under the PHL Credit Facility bear interest at LIBOR plus an applicable margin, depending on our leverage ratio. As of June 30, 2019, we had no borrowings under the PHL Credit Facility.

Unsecured Term Loan Facilities

We are party to senior unsecured term loans with different maturities. Each unsecured term loan bears interest at a variable rate of a benchmark interest rate plus an applicable margin, depending on our leverage ratio. We entered into interest rate swap agreements to fix the LIBOR rate on a portion of these unsecured term loans. Information about our senior unsecured term loans is found in the table above and Note 5 to the accompanying consolidated financial statements.

Senior Unsecured Notes

We have two unsecured notes outstanding, \$60.0 million of senior unsecured notes bearing a fixed interest rate of 4.70% per annum and maturing in December 2023 (the "Series A Notes") and \$40.0 million of senior unsecured notes bearing a fixed interest rate of 4.93% per annum and maturing in December 2025 (the "Series B Notes"). The terms of the Series A Notes and the Series B Notes are substantially similar to those of our senior unsecured revolving credit facility, as amended and restated.

Issuance of Shares of Beneficial Interest

On February 22, 2016, we announced that our board of trustees authorized a share repurchase program of up to \$150.0 million of the Company's outstanding common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. No common shares were repurchased by the Company under the share repurchase program during the six months ended June 30, 2019. As of June 30, 2019, \$56.6 million of common shares remained available for repurchase under this program.

On July 27, 2017, we announced that our board of trustees authorized a new share repurchase program of up to \$100.0 million of the Company's outstanding common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. This \$100.0 million share repurchase program will commence upon the completion of our \$150.0 million share repurchase program.

Sources and Uses of Cash

Our principal sources of cash are cash from operations, borrowings under mortgage financings and other debt, draws on our credit facilities, proceeds from offerings of our equity securities and hotel property sales. 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 \$194.1 million for the six months ended June 30, 2019. Our cash from operations includes the operating activities of the 60 hotels we owned as of June 30, 2019, offset by corporate expenses and merger-related transaction expenses. Our cash provided by operating activities was \$102.5 million

for the six months ended June 30, 2018. Our cash from operations includes the operating activities of the 28 hotels we wholly owned as of June 30, 2018.

Cash Used in and Provided by Investing Activities. Our cash provided by investing activities was \$226.0 million for the six months ended June 30, 2019. During the six months ended June 30, 2019, we invested \$75.9 million in improvements to our hotel properties and received \$302.3 million from sales of hotel properties. Our cash used in investing activities was \$382.2 million for the six months ended June 30, 2018. During the six months ended June 30, 2018, we invested \$35.3 million in improvements to our hotel properties and purchased \$356.2 million in marketable securities and sold \$6.7 million in marketable securities.

Cash Used in and Provided by Financing Activities. Our cash used in financing activities was \$457.7 million for the six months ended June 30, 2019. During the six months ended June 30, 2019, we borrowed \$56.9 million under the revolving credit facilities, repaid \$226.9 million under the revolving credit facilities, repaid \$181.2 million of debt, repurchased \$4.0 million of common shares for tax withholding purposes in connection with vested share-based equity awards, paid \$101.6 million in distributions and paid \$0.9 million in other transactions. For the six months ended June 30, 2018, cash provided by financing activities was \$272.7 million. During the six months ended June 30, 2018, we borrowed \$465.4 million under the revolving credit facilities, repaid \$127.4 million under the revolving credit facilities, repaid \$1.2 million of debt, repurchased \$2.5 million of common shares for tax withholding purposes in connection with vested share-based equity awards, paid \$61.1 million in distributions and paid \$0.5 million in other transactions.

Capital Investments

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

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

For the six months ended June 30, 2019, we invested \$75.9 million in capital investments to reposition and improve the properties we own. We expect to invest approximately \$75.0 million to \$110.0 million in capital investments for our hotels through the remainder of 2019, including a \$21.0 million renovation at Hilton San Diego Resort & Spa which is expected to be completed in the third quarter of 2019.

Contractual Obligations and Off-Balance Sheet Arrangements

The table below summarizes our contractual obligations as of June 30, 2019 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⁾	\$ 68,443	\$ 68,443	\$ —	\$ —	\$ —
Term loans ⁽²⁾	2,547,396	82,240	784,318	1,569,218	111,620
Unsecured notes ⁽¹⁾	125,508	4,792	9,584	68,174	42,958
Borrowings under credit facilities ⁽³⁾	—	—	—	—	—
Hotel and ground leases ⁽⁴⁾	1,239,196	16,772	33,718	33,930	1,154,776
Capital lease obligation	65,821	1,238	2,579	2,673	59,331
Refundable membership initiation deposits ⁽⁵⁾	30,894	258	—	—	30,636
Purchase commitments ⁽⁶⁾	12,879	12,879	—	—	—
Corporate office lease	18,988	1,044	3,681	3,874	10,389
Total	\$ 4,109,125	\$ 187,666	\$ 833,880	\$ 1,677,869	\$ 1,409,710

⁽¹⁾ Amounts include principal and interest.

⁽²⁾ Amounts include principal and interest. Borrowings under the term loan facilities bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin.

⁽³⁾ Amounts include principal and interest under the two revolving credit facilities. Interest expense is calculated based on the weighted-average interest rate for all outstanding credit facility borrowings as of June 30, 2019. It is assumed that the outstanding borrowings will be repaid upon maturity with fixed interest-only payments until then.

⁽⁴⁾ Our leases may require minimum fixed rent payments, percentage rent payments based on a percentage of revenues in excess of certain thresholds or rent payments equal to the greater of a minimum fixed rent or percentage rent. Minimum fixed rent may be adjusted annually by increases in consumer price index ("CPI") and may be subject to minimum and maximum increases. The table above reflects only minimum fixed rent for all periods presented and does not include assumptions for CPI adjustments.

⁽⁵⁾ Represents refundable initiation membership deposits from club members at LaPlaya.

⁽⁶⁾ Amounts 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

As of June 30, 2019, we had no off-balance sheet arrangements.

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, geographic locations, weather and customer mix at the hotels. Generally, our hotels have lower revenue, operating income and cash flow in the first quarter of each year and higher revenue, operating income and cash flow in the third quarter of each year.

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 counter parties under the terms of the interest rate hedge agreements. The Company believes it minimizes the credit risk by transacting with major credit-worthy financial institutions.

The Company has interest rate swap agreements with an aggregate notional amount of \$1.6 billion to hedge variable interest rates on our unsecured term loans.

We have designated these pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. For the three and six months ended June 30, 2019, there was \$(21.1) million and \$(30.1) million in unrealized (loss) gain, respectively, recorded in accumulated other comprehensive income (loss). For the three and six months ended June 30, 2018, there was \$2.0 million and \$7.3 million in unrealized (loss) gain, respectively, recorded in accumulated other comprehensive income (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, that we could incur significant costs associated with the settlement of the agreements, and that 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 June 30, 2019, \$615.0 million of the Company's aggregate indebtedness (25.6% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under the term loan facilities that have been effectively swapped into fixed rates. If interest rates on our variable rate debt increase or decrease by 0.1 percent, our annual interest expense will increase or decrease by approximately \$0.6 million, respectively.

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 to our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
April 1, 2019 - April 30, 2019	—	\$ —	—	—
May 1, 2019 - May 31, 2019	—	\$ —	—	—
June 1, 2019 - June 30, 2019	—	\$ —	—	—
Total	—	\$ —	—	\$ 56,600,000

⁽¹⁾ On February 22, 2016, the Company announced its Board of Trustees authorized a share repurchase program of up to \$150.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. The amount in this column does not include the approximate dollar value of shares that may yet be purchased under the \$100.0 million share repurchase program that was announced on July 27, 2017, which will commence upon the completion of the Company's \$150.0 million share repurchase program. See Note 7 to the accompanying financial statements for more information about the \$100.0 million share repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
31.1†	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1††	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2††	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH XBRL	Taxonomy Extension Schema Document
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document
101.LAB XBRL	Taxonomy Extension Label Linkbase Document
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document

* Management agreement or compensatory plan or arrangement.

† Filed herewith.

†† Furnished herewith.

SIGNATURES

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: July 25, 2019

/s/ JON E. BORTZ

Jon E. Bortz

Chairman, President and Chief Executive Officer

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jon E. Bortz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pebblebrook Hotel Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of trustees (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2019

/s/ JON E. BORTZ

Jon E. Bortz

Chairman, President and Chief Executive Officer
(principal executive officer)

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Raymond D. Martz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pebblebrook Hotel Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of trustees (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2019

/s/ RAYMOND D. MARTZ

Raymond D. Martz

Executive Vice President, Chief Financial Officer, Treasurer and Secretary (principal financial officer and principal accounting officer)

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**Certification Pursuant To
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Pebblebrook Hotel Trust (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jon E. Bortz, Chairman, President and Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2019

/s/ JON E. BORTZ

Jon E. Bortz

Chairman, President and Chief Executive Officer
(principal executive officer)

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

**Certification Pursuant To
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Pebblebrook Hotel Trust (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Raymond D. Martz, Executive Vice President, Chief Financial Officer, Treasurer and Secretary, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2019

/s/ RAYMOND D. MARTZ

Raymond D. Martz

Executive Vice President, Chief Financial
Officer, Treasurer and Secretary (principal
financial officer and principal accounting officer)

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