

Pebblebrook Hotel Trust  
Form 8-K/A  
July 12, 2010

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

**FORM 8-K/A  
CURRENT REPORT**

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

**Date of Report (Date of Earliest Event Reported): June 4, 2010**

**PEBBLEBROOK HOTEL TRUST**

(Exact name of registrant as specified in its charter)

Maryland

001-34571

27-1055421

(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(I.R.S. Employer  
Identification No.)

2 Bethesda Metro Center, Suite  
1530, Bethesda, Maryland

20814

(Address of principal executive offices)

(Zip Code)

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

Not Applicable

Former name or former address, if changed since last report

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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This Form 8-K/A amends and supplements each of the Registrant's following Forms 8-K, (i) Form 8-K filed on June 10, 2010 reporting the acquisition of the Doubletree Bethesda Hotel and Executive Meeting Center, (ii) Form 8-K filed on June 25, 2010 reporting the acquisition of the Sir Francis Drake Hotel, and (iii) Form 8-K filed on July 1, 2010 reporting the acquisition of the InterContinental Buckhead Hotel, to include the historical financial statements and unaudited pro forma financial information required by Item 9.01(a) and (b).

**Item 9.01. Financial Statements and Exhibits.**

*(a) Financial statements of businesses acquired.*

**Doubletree Bethesda Hotel and Executive Meeting Center**

Independent Auditors' Report

Balance Sheets as of March 31, 2010 (unaudited), December 31, 2009 and 2008

Statements of Operations for the three months ended March 31, 2010 and 2009 (unaudited) and for the years ended December 31, 2009 and 2008

Statements of Owner's Equity in Hotel for the years ended December 31, 2009 and 2008 and the three months ended March 31, 2010 (unaudited)

Statements of Cash Flows for the three months ended March 31, 2010 and 2009 (unaudited) and for the years ended December 31, 2009 and 2008

Notes to Financial Statements

**Sir Francis Drake Hotel**

Independent Auditors' Report

Balance Sheets as of March 31, 2010 (unaudited), December 31, 2009 and 2008

Statements of Operations for the three months ended March 31, 2010 and 2009 (unaudited) and for the years ended December 31, 2009 and 2008

Statements of Owner's Equity in Hotel for the years ended December 31, 2009 and 2008 and the three months ended March 31, 2010 (unaudited)

Statements of Cash Flows for the three months ended March 31, 2010 and 2009 (unaudited) and for the years ended December 31, 2009 and 2008

Notes to Financial Statements

**InterContinental Buckhead Hotel**

Independent Auditors' Report

Balance Sheets as of March 31, 2010 (unaudited), December 31, 2009 and 2008

Statements of Operations for the three months ended March 31, 2010 and 2009 (unaudited) and for the years ended December 31, 2009 and 2008

Statements of Owner's Equity in Hotel for the years ended December 31, 2009 and 2008 and the three months ended March 31, 2010 (unaudited)

Statements of Cash Flows for the three months ended March 31, 2010 and 2009 (unaudited) and for the years ended December 31, 2009 and 2008

Notes to Financial Statements

*(b) Unaudited pro forma financial information.*

**Pebblebrook Hotel Trust**

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Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2010

Unaudited Pro Forma Consolidated Statement of Operations for the three months ended March 31, 2010

Unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 2009

*(d) Exhibits*

**Exhibit**

**Number    Exhibit Description**

10.1        Purchase and Sale Agreement (Doubletree Bethesda Hotel and Executive Meeting Center)

10.2        Purchase and Sale Agreement (Sir Francis Drake Hotel)

10.3        Purchase and Sale Agreement (InterContinental Buckhead Hotel)

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**SIGNATURES**

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

PEBBLEBROOK HOTEL TRUST

*July 12, 2010*

By: */s/ Raymond D. Martz*

Name: *Raymond D. Martz*

Title: *Executive Vice President,*

*Chief Financial Officer, Treasurer and Secretary*

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**Exhibit Index**

**Exhibit**

**Number**

**Exhibit Description**

10.1 Purchase and Sale Agreement (Doubletree Bethesda Hotel and Executive Meeting Center)

10.2 Purchase and Sale Agreement (Sir Francis Drake Hotel)

10.3 Purchase and Sale Agreement (InterContinental Buckhead Hotel)

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**Independent Auditors Report**

The Manager of  
Doubletree Bethesda Hotel and Executive Meeting Center:

We have audited the accompanying balance sheets of Doubletree Bethesda Hotel and Executive Meeting Center (the Hotel ) as of December 31, 2009 and 2008, and the related statements of operations, owner s equity in Hotel, and cash flows for the years then ended. These financial statements are the responsibility of the Hotel s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hotel as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG, LLP

McLean, Virginia  
July 9, 2010

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**DOUBLETREE BETHESDA HOTEL AND EXECUTIVE MEETING CENTER**  
Balance Sheets

|   | <b>March 31,<br/>2010<br/>(Unaudited)</b> | <b>December 31,<br/>2009</b> | <b>2008</b>          |
|---|---|------------------------------|----------------------|
| <b>Assets</b>                             |   |                              |                      |
| Cash                                      | \$ 190,387                                | \$ 826,027                   | \$ 339,634           |
| Restricted cash                           | 1,029,501                                 | 685,181                      | 1,146,210            |
| Accounts receivable, net                  | 1,267,991                                 | 691,503                      | 868,403              |
| Reserve funds                             | 281,889                                   | 167,766                      | 740,860              |
| Prepaid expenses and other current assets | 399,573                                   | 442,600                      | 448,797              |
| <b>Total current assets</b>               | <b>3,169,341</b>                          | <b>2,813,077</b>             | <b>3,543,904</b>     |
| Property and equipment, at cost           | 66,122,023                                | 65,972,687                   | 65,443,416           |
| Less: accumulated depreciation            | (7,591,964)                               | (7,111,605)                  | (5,185,696)          |
|   | 58,530,059                                | 58,861,082                   | 60,257,720           |
| Other assets                              | 235,464                                   | 300,810                      | 652,956              |
| <b>Total assets</b>                       | <b>\$ 61,934,864</b>                      | <b>\$ 61,974,969</b>         | <b>\$ 64,454,580</b> |

**Liabilities and Owner's Equity in Hotel**

|  |                      |                      |                      |
|--|----------------------|----------------------|----------------------|
| Note payable   | \$ 38,000,000        | \$ 38,000,000        | \$                   |
| Accounts payable                                     | 464,616              | 331,758              | 294,149              |
| Accrued wages and benefits                           | 362,138              | 264,756              | 356,804              |
| Accrued interest payable                             | 165,510              | 165,510              | 165,510              |
| Other current liabilities                            | 529,065              | 301,624              | 573,098              |
| <b>Total current liabilities</b>                     | <b>39,521,329</b>    | <b>39,063,648</b>    | <b>1,389,561</b>     |
| Note payable   |                      |                      | 38,000,000           |
| <b>Total liabilities</b>                             | <b>39,521,329</b>    | <b>39,063,648</b>    | <b>39,389,561</b>    |
| Owner's equity in Hotel                              | 22,413,535           | 22,911,321           | 25,065,019           |
| <b>Total liabilities and owner's equity in Hotel</b> | <b>\$ 61,934,864</b> | <b>\$ 61,974,969</b> | <b>\$ 64,454,580</b> |

See accompanying notes to financial statements.





**DOUBLETREE BETHESDA HOTEL AND EXECUTIVE MEETING CENTER**  
Statements of Operations

|                                    | Three Month Ended March |                     | Year Ended December 31, |               |
|------------------------------------|-------------------------|---------------------|-------------------------|---------------|
|                                    | 2010<br>(unaudited)     | 2009<br>(unaudited) | 2009                    | 2008          |
| Revenues:                          |                         |                     |                         |               |
| Rooms                              | \$ 2,197,496            | \$ 2,873,489        | \$ 11,118,997           | \$ 11,579,628 |
| Food and beverage                  | 503,253                 | 528,198             | 2,184,447               | 2,326,770     |
| Conference center                  | 329,821                 | 387,835             | 1,959,241               | 1,829,544     |
| Other                              | 135,876                 | 77,653              | 446,409                 | 554,097       |
| <br>                               |                         |                     |                         |               |
| Total revenues                     | 3,166,446               | 3,867,175           | 15,709,094              | 16,290,039    |
| <br>                               |                         |                     |                         |               |
| Operating expenses:                |                         |                     |                         |               |
| Rooms                              | 452,802                 | 599,944             | 2,143,009               | 2,121,882     |
| Food and beverage                  | 483,034                 | 508,979             | 2,013,816               | 2,080,240     |
| Conference center                  | 151,287                 | 137,455             | 647,787                 | 651,902       |
| General and administrative         | 274,354                 | 334,667             | 1,322,334               | 1,304,393     |
| Marketing                          | 211,760                 | 224,242             | 1,071,695               | 925,103       |
| Royalty fees                       | 87,920                  | 114,952             | 444,787                 | 449,810       |
| Program fees                       | 107,502                 | 160,268             | 427,471                 | 506,213       |
| Energy                             | 184,496                 | 216,747             | 729,072                 | 1,332,155     |
| Property operation and maintenance | 199,807                 | 178,951             | 768,050                 | 721,870       |
| Property taxes and insurance       | 147,451                 | 129,099             | 491,026                 | 507,233       |
| Depreciation                       | 480,359                 | 472,047             | 1,925,909               | 1,888,190     |
| Management fees                    | 94,931                  | 116,015             | 471,291                 | 488,701       |
| Other expenses                     | 145,995                 | 173,366             | 550,429                 | 913,428       |
| <br>                               |                         |                     |                         |               |
| Total operating expenses           | 3,021,698               | 3,366,732           | 13,006,676              | 13,891,120    |
| <br>                               |                         |                     |                         |               |
| Other (expenses) income:           |                         |                     |                         |               |
| Interest expense                   | (648,728)               | (648,728)           | (2,638,350)             | (2,644,971)   |
| Other income                       | 121                     | 501                 | 2,555                   | 25,638        |
| <br>                               |                         |                     |                         |               |
| Total other expenses, net          | (648,607)               | (648,227)           | (2,635,795)             | (2,619,333)   |
| <br>                               |                         |                     |                         |               |
| Net income (loss)                  | \$ (503,859)            | \$ (147,784)        | \$ 66,623               | \$ (220,414)  |

See accompanying notes to financial statements.

**DOUBLETREE BETHESDA HOTEL AND EXECUTIVE MEETING CENTER**  
Statements of Owner's Equity in Hotel

|  |               |
|--|---------------|
| Balance at December 31, 2007               | \$ 25,537,746 |
| Hotel owner distributions, net             | (252,313)     |
| Net loss                                   | (220,414)     |
| Balance at December 31, 2008               | 25,065,019    |
| Hotel owner distributions, net             | (2,220,321)   |
| Net income                                 | 66,623        |
| Balance at December 31, 2009               | 22,911,321    |
| Hotel owner distributions, net (unaudited) | 6,073         |
| Net loss (unaudited)                       | (503,859)     |
| Balance at March 31, 2010 (unaudited)      | \$ 22,413,535 |

See accompanying notes to financial statements.

**DOUBLETREE BETHESDA HOTEL AND EXECUTIVE MEETING CENTER**  
Statements of Cash Flows

|   | Three Month Ended March<br>31,    |                                   | Year Ended December 31, |              |
|---|-----------------------------------|-----------------------------------|-------------------------|--------------|
|   | <b>2010</b><br><b>(unaudited)</b> | <b>2009</b><br><b>(unaudited)</b> | <b>2009</b>             | <b>2008</b>  |
| Cash flows from operating activities:   |                                   |                                   |                         |              |
| Net income (loss)   | \$ (503,859)                      | \$ (147,784)                      | \$ 66,623               | \$ (220,414) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                   |                                   |                         |              |
| Amortization of deferred costs  | 65,346                            | 65,346                            | 271,718                 | 271,718      |
| Depreciation  | 480,359                           | 472,047                           | 1,925,909               | 1,888,190    |
| Changes in operating assets and liabilities:  |                                   |                                   |                         |              |
| Accounts receivable   | (576,488)                         | (362,985)                         | 176,900                 | (121,480)    |
| Restricted cash   | (344,320)                         | 157,151                           | 461,029                 | (146,578)    |
| Prepaid expenses and other current assets   | 43,027                            | 47,693                            | 6,197                   | (73,269)     |
| Other assets  |                                   | 25,914                            | 80,428                  | 78,148       |
| Accounts payable  | 132,858                           | 153,040                           | 37,609                  | (283,166)    |
| Accrued wages and benefits  | 97,382                            | (21,678)                          | (92,048)                | 43,569       |
| Other current liabilities   | 227,441                           | (45,993)                          | (271,474)               | 179,944      |
| <br>  |                                   |                                   |                         |              |
| Net cash provided by (used in) operating activities                                       | (378,254)                         | 342,751                           | 2,662,891               | 1,616,662    |
| <br>  |                                   |                                   |                         |              |
| Cash flows from investing activities:   |                                   |                                   |                         |              |
| Change in reserve funds   | (114,123)                         | (114,500)                         | 573,094                 | (45,361)     |
| Purchases of property and equipment   | (149,336)                         |                                   | (529,271)               | (1,230,121)  |
| <br>  |                                   |                                   |                         |              |
| Net cash provided by (used in) investing activities                                       | (263,459)                         | (114,500)                         | 43,823                  | (1,275,482)  |
| <br>  |                                   |                                   |                         |              |
| Contributions (distributions) to hotel owner, net   | 6,073                             | 39,063                            | (2,220,321)             | (252,313)    |
| <br>  |                                   |                                   |                         |              |
| Net increase (decrease) in cash   | (635,640)                         | 267,314                           | 486,393                 | 88,867       |
| <br>  |                                   |                                   |                         |              |
| Cash and cash equivalents:  |                                   |                                   |                         |              |
| Beginning of period   | 826,027                           | 339,634                           | 339,634                 | 250,767      |
| <br>  |                                   |                                   |                         |              |
| End of period   | \$ 190,387                        | \$ 606,948                        | \$ 826,027              | \$ 339,634   |

Supplemental cash flow disclosures:

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|   |            |            |              |              |
|---|------------|------------|--------------|--------------|
| Cash paid for interest                          | \$ 595,840 | \$ 595,840 | \$ 2,416,462 | \$ 2,423,083 |
| See accompanying notes to financial statements. |            |            |              |              |

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**DOUBLETREE BETHESDA HOTEL AND EXECUTIVE MEETING CENTER**

Notes to Financial Statements

**(1) Description of Business and Basis of Accounting**

The Doubletree Bethesda Hotel and Executive Meeting Center (the Hotel), is a full service 269-room hotel located in Bethesda, Maryland. The Hotel is owned by THI IV Bethesda, LLC (the Company). The Hotel is managed under an agreement with Thayer Lodging Group, Inc. (Thayer), an affiliate of the Company.

The accompanying unaudited financial statements of the Hotel as of March 31, 2010 and for the three-month periods ended March 31, 2010 and 2009, have been prepared pursuant to the Securities and Exchange Commission (SEC) rules and regulations. All amounts included in the notes to the financial statements referring to March 31, 2010, and for the three-month periods ended March 31, 2010 and 2009, are unaudited. The accompanying financial statements reflect, in the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature.

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Actual results could differ from those estimates.

The Hotel collateralizes a note payable obligation of a wholly-owned subsidiary of the Company. Cash from the Hotel's operations is used to fund interest payments. Although technically an obligation of the Company and not the Hotel, the outstanding principal balance of the note payable, interest expense, deferred financing costs and related amortization are presented in the financial statements. The outstanding principal balance on the note payable is \$38 million. The note bears interest equal to 6.72%. The note payable requires monthly interest only payments through maturity. The maturity date was scheduled for November 6, 2010.

The note contains a debt covenant requiring the Company to maintain a debt service coverage ratio (DSCR). The Company was not in compliance with this DSCR as of and for the years ending December 31, 2009 and 2008. The violation of the DSCR covenant triggered the cash management agreement discussed in footnote 2(b). There were no other consequences of the violation of the DSCR covenant.

On June 4, 2010, the Hotel was acquired by Pebblebrook Hotel Trust (Pebblebrook) for cash consideration of approximately \$67.1 million. Pebblebrook did not assume any amounts due under the note payable obligation. At closing, the settlement agent wired approximately \$38 million plus accrued interest to the lender.

**DOUBLETREE BETHESDA HOTEL AND EXECUTIVE MEETING CENTER**

Notes to Financial Statements

**(2) Significant Accounting Policies**

**(a) Cash and Cash Equivalents**

Includes the Hotel's operating cash accounts, which may include liquid temporary cash investments with maturities of three months or less at the date of purchase which are considered to be cash and cash equivalents.

**(b) Restricted Cash**

Pursuant to the terms of a cash management agreement required by the lender, cash receipts are deposited into a bank account controlled by the lender. On a monthly basis, amounts on deposit are first used to fund required escrow accounts, hotel operating expenses, debt service, and management fees. The remaining cash is transferred to the Hotel's operating account.

Under the same agreement, monthly deposits to an escrow account are required to fund real estate taxes and insurance premiums. The escrow account also serves as additional collateral for the mortgage loan.

**(c) Reserve Funds**

Reserve funds consist of funds required by the lender to be set aside as replacement, renovation, and repair reserves. The required monthly deposits to the replacement reserve account are 4% of hotel gross revenues.

**(d) Property and Equipment**

Building and improvements, furniture, fixtures and equipment are stated at cost. The cost of additions, alterations, and improvements is capitalized. Expenditures for repairs and maintenance are expensed as incurred. Depreciation is computed utilizing the straight-line method over lives of 3 to 40 years.

Construction in progress totaling \$176,222 (unaudited); \$26,885; and \$589,380 at March 31, 2010 and December 31, 2009 and 2008, respectively, is included in property and equipment. Construction in progress represents renovations to the hotel and is capitalized as the costs are incurred. Renovation projects are generally less than six months in duration, and the hotel remains fully operational while renovations occur. Upon completion of the renovations, depreciation of the improvements commences.

**(e) Impairment of Long-Lived Assets**

The Hotel evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No such impairment losses have been recognized to date.

**DOUBLETREE BETHESDA HOTEL AND EXECUTIVE MEETING CENTER**

Notes to Financial Statements

**(f) Revenue Recognition**

Hotel revenues are recognized when the services are provided. Revenues consist of room sales, food and beverage sales, conference center, and other department revenues such as telephone and gift shop. Additionally, the Hotel collects sales, use, occupancy, and similar taxes, which is presented on a net basis (excluded from revenues) on our statements of operations.

**(g) Accounts Receivable**

Accounts receivable, which represent amounts due from Hotel guests, are presented net of allowances, which were not material at December 31, 2009 or 2008.

**(h) Deferred Financing Costs**

Deferred financing costs incurred in connection with the note payable are amortized to interest expense using the straight-line method over the contractual life of the note payable, which approximates the effective-interest method.

**(i) Marketing and Advertising Expenses**

Marketing and advertising costs are expensed as incurred.

**(j) Income Taxes**

The Hotel is not directly subject to federal, state or local income taxes. The owner of the Hotel is a limited liability company and is taxed as a partnership and the members are individually responsible for reporting their share of taxable income or loss on their income tax returns.

**(3) Related-Party Transactions**

**(a) Management Fees**

The term of the management agreement with affiliates of Thayer is five years and it expires on August 12, 2010. The agreement requires the Hotel to pay a management fee equal to 3% of gross revenues.

**(b) Due to Manager**

At March 31, 2010 and December 31, 2009 and 2008, the Hotel was obligated to affiliates of Thayer in the amount of \$97,966 (unaudited); \$66,898; and \$26,881, respectively, for management fees and other expenditures made on its behalf.

**(4) Royalty Fee, Program Fee, and Services Contribution**

**(a) Royalty Fee**

The Hotel entered into a franchise agreement with Hilton Hotels Corporation (HHC) commencing on February 28, 2006, and expiring February 27, 2016. Under the agreement, the Company is required to pay a royalty fee to HHC, as follows:

|               |                   |                     |
|---------------|-------------------|---------------------|
| March 1, 2007 | February 28, 2008 | 3% of rooms revenue |
| March 1, 2008 | February 28, 2016 | 4% of rooms revenue |





**DOUBLETREE BETHESDA HOTEL AND EXECUTIVE MEETING CENTER**

Notes to Financial Statements

***(b) Program Fee and Services Contribution***

The Hotel is assessed a monthly program fee by HHC for advertising, promotions, marketing, reservation services, and other administrative support services. The assessment is 4% of gross room revenue.

**(5) Subsequent Event**

The Hotel has evaluated the need for disclosures and/or adjustments resulting from subsequent events through July 9, 2010, the date the financial statements were available to be issued.

**Independent Auditors Report**

The Manager of  
Sir Francis Drake Hotel:

We have audited the accompanying balance sheets of Sir Francis Drake Hotel (the Hotel ) as of December 31, 2009 and 2008, and the related statements of operations, owner s equity (deficit) in Hotel, and cash flows for the years then ended. These financial statements are the responsibility of the Hotel s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hotel as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG, LLP

McLean, Virginia  
July 9, 2010

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**SIR FRANCIS DRAKE HOTEL**  
Balance Sheets

|  | <b>March 31,<br/>2010<br/>(Unaudited)</b> | <b>December 31,<br/>2009</b> | <b>2008</b>   |
|--|---|------------------------------|---------------|
| <b>Assets</b>  |   |                              |               |
| Cash and cash equivalents                                | \$ 930,010                                | \$ 689,995                   | \$ 1,945,150  |
| Restricted cash (replacement reserve fund)               | 411,900                                   | 519,733                      | 344,373       |
| Accounts receivable, net                                 | 590,680                                   | 636,172                      | 567,956       |
| Deferred financing costs, net                            | 44,173                                    | 88,344                       | 94,198        |
| Prepaid expenses   | 907,980                                   | 668,780                      | 561,350       |
| <br>   |   |                              |               |
| Total current assets                                     | 2,884,743                                 | 2,603,024                    | 3,513,027     |
| <br>   |   |                              |               |
| Property and equipment:                                  |   |                              |               |
| Land   | 23,995,825                                | 23,995,825                   | 23,995,825    |
| Building and improvements                                | 43,947,747                                | 43,947,747                   | 43,755,379    |
| Intangible assets  | 3,837,946                                 | 3,837,946                    | 3,837,946     |
| Furniture, fixtures, and equipment                       | 17,972,226                                | 17,684,955                   | 17,185,669    |
|  | 89,753,744                                | 89,466,473                   | 88,774,819    |
| Accumulated depreciation                                 | (21,482,664)                              | (20,107,789)                 | (14,669,060)  |
| <br>   |   |                              |               |
| Total property and equipment, net                        | 68,271,080                                | 69,358,684                   | 74,105,759    |
| <br>   |   |                              |               |
| Restricted cash (tax escrow)                             | 266,820                                   | 91,670                       | 142,237       |
| Other assets   | 507,682                                   | 765,848                      | 783,173       |
| <br>   |   |                              |               |
| Total assets   | \$ 71,930,325                             | \$ 72,819,226                | \$ 78,544,196 |
| <br>   |   |                              |               |
| <b>Liabilities and Owner's Equity (Deficit) in Hotel</b> |   |                              |               |
| Current liabilities:                                     |   |                              |               |
| Note payable   | \$ 68,500,000                             | \$ 68,500,000                | \$ 68,500,000 |
| Accounts payable   | 1,702,851                                 | 1,096,624                    | 659,497       |
| Accrued expenses   | 1,340,234                                 | 1,152,268                    | 1,941,217     |
| Advance deposits   | 388,129                                   | 480,377                      | 664,711       |
| Other liabilities  | 814,857                                   | 1,107,454                    | 617,692       |
| <br>   |   |                              |               |
| Total current liabilities                                | 72,746,071                                | 72,336,723                   | 72,383,117    |
| <br>   |   |                              |               |
| Owner's equity (deficit) in Hotel                        | (815,746)                                 | 482,503                      | 6,161,079     |

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|   |               |               |               |
|---|---------------|---------------|---------------|
| Total liabilities and owners' equity (deficit) in Hotel | \$ 71,930,325 | \$ 72,819,226 | \$ 78,544,196 |
|---|---------------|---------------|---------------|

See accompanying notes to financial statements.

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**SIR FRANCIS DRAKE HOTEL**  
Statements of Operations

|                               | Three Months Ended March<br>31,   |                                   | Year Ended December 31, |                |
|-------------------------------|-----------------------------------|-----------------------------------|-------------------------|----------------|
|                               | <b>2010</b><br><b>(unaudited)</b> | <b>2009</b><br><b>(unaudited)</b> | <b>2009</b>             | <b>2008</b>    |
| Revenue:                      |                                   |                                   |                         |                |
| Room                          | \$ 3,353,558                      | \$ 3,406,087                      | \$ 16,064,602           | \$ 21,386,617  |
| Food and beverage             | 3,249,420                         | 3,426,079                         | 14,348,867              | 17,438,459     |
| Other                         | 482,277                           | 588,688                           | 2,063,677               | 1,820,070      |
| <br>                          |                                   |                                   |                         |                |
| Total revenues                | 7,085,255                         | 7,420,854                         | 32,477,146              | 40,645,146     |
| <br>                          |                                   |                                   |                         |                |
| Operating expenses:           |                                   |                                   |                         |                |
| Room                          | 1,598,133                         | 1,669,270                         | 6,969,660               | 7,098,155      |
| Food and beverage             | 2,539,290                         | 2,696,618                         | 10,766,856              | 12,264,512     |
| General and administrative    | 767,657                           | 949,764                           | 3,501,234               | 4,397,960      |
| Asset management fees         | 106,277                           | 111,311                           | 487,148                 | 610,573        |
| Depreciation and amortization | 1,374,875                         | 1,347,369                         | 5,438,729               | 5,449,555      |
| Management fees               | 282,523                           | 293,300                           | 1,291,732               | 1,612,614      |
| Property management           | 362,399                           | 383,221                           | 1,478,808               | 1,674,333      |
| Utilities                     | 323,890                           | 308,026                           | 1,300,182               | 1,248,530      |
| Marketing and advertising     | 486,435                           | 378,649                           | 1,632,501               | 1,671,584      |
| Liability insurance           | 135,636                           | 168,333                           | 756,309                 | 673,106        |
| Property taxes                | 250,185                           | 246,336                           | 1,000,128               | 651,204        |
| Other                         | 256,170                           | 368,688                           | 758,977                 | 934,400        |
| <br>                          |                                   |                                   |                         |                |
| Total operating expenses      | 8,483,470                         | 8,920,885                         | 35,382,264              | 38,286,526     |
| <br>                          |                                   |                                   |                         |                |
| Other (expenses) income:      |                                   |                                   |                         |                |
| Interest expense              | (460,494)                         | (503,019)                         | (1,957,757)             | (3,530,303)    |
| Other income                  | 107                               | 2,367                             | 5,326                   | 18,861         |
| <br>                          |                                   |                                   |                         |                |
| Total other expenses          | (460,387)                         | (500,652)                         | (1,952,431)             | (3,511,442)    |
| <br>                          |                                   |                                   |                         |                |
| Net loss                      | \$ (1,858,602)                    | \$ (2,000,683)                    | \$ (4,857,549)          | \$ (1,152,822) |

See accompanying notes to financial statements.

**SIR FRANCIS DRAKE HOTEL**  
Statements of Owner's Equity (Deficit) in Hotel

|                                       |               |
|---------------------------------------|---------------|
| Balance at December 31, 2007          | \$ 10,760,159 |
| Net loss                              | (1,152,822)   |
| Hotel owner distribution, net         | (3,446,258)   |
| <br>                                  |               |
| Balance at December 31, 2008          | 6,161,079     |
| Net loss                              | (4,857,549)   |
| Hotel owner distribution, net         | (821,027)     |
| <br>                                  |               |
| Balance at December 31, 2009          | 482,503       |
| Hotel owner funding, net (unaudited)  | 560,353       |
| Net loss (unaudited)                  | (1,858,602)   |
| <br>                                  |               |
| Balance at March 31, 2010 (unaudited) | \$ (815,746)  |

See accompanying notes to financial statements.

**SIR FRANCIS DRAKE HOTEL**  
Statements of Cash Flows

|   | Three Months Ended March |                | Year Ended December 31, |                |
|---|--------------------------|----------------|-------------------------|----------------|
|   | 2010                     | 2009           | 2009                    | 2008           |
|   | (unaudited)              | (unaudited)    |                         |                |
| Cash flows from operating activities:   |                          |                |                         |                |
| Net loss  | \$ (1,858,602)           | \$ (2,000,683) | \$ (4,857,549)          | \$ (1,152,822) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: |                          |                |                         |                |
| Depreciation and amortization   | 1,374,875                | 1,347,369      | 5,438,729               | 5,449,555      |
| Amortization of deferred financing costs  | 44,171                   | 49,241         | 182,544                 | 85,625         |
| Changes in operating assets and liabilities:  |                          |                |                         |                |
| Accounts receivable, net  | 45,492                   | (479,072)      | (68,216)                | (79,420)       |
| Prepaid expenses  | (239,200)                | 48,587         | (107,430)               | (152,828)      |
| Other assets  | 258,166                  | 306,232        | 17,325                  | (186,998)      |
| Accounts payable  | 606,227                  | 303,182        | 437,127                 | (1,226,648)    |
| Advance deposits  | (92,248)                 | (80,666)       | (184,334)               | (68,824)       |
| Accrued expenses and other liabilities  | (104,631)                | 391,202        | (299,187)               | (991,008)      |
| Restricted cash (tax escrow)  | (175,150)                | (236,533)      | 50,567                  | 1,214,076      |
| <br>  |                          |                |                         |                |
| Net cash (used in) provided by operating activities                                       | (140,900)                | (351,141)      | 609,576                 | 2,890,708      |
| <br>  |                          |                |                         |                |
| Cash flows from investing activities:   |                          |                |                         |                |
| Additions to property and equipment   | (287,271)                | (463,125)      | (691,654)               | (1,770,019)    |
| Change in restricted cash (reserve replacement fund)                                      | 107,833                  | 38,806         | (175,360)               | 825,162        |
| <br>  |                          |                |                         |                |
| Net cash used in investing activities   | (179,438)                | (424,319)      | (867,014)               | (944,857)      |
| <br>  |                          |                |                         |                |
| Cash flows from financing activities:   |                          |                |                         |                |
| Deferred financing costs  |                          |                | (176,690)               | (179,823)      |
| Hotel owner (distribution) funding, net   | 560,353                  | (184,674)      | (821,027)               | (3,446,258)    |
| <br>  |                          |                |                         |                |
| Net cash (used in) provided by financing activities                                       | 560,353                  | (184,674)      | (997,717)               | (3,626,081)    |
| <br>  |                          |                |                         |                |
| Net change in cash and cash equivalents   | 240,015                  | (960,134)      | (1,255,155)             | (1,680,230)    |
| <br>  |                          |                |                         |                |
| Cash and cash equivalents:  |                          |                |                         |                |
| Beginning of period   | 689,995                  | 1,945,150      | 1,945,150               | 3,625,380      |

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|   |            |            |              |              |
|---|------------|------------|--------------|--------------|
| End of period                                     | \$ 930,010 | \$ 985,016 | \$ 689,995   | \$ 1,945,150 |
| Supplemental disclosure of cash flow information: |            |            |              |              |
| Cash paid for interest                            | \$ 460,494 | \$ 503,019 | \$ 1,615,180 | \$ 3,222,502 |
| See accompanying notes to financial statements.   |            |            |              |              |

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**SIR FRANCIS DRAKE HOTEL**

Notes to Financial Statements

**(1) Description of Business and Basis of Accounting**

The Sir Francis Drake Hotel (the Hotel), is a full service 416-room hotel located at 450 Powell Street, San Francisco, California. The Hotel is owned by SFD Partners, LLC, a Delaware limited liability company (the Company).

The accompanying unaudited financial statements of the Hotel as of March 31, 2010 and for the three-month periods ended March 31, 2010 and 2009, have been prepared pursuant to the Securities and Exchange Commission (SEC) rules and regulations. All amounts included in the notes to the financial statements referring to March 31, 2010, and for the three-month periods ended March 31, 2010 and 2009, are unaudited. The accompanying financial statements reflect, in the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature.

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Actual results could differ from those estimates.

The Hotel collateralizes a note payable obligation of SFD Partners, LLC. Cash from the Hotel's operations account is used to fund interest payments. Although technically an obligation of SFD Partners, LLC and not the Hotel, the outstanding principal balance of the note payable, interest expense, deferred financing costs and related amortization are presented in the financial statements. The outstanding principal balance on the note payable is \$68.5 million. The note bears interest equal to 30-day LIBOR plus 220 basis points, or 2.43% and 3.49%, at December 31, 2009 and 2008, respectively. The note payable requires monthly interest only payments through maturity. The maturity date was scheduled for July 7, 2010.

On June 22, 2010, the Hotel was acquired by Pebblebrook Hotel Trust (Pebblebrook) for cash consideration of approximately \$90 million. Pebblebrook did not assume any amounts due under the note payable obligation. At closing, the settlement agent wired \$68.5 million plus accrued interest to the lender.

**(2) Summary of Accounting Policies**

**(a) Cash and Cash Equivalents**

Includes the Hotel's operating cash accounts, which may include liquid temporary cash investments with maturities of three months or less at the date of purchase which are considered to be cash and cash equivalents.

**(b) Replacement Reserve Fund and Tax Escrow**

In accordance with the management agreement with the Kimpton Hotels & Restaurant Group, LLC (the Management Company), a replacement reserve fund for the purpose of replacements to, and additions of, property improvements, adjacent grounds, furniture, fixtures, and equipment is required. The replacement reserve fund is funded with an amount equal to 3% of gross revenue, as defined, on a monthly basis.

**SIR FRANCIS DRAKE HOTEL**

Notes to Financial Statements

In accordance with the loan agreement between the Hotel's owner and Column Financial Inc. (the Lender), a tax escrow account is required.

**(c) Property and Equipment**

Building and improvements, furniture, fixtures, and equipment are stated at cost. The cost of additions, alterations, and improvements is capitalized. Expenditures for repairs and maintenance are expensed as incurred.

Depreciation and amortization are computed on the straight-line basis over the following estimated useful lives:

|   |               |
|---|---------------|
| Building and improvements                           | 15 - 39 years |
| Intangible assets - trade names and franchise value | 20 years      |
| Furniture, fixtures and equipment                   | 5 years       |

Construction in progress totaling \$0 and \$241,291 at December 31, 2009 and 2008, respectively, and \$0 at March 31, 2010 (unaudited), is included in furniture, fixtures and equipment. Construction in progress represents renovations to the Hotel and is capitalized as the costs are incurred. Renovation projects are generally less than six months in duration, and the Hotel remains fully operational while renovations occur. Upon completion of the renovations, depreciation of the improvements commences.

**(d) Deferred Financing Costs**

Deferred financing costs incurred in connection with the note payable are amortized to interest expense using the straight-line method over the contractual life of the note payable, which approximates the effective-interest method.

**(e) Other Assets**

Other assets consist of inventories and the Hotel liquor license. Inventories are stated at the lower of cost or market, with market determined on a first-in, first-out basis.

**(f) Revenue Recognition**

Hotel revenues are recognized when the services are provided. Revenues consist of room sales, food and beverage sales, and other department revenues such as telephone and gift shop.

**(g) Accounts Receivable**

Accounts receivable, which represent amounts due from Hotel guests, are presented net of allowances, which were not material at December 31, 2009 or 2008.

**SIR FRANCIS DRAKE HOTEL**

Notes to Financial Statements

**(h) Impairment of Long-Lived Assets**

The Hotel evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No such impairment losses have been recognized to date.

**(i) Marketing and Advertising Expenses**

Marketing and advertising costs are expensed as incurred.

**(j) Income Taxes**

The Hotel is not directly subject to federal, state or local income taxes. However the owner of the Hotel is a limited liability company and may be subject to certain income taxes and the members of the limited liability company are responsible for reporting their share of taxable income or loss on their respective income tax returns.

**(3) Related-Party Transactions**

The Charters Lodging Group, LLC, an investor in SFD Partners, LLC, provides asset management services for the Hotel for a fee equal to 1.5% of gross revenues as defined in the agreement. The Hotel incurred asset management fees of \$487,148 and \$610,573 for the years ended December 31, 2009 and 2008, respectively, and \$106,277 and \$111,313 for the quarters ended March 31, 2010 and 2009 (unaudited), respectively.

**(4) Management Agreement with Kimpton Hotel and Restaurant Group, LLC**

The owner of the Hotel entered into a management agreement with Kimpton Hotels & Restaurant Group, LLC (the Management Company) for the operation, management, maintenance, and marketing of the Hotel. The agreement expires on April 30, 2024. Under the agreement, the Management Company manages the Hotel for a base fee equal to 3% of the Gross Revenue, as defined, and an incentive fee equal to 1% of the Gross Revenue up to the amount of cash available from Cash Flow, as defined, after debt service. The Management Company is reimbursed for its costs and expenses, including but not limited to compensation of its employees, up to 1% of Gross Revenue. Total reimbursable expenses for the years ended December 31, 2009 and 2008 were \$250,047 and \$290,870, respectively. Base management fees totaling \$968,797 and \$1,209,462 were incurred for the years ended December 31, 2009 and 2008, respectively, and are included in management fees in the accompanying statements of operations. Incentive management fees totaling \$322,935 and \$403,152 were earned for the years ended December 31, 2009 and 2008, respectively, and are included in management fees in the accompanying statements of operations.

Certain of the Hotel's expenses were paid on behalf of the Hotel by affiliates of SFD Partners, LLC in the normal course of business. The Hotel reimburses these affiliates on a regular basis for disbursements made on its behalf. All such disbursements and reimbursements are accounted for by the Hotel as due to or from affiliates of SFD Partners, LLC and presented net of management fees due to affiliates. These amounts were \$57,619 and \$135,516 at December 31, 2009 and 2008, respectively, and included in accounts payable in the accompanying balance sheets.



**SIR FRANCIS DRAKE HOTEL**

Notes to Financial Statements

**(5) Subsequent Events**

The Hotel has evaluated the need for disclosures and/or adjustments resulting from subsequent events through July 9, 2010, the date the financial statements were available to be issued.

**Independent Auditors Report**

The Manager of  
the InterContinental Buckhead Hotel:

We have audited the accompanying balance sheets of the InterContinental Buckhead Hotel (the Hotel ) as of December 31, 2009 and 2008, and the related statements of operations, owner s equity in Hotel, and cash flows for the years then ended. These financial statements are the responsibility of the Hotel s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hotel as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG, LLP

McLean, Virginia  
July 9, 2010

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**InterContinental Buckhead Hotel**  
Balance Sheets

|                                    | <b>March 31,<br/>2010<br/>(Unaudited)</b> | <b>December 31,<br/>2009</b> | <b>2008</b>   |
|------------------------------------|---|------------------------------|---------------|
| <b>Assets</b>                      |   |                              |               |
| Cash and cash equivalents          | \$ 85,356                                 | \$ 109,646                   | \$ 150,136    |
| Accounts receivable, net           | 1,451,578                                 | 471,173                      | 1,832,067     |
| Prepaid expenses                   | 224,753                                   | 299,817                      | 405,383       |
| <br>                               |   |                              |               |
| Total current assets               | 1,761,687                                 | 880,636                      | 2,387,586     |
| <br>                               |   |                              |               |
| Property and equipment:            |   |                              |               |
| Land                               | 9,742,453                                 | 9,742,453                    | 9,742,453     |
| Building and improvements          | 68,526,838                                | 68,526,838                   | 68,452,458    |
| Furniture, fixtures, and equipment | 33,898,162                                | 33,901,070                   | 33,769,969    |
|                                    | 112,167,453                               | 112,170,361                  | 111,964,880   |
| Accumulated depreciation           | (29,495,385)                              | (28,499,981)                 | (22,792,395)  |
| <br>                               |   |                              |               |
| Total property and equipment, net  | 82,672,068                                | 83,670,380                   | 89,172,485    |
| <br>                               |   |                              |               |
| Other assets                       | 264,346                                   | 223,639                      | 109,707       |
| <br>                               |   |                              |               |
| Total assets                       | \$ 84,698,101                             | \$ 84,774,655                | \$ 91,669,778 |

**Liabilities and Owner's Equity in Hotel**

|   |               |               |               |
|---|---------------|---------------|---------------|
| <b>Current liabilities:</b>                   |               |               |               |
| Accounts payable                              | \$ 509,898    | \$ 412,093    | \$ 227,142    |
| Accrued expenses                              | 1,565,470     | 1,304,651     | 1,318,139     |
| Advance deposits                              | 964,572       | 373,129       | 821,210       |
| Other liabilities                             | 605,614       | 255,950       | 254,029       |
| <br>  |               |               |               |
| Total current liabilities                     | 3,645,554     | 2,345,823     | 2,620,520     |
| <br>  |               |               |               |
| Owner's Equity in Hotel                       | 81,052,547    | 82,428,832    | 89,049,258    |
| <br>  |               |               |               |
| Total liabilities and owner's equity in Hotel | \$ 84,698,101 | \$ 84,774,655 | \$ 91,669,778 |

See accompanying notes to financial statements.



**InterContinental Buckhead Hotel**  
Statements of Operations

|                            | Three Months Ended March<br>31,   |                                   | Year Ended December 31, |               |
|----------------------------|-----------------------------------|-----------------------------------|-------------------------|---------------|
|                            | <b>2010</b><br><b>(Unaudited)</b> | <b>2009</b><br><b>(Unaudited)</b> | <b>2009</b>             | <b>2008</b>   |
| Revenue:                   |                                   |                                   |                         |               |
| Room                       | \$ 4,302,604                      | \$ 4,567,532                      | \$ 16,188,439           | \$ 20,887,725 |
| Food and beverage          | 3,340,804                         | 3,235,374                         | 12,344,683              | 15,086,269    |
| Other                      | 475,071                           | 420,912                           | 2,077,462               | 2,050,888     |
| <br>                       |                                   |                                   |                         |               |
| Total revenues             | 8,118,479                         | 8,223,818                         | 30,610,584              | 38,024,882    |
| <br>                       |                                   |                                   |                         |               |
| Operating expenses:        |                                   |                                   |                         |               |
| Room                       | 1,281,393                         | 1,290,551                         | 4,774,663               | 6,111,494     |
| Food and beverage          | 2,069,504                         | 2,052,108                         | 7,749,219               | 9,878,389     |
| General and administrative | 651,025                           | 781,860                           | 2,572,470               | 3,742,779     |
| Depreciation               | 995,404                           | 1,466,545                         | 5,707,586               | 5,840,285     |
| Property management        | 287,474                           | 292,170                           | 1,052,915               | 1,211,991     |
| Utilities                  | 297,220                           | 297,009                           | 1,166,102               | 1,528,306     |
| Marketing and advertising  | 514,603                           | 526,802                           | 2,086,031               | 2,221,358     |
| Insurance                  | 174,429                           | 111,254                           | 473,074                 | 447,874       |
| Property taxes             | 271,836                           | 371,403                           | 787,532                 | 965,973       |
| Other                      | 149,723                           | 169,408                           | 650,423                 | 842,627       |
| <br>                       |                                   |                                   |                         |               |
| Total operating expenses   | 6,692,611                         | 7,359,110                         | 27,020,015              | 32,791,076    |
| <br>                       |                                   |                                   |                         |               |
| Net income                 | \$ 1,425,868                      | \$ 864,708                        | \$ 3,590,569            | \$ 5,233,806  |

See accompanying notes to financial statements.

**InterContinental Buckhead Hotel**  
Statements of Owner's Equity in Hotel

|                                       |               |
|---------------------------------------|---------------|
| Balance at December 31, 2007          | \$ 95,244,437 |
| Hotel owner distributions             | (11,428,985)  |
| Net income                            | 5,233,806     |
| Balance at December 31, 2008          | 89,049,258    |
| Hotel owner distributions             | (10,210,995)  |
| Net income                            | 3,590,569     |
| Balance at December 31, 2009          | 82,428,832    |
| Hotel owner distributions (unaudited) | (2,802,153)   |
| Net income (unaudited)                | 1,425,868     |
| Balance at March 31, 2010 (unaudited) | \$ 81,052,547 |

See accompanying notes to financial statements.

**InterContinental Buckhead Hotel**  
Statements of Cash Flows

|  | Three Month Ended March<br>31,    |                                   | Year Ended December 31, |              |
|--|-----------------------------------|-----------------------------------|-------------------------|--------------|
|  | <b>2010</b><br><b>(unaudited)</b> | <b>2009</b><br><b>(unaudited)</b> | <b>2009</b>             | <b>2008</b>  |
| Cash flows from operating activities:  |                                   |                                   |                         |              |
| Net income   | \$ 1,425,868                      | \$ 864,708                        | \$ 3,590,569            | \$ 5,233,806 |
| Adjustments to reconcile net income to net cash provided operating activities: |                                   |                                   |                         |              |
| Depreciation   | 995,404                           | 1,466,545                         | 5,707,586               | 5,840,285    |
| Changes in operating assets and liabilities:                                   |                                   |                                   |                         |              |
| Accounts receivable, net   | (980,405)                         | (1,518,413)                       | 1,360,894               | 525,749      |
| Prepaid expenses   | 75,064                            | (196,846)                         | 105,566                 | (13,441)     |
| Other assets   | (40,707)                          | (128,326)                         | (113,932)               | 297,251      |
| Accounts payable   | 97,805                            | 132,833                           | 184,951                 | (453,735)    |
| Advance deposits   | 591,443                           | (46,053)                          | (448,081)               | 306,539      |
| Accrued expenses and other liabilities   | 613,391                           | 977,613                           | (11,567)                | (272,826)    |
| <br>   |                                   |                                   |                         |              |
| Net cash provided by operating activities                                      | 2,777,863                         | 1,552,061                         | 10,375,986              | 11,463,628   |
| <br>   |                                   |                                   |                         |              |
| Cash flows from investing activities   |                                   |                                   |                         |              |
| purchase of property and equipment   |                                   | (27,688)                          | (205,481)               | (168,072)    |
| <br>   |                                   |                                   |                         |              |
| Cash flows from financing activities   |                                   |                                   |                         |              |
| Hotel owner distributions  | (2,802,153)                       | (1,506,947)                       | (10,210,995)            | (11,428,985) |
| <br>   |                                   |                                   |                         |              |
| Net change in cash and cash equivalents  | (24,290)                          | 17,426                            | (40,490)                | (133,429)    |
| <br>   |                                   |                                   |                         |              |
| Cash and cash equivalents:   |                                   |                                   |                         |              |
| Beginning of period  | 109,646                           | 150,136                           | 150,136                 | 283,565      |
| End of period  | \$ 85,356                         | \$ 167,562                        | \$ 109,646              | \$ 150,136   |

See accompanying notes to financial statements.

**INTERCONTINENTAL BUCKHEAD HOTEL**

Notes to Financial Statements

**(1) Description of Business and Basis of Accounting**

The Intercontinental Buckhead Atlanta hotel (the Hotel), is a full service 422-room hotel located at 3315 Peachtree Road, Atlanta, Georgia. The Hotel is owned by IHC Buckhead, LLC, a Georgia limited liability company (the Company).

The accompanying unaudited financial statements of the Hotel as of March 31, 2010 and for the three-month periods ended March 31, 2010 and 2009, have been prepared pursuant to the Securities and Exchange Commission (SEC) rules and regulations. All amounts included in the notes to the financial statements referring to March 31, 2010, and for the three-month periods ended March 31, 2010 and 2009, are unaudited. The accompanying financial statements reflect, in the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature.

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Actual results could differ from those estimates.

On July 1, 2010, the Hotel was acquired by Pebblebrook Hotel Trust (Pebblebrook) for cash consideration of approximately \$105 million.

IHC Buckhead, LLC was a party to a title/leasehold interest exchange arrangement with the Development Authority of Fulton County. The purpose of the arrangement was to obtain a reduction of real estate taxes through 2014. A subsidiary of Pebblebrook was assigned the rights under the agreement in connection with the acquisition of the Hotel. The arrangement with the Development Authority of Fulton County is cancelable by Pebblebrook at any time.

**(2) Summary of Accounting Policies**

**(a) *Cash and Cash Equivalents***

Includes the Hotel's operating cash accounts, which may include liquid temporary cash investments with maturities of three months or less at the date of purchase which are considered to be cash and cash equivalents.

**(b) *Property and Equipment***

Building and improvements, furniture, fixtures, and equipment are stated at cost. The cost of additions, alterations, and improvements is capitalized. Expenditures for repairs and maintenance are expensed as incurred.

**INTERCONTINENTAL BUCKHEAD HOTEL**

Notes to Financial Statements

Depreciation and amortization are computed on the straight-line basis over the following estimated useful lives:

|                                   |    |          |
|-----------------------------------|----|----------|
| Building and improvements         | 20 | 50 years |
| Furniture, fixtures and equipment | 3  | 10 years |

**(c) Impairment of Long-Lived Assets**

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No such impairment losses have been recognized to date.

**(d) Revenue Recognition**

Hotel revenues are recognized when the services are provided. Revenues consist of room sales, food and beverage sales, and other department revenues such as telephone and gift shop. Additionally, we collect sales, use, occupancy and similar taxes at our hotels which we present on a net basis (excluded from revenues) on our statements of operations.

**(e) Accounts Receivable**

Accounts receivable, which primarily represent amounts due from Hotel guests, are presented net of allowances, which were not material at December 31, 2009 or 2008.

**(f) Marketing and Advertising Expenses**

Marketing and advertising costs are expensed as incurred.

**(g) Income Taxes**

The Hotel is not directly subject to federal, state or local income taxes. However the owner of the Hotel is a limited liability company and may be subject to certain income taxes and the members of the limited liability company are responsible for reporting their share of taxable income or loss on their respective income tax returns.

**(3) Subsequent Events**

The Hotel has evaluated the need for disclosures and/or adjustments resulting from subsequent events through July 9, 2010, the date the financial statements were available to be issued.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF PEBBLEBROOK HOTEL TRUST**

Pebblebrook Hotel Trust (the Company) completed its initial public offering and concurrent private placement of common shares of beneficial interest on December 14, 2009. The Company raised \$379.6 million, net of underwriting discounts and offering costs.

On June 4, 2010, the Company acquired the 269-room Doubletree Bethesda Hotel and Executive Meeting Center in Bethesda, Maryland for a purchase price of \$67.1 million, plus closing costs and net working capital.

On June 22, 2010, the Company acquired the 416-room Sir Francis Drake Hotel in San Francisco, California for a purchase price of \$90.0 million, plus closing costs and net working capital.

On July 1, 2010, the Company acquired the 422-room InterContinental Buckhead Hotel in Atlanta, Georgia for a purchase price of \$105.0 million, plus closing costs and net working capital.

The unaudited pro forma consolidated balance sheet as of March 31, 2010 is presented as if the acquisitions of the Doubletree Bethesda Hotel and Executive Meeting Center, Sir Francis Drake Hotel, and InterContinental Buckhead Hotel occurred on March 31, 2010. The unaudited pro forma consolidated statements of operations for the three months ended March 31, 2010 and for the year ended December 31, 2009 are presented as if the acquisitions of the Doubletree Bethesda Hotel and Executive Meeting Center, Sir Francis Drake Hotel, and InterContinental Buckhead Hotel had been completed at the beginning of 2009.

The unaudited pro forma financial information is not necessarily indicative of what the Company's results of operations or financial condition would have been assuming such transactions had been completed at the beginning of the periods presented, nor is it indicative of the results of operations for future periods. The unaudited pro forma financial information reflects the preliminary application of purchase accounting to the acquisitions of the Doubletree Bethesda Hotel and Executive Meeting Center, Sir Francis Drake Hotel, and InterContinental Buckhead Hotel. The preliminary purchase accounting may be adjusted if any of the assumptions underlying the purchase accounting change. In management's opinion, all adjustments necessary to reflect the effects of the significant acquisitions described above have been made. This unaudited pro forma financial information should be read in conjunction with the historical financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, and the Quarterly Report on Form 10-Q for the three months ended March 31, 2010.

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**Pebblebrook Hotel Trust**  
**Unaudited Pro Forma Consolidated Balance Sheet**  
**As of March 31, 2010**  
(in thousands, except share and per share data)

|   | <b>Historical</b>  | <b>Acquisition<br/>of</b> | <b>Acquisition<br/>of</b> | <b>Acquisition<br/>of</b> | <b>Pro Forma</b>   |
|---|--------------------|---------------------------|---------------------------|---------------------------|--------------------|
|   | <b>Pebblebrook</b> | <b>Doubletree</b>         | <b>of</b>                 | <b>InterContinental</b>   | <b>Pebblebrook</b> |
|   | <b>Hotel</b>       | <b>Bethesda</b>           | <b>of</b>                 | <b>Buckhead</b>           | <b>Hotel</b>       |
|   | <b>Trust</b>       | <b>Hotel and</b>          | <b>Sir Francis</b>        | <b>Hotel</b>              | <b>Trust</b>       |
|   | <b>Trust</b>       | <b>Meeting</b>            | <b>Drake</b>              | <b>(3)</b>                | <b>Trust</b>       |
|   | <b>Trust</b>       | <b>Center (1)</b>         | <b>Hotel (2)</b>          | <b>(3)</b>                | <b>Trust</b>       |
| <b>ASSETS</b>   |                    |                           |                           |                           |                    |
| Investment in hotel properties, net   | \$                 | \$                        | \$                        | \$                        | \$                 |
| Cash and cash equivalents   | 302,898            | 67,100                    | 90,000                    | 105,000                   | 262,100            |
| Accounts receivable, net  |                    | (68,882)                  | (91,096)                  | (103,858)                 | 39,062             |
| Investments   | 85,000             | 203                       | 121                       | 7                         | 331                |
| Prepaid expenses and other assets   | 409                | 144                       | 545                       | 61                        | 1,159              |
| <b>Total assets</b>   | <b>\$ 388,307</b>  | <b>\$ (1,435)</b>         | <b>\$ (430)</b>           | <b>\$ 1,210</b>           | <b>\$ 387,652</b>  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                    |                           |                           |                           |                    |
| Accounts payable and accrued expenses   | \$ 1,367           | \$ 280                    | \$ 404                    | \$ 1,171                  | \$ 3,222           |
| Accrued underwriter fees  | 8,050              |                           |                           |                           | 8,050              |
| Advance deposits  |                    | 85                        | 266                       | 439                       | 790                |
| Other liabilities   |                    |                           |                           |                           |                    |
| <b>Total liabilities</b>  | <b>9,417</b>       | <b>365</b>                | <b>670</b>                | <b>1,610</b>              | <b>12,062</b>      |
| Commitments and contingencies   |                    |                           |                           |                           |                    |
| Shareholders equity:  |                    |                           |                           |                           |                    |
| Common shares of beneficial interest, \$0.01 par value; 500,000,000 shares authorized; 20,260,590 shares issued and outstanding | 203                |                           |                           |                           | 203                |
| Additional paid-in capital  | 379,433            |                           |                           |                           | 379,433            |
| Retained deficit  | (746)              | (1,800)                   | (1,100)                   | (400)                     | (4,046)            |
| <b>Total shareholders equity</b>  | <b>378,890</b>     | <b>(1,800)</b>            | <b>(1,100)</b>            | <b>(400)</b>              | <b>375,590</b>     |

|  |            |            |          |          |            |
|--|------------|------------|----------|----------|------------|
| Total liabilities and<br>shareholders equity | \$ 388,307 | \$ (1,435) | \$ (430) | \$ 1,210 | \$ 387,652 |
|--|------------|------------|----------|----------|------------|

(1) Reflects the purchase of the Doubletree Bethesda Hotel and Executive Meeting Center as if it had occurred on March 31, 2010 for \$68,882. The acquisition was funded with proceeds from the Company's IPO, which was completed on December 14, 2009. The pro forma adjustment reflects the following:

Purchase of land, building, and furniture, fixtures and equipment of \$67,100; and

Cash paid of \$1,800 for hotel acquisition costs; and

Net working capital deficit of \$18.

(2) Reflects the purchase of the Sir Francis Drake Hotel as if it had occurred on March 31, 2010 for



\$91,096. The acquisition was funded with proceeds from the Company's IPO, which was completed on December 14, 2009. The pro forma adjustment reflects the following:

Purchase of land, building, and furniture, fixtures and equipment of \$90,000; and

Cash paid of \$1,100 for hotel acquisition costs; and

Net working capital deficit of \$4.

- (3) Reflects the purchase of the InterContinental Buckhead Hotel as if it had occurred on March 31, 2010 for \$103,858. The acquisition was funded with proceeds from the Company's IPO, which was completed on December 14, 2009. The pro forma adjustment reflects the following:

Purchase of land, building, and furniture, fixtures and equipment of \$105,000; and

Cash paid of \$400 for hotel acquisition costs; and

Net working capital deficit of \$1,542.

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**Pebblebrook Hotel Trust**  
**Unaudited Pro Forma Income Statement**  
**For the three months March 31, 2010**  
(in thousands, except share and per share data)

|  | <b>Historical<br/>Pebblebrook<br/>Hotel Trust</b> | <b>Acquisition<br/>of<br/>Doubletree<br/>Bethesda<br/>Hotel and<br/>Executive<br/>Meeting<br/>Center (1)</b> | <b>Acquisition<br/>of Sir<br/>Francis<br/>Drake<br/>Hotel (2)</b> | <b>Acquisition<br/>of<br/>InterContinental<br/>Buckhead<br/>Hotel (3)</b> | <b>Pro<br/>Forma<br/>Adjustments</b> | <b>Pro Forma<br/>Pebblebrook<br/>Hotel Trust</b> |
|--|---|--|---|---|--------------------------------------|--|
| <b>REVENUE</b>   |   |  |   |   |                                      |  |
| Room   | \$  | \$ 2,197   | \$ 3,354  | \$ 4,303  | \$                                   | \$ 9,854   |
| Food and beverage                                      |   | 503  | 3,249   | 3,341   |                                      | 7,093  |
| Other operating department                             |   | 466  | 482   | 475   |                                      | 1,423  |
| Total revenues   |   | 3,166  | 7,085   | 8,119   |                                      | 18,370   |
| <b>EXPENSES</b>  |   |  |   |   |                                      |  |
| Hotel operating expenses:                              |   |  |   |   |                                      |  |
| Room   |   | 453  | 1,598   | 1,281   | 14(4)                                | 3,346  |
| Food and beverage                                      |   | 483  | 2,539   | 2,070   |                                      | 5,092  |
| Other direct expenses                                  |   | 151  |   |   |                                      | 151  |
| Other indirect expenses                                |   | 1,307  | 2,585   | 1,900   | 224(4)                               | 6,016  |
| Total hotel operating expenses                         |   | 2,394  | 6,722   | 5,251   | 238                                  | 14,605   |
| Depreciation and amortization                          |   | 480  | 1,375   | 995   | (983)(5)                             | 1,867  |
| Real estate taxes, personal property taxes & insurance |   | 147  | 386   | 446   |                                      | 979  |
| Ground rent  |   |  |   |   |                                      |  |
| General and administrative                             | 1,576   |  |   |   |                                      | 1,576  |
| Acquisition transaction costs                          |   |  |   |   |                                      |  |
| Total operating expenses                               | 1,576   | 3,021  | 8,483   | 6,692   | (745)                                | 19,027   |

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|   |            |          |            |          |          |            |
|---|------------|----------|------------|----------|----------|------------|
| Operating income (loss)                                     | (1,576)    | 145      | (1,398)    | 1,427    | 745      | (657)      |
| Interest income   | 977        |          |            |          | (667)(6) | 310        |
| Interest expense  |            | (649)    | (460)      |          | 1,109(7) |            |
| Other income  |            |          |            |          |          |            |
| Income (loss) before income taxes                           | (599)      | (504)    | (1,858)    | 1,427    | 1,187    | (347)      |
| Income tax benefit (expense)                                |            |          |            |          | (73)(8)  | (73)       |
| Net income (loss)   | \$ (599)   | \$ (504) | \$ (1,858) | \$ 1,427 | \$ 1,114 | \$ (420)   |
| Loss per common share, basic and diluted                    | \$ (0.03)  |          |            |          |          | \$ (0.02)  |
| Weighted average number of common shares, basic and diluted | 20,260,046 |          |            |          |          | 20,260,046 |

(1) Reflects the historical unaudited statement of operations of the Doubletree Bethesda Hotel and Executive Meeting Center for the three months ended March 31, 2010.

(2) Reflects the historical unaudited statement of operations of the Sir Francis Drake Hotel for the three months ended March 31, 2010.

(3)

Reflects the historical unaudited statement of operations of the InterContinental Buckhead Hotel for the three months ended March 31, 2010.

- (4) Reflects adjustment to record management fees, based on the new management agreement, for the Intercontinental Buckhead Hotel as the fees were not assessed since the hotel was self-managed.
  
- (5) Reflects adjustment to depreciation expense based on the Company's cost basis in the acquired hotel properties and its accounting policy for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for building and seven years for furniture,

fixtures and  
equipment.

- (6) Reflects removal of historical interest income associated with a reduction in cash invested in interest bearing accounts in conjunction with the acquisitions of the Doubletree Bethesda Hotel, Sir Francis Drake Hotel, and the InterContinental Buckhead Hotel.
- (7) Reflects removal of historical interest expense associated with debt which was not assumed in conjunction with the acquisitions of the Doubletree Bethesda Hotel and Sir Francis Drake Hotel. The InterContinental Buckhead Hotel did not have debt prior to acquisition.
- (8) Reflects adjustment to record pro forma income taxes related to the Company's taxable REIT subsidiary subsequent to

the hotel acquisitions. The Company's taxable REIT subsidiary's pro forma pre-tax net income was \$184 for the three months ended March 31, 2010. The pro forma income tax was calculated using the taxable REIT subsidiary's estimated effective tax rate of 40%.

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**Pebblebrook Hotel Trust**  
**Unaudited Pro Forma Income Statement**  
**For the year ended December 31, 2009**  
(in thousands, except share and per share data)

|  | <b>Historical</b>                      | <b>Acquisition<br/>of<br/>Doubletree<br/>Bethesda</b>     | <b>Acquisition<br/>of Sir<br/>Francis<br/>Drake<br/>Hotel</b> | <b>Acquisition<br/>of<br/>InterContinental<br/>Buckhead<br/>Hotel (3)</b> | <b>Pro<br/>Forma<br/>Adjustments</b> | <b>Pro Forma</b>                       |
|--|--|---|---|---|--------------------------------------|--|
|  | <b>Pebblebrook<br/>Hotel<br/>Trust</b> | <b>Hotel and<br/>Executive<br/>Meeting<br/>Center (1)</b> | <b>(2)</b>  | <b>(3)</b>  |                                      | <b>Pebblebrook<br/>Hotel<br/>Trust</b> |
| <b>REVENUE</b>   |  |   |   |   |                                      |  |
| Room   | \$                                     | \$ 11,119   | \$ 16,065   | \$ 16,188   | \$                                   | \$ 43,372                              |
| Food and<br>beverage   |  | 2,184   | 14,349  | 12,345  |                                      | 28,878                                 |
| Other operating<br>department                                |  | 2,406   | 2,063   | 2,077   |                                      | 6,546                                  |
| Total revenues   |  | 15,709  | 32,477  | 30,610  |                                      | 78,796                                 |
| <b>EXPENSES</b>  |  |   |   |   |                                      |  |
| Hotel operating expenses:                                    |  |   |   |   |                                      |  |
| Room   |  | 2,143   | 6,970   | 4,775   | 57 (4)                               | 13,945                                 |
| Food and<br>beverage   |  | 2,014   | 10,767  | 7,749   |                                      | 20,530                                 |
| Other direct<br>expenses                                     |  | 648   |   |   |                                      | 648                                    |
| Other indirect<br>expenses                                   |  | 5,785   | 10,450  | 7,527   | 849 (4)                              | 24,611                                 |
| Total hotel<br>operating<br>expenses                         |  | 10,590  | 28,187  | 20,051  | 906                                  | 59,734                                 |
| Depreciation and<br>amortization                             |  | 1,926   | 5,439   | 5,708   | (5,600) (5)                          | 7,473                                  |
| Real estate taxes,<br>personal property<br>taxes & insurance |  | 491   | 1,756   | 1,261   |                                      | 3,508                                  |
| Ground rent  |  |   |   |   |                                      |  |
| General and<br>administrative                                | 262                                    |   |   |   | 7,363 (6)<br>3,300 (7)               | 7,625<br>3,300                         |



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|  |           |         |            |          |            |      |            |
|--|-----------|---------|------------|----------|------------|------|------------|
| Acquisition<br>transaction costs                                     |           |         |            |          |            |      |            |
| Total operating<br>expenses  | 262       | 13,007  | 35,382     | 27,020   | 5,969      |      | 81,640     |
| Operating income<br>(loss)   | (262)     | 2,702   | (2,905)    | 3,590    | (5,969)    |      | (2,844)    |
| Interest income  | 115       |         |            |          |            |      | 115        |
| Interest expense   |           | (2,638) | (1,958)    |          | 4,596      | (8)  |            |
| Other income   |           | 3       | 5          |          |            |      | 8          |
| Income<br>(loss) before<br>income taxes                              | (147)     | 67      | (4,858)    | 3,590    | (1,373)    |      | (2,721)    |
| Income tax<br>benefit (expense)                                      |           |         |            |          | (315)      | (9)  | (315)      |
| Net income (loss) \$   | (147)     | \$ 67   | \$ (4,858) | \$ 3,590 | \$ (1,688) |      | \$ (3,036) |
| Loss per common<br>share, basic and<br>diluted \$                    | (0.04)    |         |            |          |            |      | (0.15)     |
| Weighted average<br>number of<br>common shares,<br>basic and diluted | 4,011,198 |         |            |          |            | (10) | 20,260,046 |

(1) Reflects the historical audited statement of operations of the Doubletree Bethesda Hotel and Executive Meeting Center for the year ended December 31, 2009.

(2) Reflects the historical

audited  
statement of  
operations of the  
Sir Francis  
Drake Hotel for  
the year ended  
December 31,  
2009.

(3) Reflects the  
historical  
audited  
statement of  
operations of the  
InterContinental  
Buckhead Hotel  
for the year  
ended  
December 31,  
2009.

(4) Reflects  
adjustment to  
record  
management  
fees, based on  
the new  
management  
agreement, for  
the  
Intercontinental  
Buckhead Hotel  
as the fees were  
not assessed  
since the hotel  
was  
self-managed.

(5) Reflects  
adjustment to  
depreciation  
expense based  
on the  
Company's cost  
basis in the  
acquired hotel  
properties and its  
accounting  
policy for  
depreciation.  
Depreciation is

computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for building and seven years for furniture, fixtures and equipment.

- (6) Reflects adjustment to record full year corporate general and administrative expenses, including employee payroll and benefits, share-based compensation expense, board of trustee fees, investor relation costs, professional fees, and other costs of being a public company.
- (7) Reflects adjustment to record transaction costs incurred to acquire the three hotels.
- (8) Reflects removal of historical interest expense associated with debt which was not assumed in conjunction with the acquisitions

of the  
Doubletree  
Bethesda Hotel  
and Sir Francis  
Drake Hotel.

The  
InterContinental  
Buckhead Hotel  
did not have  
debt prior to  
acquisition.

- (9) Reflects adjustment to record pro forma income taxes related to the Company's taxable REIT subsidiary subsequent to the hotel acquisitions. The Company's taxable REIT subsidiary's pro forma pre-tax net income was \$788 for the year ended December 31, 2009. The pro forma income tax was calculated using the taxable REIT subsidiary's estimated effective tax rate of 40%.

- (10) Reflects number of common shares issued and outstanding as if the Company's IPO and private placement transactions had occurred on

January 1, 2009 .