RLJ Lodging Trust
Form 10-Q
August 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to

Commission File Number 001-35169

RLJ LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**27-4706509**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3 Bethesda Metro Center, Suite 1000 **Bethesda, Maryland**	**20814**
(Address of Principal Executive Offices)	(Zip Code)

(301) 280-7777

(Registrant s Telephone Number, Including Area Code)

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

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

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (do not check if a smaller reporting company)	Smaller reporting company	o

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

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

As of July 31, 2013, 122,735,453 common shares of beneficial interest of the Registrant, $0.01 par value per share, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

RLJ Lodging Trust

Combined Consolidated Balance Sheets

(Amounts in thousands, except share and per share data)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Investment in hotel and other properties, net	$ 3,221,671	$ 3,073,483
Investment in loans	12,357	12,426
Cash and cash equivalents	262,897	115,861
Restricted cash reserves	65,088	64,787
Hotel and other receivables, net of allowance of $313 and $194, respectively	33,781	22,738
Deferred financing costs, net	9,619	11,131
Deferred income tax asset	2,381	2,206
Purchase deposits	7,233	9,910
Prepaid expense and other assets	38,822	33,843
Total assets	**$ 3,653,849**	**$ 3,346,385**
Liabilities and Equity		
Borrowings under revolving credit facility	$	$ 16,000
Mortgage loans	985,558	997,651
Term loans	400,000	400,000
Accounts payable and accrued expense	81,114	87,575
Deferred income tax liability	4,041	4,064
Advance deposits and deferred revenue	11,832	8,508
Accrued interest	2,093	2,284
Distributions payable	26,111	22,392
Total liabilities	**1,510,749**	**1,538,474**
Commitments and Contingencies (Note 10)		
Equity		
Shareholders equity:		
Preferred shares of beneficial interest, $0.01 par value, 50,000,000 shares authorized; zero shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively.		
Common shares of beneficial interest, $0.01 par value, 450,000,000 shares authorized; 122,735,453 and 106,565,516 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively.	1,227	1,066
Additional paid-in-capital	2,173,483	1,841,449
Accumulated other comprehensive income	4,527	
Distributions in excess of net earnings	(54,409)	(52,681)
Total shareholders equity	2,124,828	1,789,834

Noncontrolling interest				
Noncontrolling interest in joint venture		6,921		6,766
Noncontrolling interest in Operating Partnership		11,351		11,311
Total noncontrolling interest		18,272		18,077
Total equity		**2,143,100**		**1,807,911**
Total liabilities and equity	**$**	**3,653,849**	**$**	**3,346,385**

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

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RLJ Lodging Trust

Combined Consolidated Statements of Operations and Comprehensive Income

(Amounts in thousands, except share and per share data)

(unaudited)

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Revenue				
Operating revenue				
Room revenue	$ 229,111	$ 194,396	$ 415,098	$ 352,587
Food and beverage revenue	25,113	22,402	48,343	41,906
Other operating department revenue	7,351	6,003	13,569	11,105
Total revenue	**261,575**	**222,801**	**477,010**	**405,598**
Expense				
Operating expense				
Room expense	47,271	40,841	90,541	77,640
Food and beverage expense	17,246	15,508	33,823	29,948
Management fee expense	9,398	7,621	16,800	13,910
Other operating expense	73,384	64,961	140,083	123,332
Total property operating expense	147,299	128,931	281,247	244,830
Depreciation and amortization	31,910	31,428	63,321	65,099
Property tax, insurance and other	16,574	12,439	31,327	25,052
General and administrative	9,083	7,478	17,894	14,737
Transaction and pursuit costs	1,255	2,795	2,344	2,814
Total operating expense	206,121	183,071	396,133	352,532
Operating income	55,454	39,730	80,877	53,066
Other income	91	106	170	190
Interest income	240	418	536	837
Interest expense	(16,874)	(20,373)	(33,838)	(40,484)
Loss on disposal		(634)		(634)
Income before income tax expense	38,911	19,247	47,745	12,975
Income tax expense	(345)	(281)	(571)	(875)
Income from continuing operations	38,566	18,966	47,174	12,100
Income (loss) from discontinued operations	2,415	53	2,391	(2)
Net income	40,981	19,019	49,565	12,098
Net (income) loss attributable to non-controlling interests				
Noncontrolling interest in consolidated joint venture	(203)	38	(155)	408
Noncontrolling interest in common units of Operating Partnership	(268)	(172)	(407)	(134)
Net income attributable to common shareholders	$ 40,510	$ 18,885	$ 49,003	$ 12,372
Basic per common share data:				
Net income per share attributable to common shareholders before discontinued operations	$ 0.31	$ 0.18	$ 0.41	$ 0.11

Discontinued operations		0.02				0.02		
Net income per share attributable to common shareholders	$	0.33	$	0.18	$	0.43	$	0.11
Weighted-average number of common shares		121,520,253		105,388,743		114,208,435		105,360,778
Diluted per common share data:								
Net income per share attributable to common shareholders before discontinued operations	$	0.31	$	0.18	$	0.41	$	0.11
Discontinued operations		0.02				0.02		
Net income per share attributable to common shareholders	$	0.33	$	0.18	$	0.43	$	0.11
Weighted-average number of common shares		122,280,431		105,454,679		114,912,726		105,414,876
Amounts attributable to the Company s common shareholders:								
Income from continuing operations	$	38,112	$	18,832	$	46,629	$	12,374
Income from discontinued operations		2,398		53		2,374		(2)
Net income	$	40,510	$	18,885	$	49,003	$	12,372
Comprehensive income								
Net income attributable to the Company	$	40,510	$	18,885	$	49,003	$	12,372
Unrealized gain on interest rate derivatives		5,004		381		4,527		375
Comprehensive income attributable to the Company	$	45,514	$	19,266	$	53,530	$	12,747

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

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RLJ Lodging Trust

Combined Consolidated Statements of Changes in Equity

(Amounts in thousands, except share data)

(unaudited)

	Shareholders Equity					**Noncontrolling Interests**			
	Common Stock								
	Shares	**Par Value**	**Additional Paid-in-Capital**	**Distributions in excess of net earnings**	**Accumulated Other Comprehensive Income**	**Operating Partnership**	**Consolidated Joint Venture**	**Total Noncontrolling Interests**	**Total Equity**
Balance at December 31, 2012	**106,565,516**	**$ 1,066**	**$ 1,841,449**	**$ (52,681)**	**$**	**$ 11,311**	**$ 6,766**	**$ 18,077**	**$ 1,807,911**
Net income				49,003		407	155	562	49,565
Unrealized gain on interest rate derivative					4,527				4,527
Proceeds from sale of common stock, net	15,870,000	159	327,386						327,545
Issuance of restricted stock	377,830	3	(3)						
Amortization of share based compensation			6,348						6,348
Share grants to trustees	3,005		68						68
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(78,628)	(1)	(1,765)						(1,766)
Forfeiture of restricted stock	(2,270)								
Distributions on common shares and units				(50,731)		(367)		(367)	(51,098)
Balance at June 30, 2013	**122,735,453**	**$ 1,227**	**$ 2,173,483**	**$ (54,409)**	**$ 4,527**	**$ 11,351**	**$ 6,921**	**$ 18,272**	**$ 2,143,100**

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

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	Shareholders Equity					Noncontrolling Interests			
	Common Stock				Accumulated				
	Shares	Par Value	Additional Paid-in-Capital	Distributions in excess of net earnings	Other Comprehensive Loss	Operating Partnership	Consolidated Joint Venture	Total Noncontrolling Interests	Total Equity
Balance at December 31, 2011	**106,279,049**	**$ 1,063**	**$ 1,835,011**	**$ (18,960)**	**$ (1,782)**	**$ 11,486**	**$ 7,170**	**$ 18,656**	**$ 1,833,988**
Net income (loss)				12,372		134	(408)	(274)	12,098
Unrealized gain on interest rate derivative					375				375
Issuance of restricted stock	436,646	4	(4)						
Amortization of share based compensation			3,213						3,213
Share grants to trustees	4,352		80						80
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(59,465)		(1,069)						(1,069)
Forfeiture of restricted stock	(26,506)								
Distributions on common shares and units				(35,215)		(296)		(296)	(35,511)
Balance at June 30, 2012	**106,634,076**	**$ 1,067**	**$ 1,837,231**	**$ (41,803)**	**$ (1,407)**	**$ 11,324**	**$ 6,762**	**$ 18,086**	**$ 1,813,174**

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

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RLJ Lodging Trust

Combined Consolidated Statements of Cash Flows

(Amounts in thousands)

(unaudited)

	For the six months ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 49,565	$ 12,098
Adjustments to reconcile net income to cash flow provided by operating activities:		
Gain on extinguishment of indebtedness	(2,425)	
Depreciation and amortization	63,353	65,151
Amortization of deferred financing costs	1,588	2,062
Amortization of deferred management fees	500	500
Loss on disposal		634
Share grants to trustees	68	80
Amortization of share based compensation	6,348	3,213
Deferred income taxes	(198)	(279)
Changes in assets and liabilities:		
Hotel and other receivables, net	(10,335)	(9,136)
Prepaid expense and other assets	(5,805)	(5,629)
Accounts payable and accrued expense	(5,736)	(14,566)
Advance deposits and deferred revenue	3,011	3,838
Accrued interest	(191)	228
Net cash flow provided by operating activities	99,743	58,194
Cash flows from investing activities:		
Acquisition of hotel and other properties, net of cash acquired	(184,165)	(182,690)
Purchase deposits	2,677	
Proceeds from principal payments on investment in loans	69	102
Improvements and additions to hotel and other properties	(25,984)	(76,991)
Additions to property and equipment	(48)	(241)
(Funding of) releases from restricted cash reserves, net	(301)	5,203
Net cash flow used in investing activities	(207,752)	(254,617)
Cash flows from financing activities:		
Borrowings under revolving credit facility	83,000	85,000
Repayments under revolving credit facility	(99,000)	
Proceeds from mortgage loans		85,000
Payment of mortgage principal	(7,279)	(91,549)
Repurchase of common shares	(1,766)	(1,069)
Distributions on common shares	(47,012)	(33,563)
Distributions on Operating Partnership units	(367)	(282)
Payment of deferred financing costs	(76)	(1,750)
Proceeds from issuance of common shares	327,545	
Net cash flow provided by financing activities	255,045	41,787
Net change in cash and cash equivalents	147,036	(154,636)
Cash and cash equivalents, beginning of period	115,861	310,231
Cash and cash equivalents, end of period	**$ 262,897**	**$ 155,595**

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

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RLJ Lodging Trust

Notes to the Combined Consolidated Financial Statements

(unaudited)

1. Organization

RLJ Lodging Trust (the Company) was formed as a Maryland real estate investment trust (REIT) on January 31, 2011. The Company is a self-advised and self-administered REIT that acquires primarily premium-branded, focused-service and compact full-service hotels. The Company qualified and elected to be taxed as a REIT for U.S. federal income tax purposes, commencing with the portion of its taxable year ended December 31, 2011.

Substantially all of the Company s assets are held by, and all of its operations are conducted through, RLJ Lodging Trust, L.P. (the Operating Partnership). The Company is the sole general partner of the Operating Partnership. As of June 30, 2013, there were 123,629,453 units of limited partnership interest in the Operating Partnership (OP units) outstanding and the Company owned, through a combination of direct and indirect interests, 99.3% of the outstanding OP units.

As of June 30, 2013, the Company owned 149 properties, comprised of 147 hotels with approximately 22,300 rooms and two planned hotel conversions, located in 22 states and the District of Columbia, interests in land parcels located adjacent to certain hotels and an interest in two mortgage loans secured by hotels. The Company, through wholly-owned subsidiaries, owned a 100% interest in all of its properties, with the exception of the Doubletree Metropolitan Hotel New York City, in which the Company, through wholly-owned subsidiaries, owned a 95% controlling interest in a joint venture, DBT Met Hotel Venture, LP, which was formed to engage in hotel operations related to the Doubletree Metropolitan hotel. An independent operator manages each property.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited combined consolidated financial statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and in conformity with the rules and regulations of the SEC applicable to financial information. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. The accompanying unaudited financial statements include adjustments based on management s estimates (consisting of normal recurring adjustments), which the Company considers necessary for the fair statement of the combined consolidated balance sheets, statements of operations and comprehensive income, statements of changes in equity and statements of cash flows for the periods presented. The unaudited combined consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2012, included in our Annual Report on Form 10-K filed with the SEC on February 28, 2013. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of actual operating results for the entire year.

The unaudited combined consolidated financial statements include the accounts of the Company, the Operating Partnership and its wholly-owned subsidiaries, including a joint venture. All significant intercompany balances have been eliminated in consolidation.

Reporting Periods

As of June 30, 2013, the Company owned five hotels that were managed by affiliates of Marriott International (Marriott). Beginning January 1, 2013, the Company s hotels managed by Marriott were accounted for on a calendar year basis. Prior to January 1, 2013, the Company s hotels managed by Marriott were accounted for on a fiscal year comprised of 52 or 53 weeks ending on the Friday closest to December 31. The Company s results for the three and six months ended June 30, 2012 include the results of operations for the Company s Marriott-managed hotels for the 24-week period ended June 15, 2012.

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Reclassifications

Certain prior year amounts in these financial statements have been reclassified to conform to the current year presentation with no impact to net income, shareholders equity or cash flows.

Use of Estimates

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

Revenue Recognition

The Company s revenue comprises hotel operating revenue, such as room revenue, food and beverage revenue and revenue from other hotel operating departments (such as telephone, parking and business centers). These revenues are recorded net of any sales and occupancy taxes collected from guests. All rebates or discounts are recorded as a reduction in revenue, and there are no material contingent obligations with respect to rebates and discounts offered by the hotels. All revenues are recorded on an accrual basis as earned. Appropriate allowances are made for doubtful accounts and are recorded as bad debt expense. The allowances are calculated as a percentage of aged accounts receivable. Cash received prior to guest arrival is recorded as an advance from the guest and recognized as revenue at the time of occupancy.

Incentive payments received pursuant to entry into management agreements are deferred and amortized into income over the life of the respective agreements. In May 2012, the Company received an incentive payment of $4.0 million related to purchasing a hotel and entering into a franchise agreement, which is being recognized over the remaining term of the franchise agreement. As of June 30, 2013, there was approximately $3.9 million remaining to be recognized.

Investment in Hotel and Other Properties

The Company s acquisitions generally consist of land, land improvements, buildings, building improvements, furniture, fixtures and equipment (FF&E), and inventory. The Company may also acquire intangibles related to in-place leases, management agreements and franchise agreements when properties are acquired. The Company allocates the purchase price among the assets acquired and liabilities assumed based on their respective fair values.

The Company s investments in hotels and other properties are carried at cost and are depreciated using the straight-line method over estimated useful lives of 15 years for land improvements, 15 years for building improvements, 40 years for buildings and three to five years for FF&E.

Intangible assets arising from acquisitions are amortized using the straight-line method over the non-cancelable portion of the term of the agreement. Maintenance and repairs are expensed and major renewals or improvements are capitalized. Upon the sale or disposition of a fixed asset, the asset and related accumulated depreciation are removed from the accounts and the related gain or loss is included in discontinued operations.

The Company considers each individual property to be an identifiable component of the business. In accordance with the guidance on impairment or disposal of long-lived assets, the Company does not consider a property as held for sale until it is probable that the sale will be completed within one year and the other requisite criteria for such classification have been met. Once a property is designated as held for sale the operations for that property are included in discontinued operations. The Company does not depreciate properties so long as they are classified as held for sale. Upon designation of a property as being held for sale and quarterly thereafter, the Company reviews the realizability of the carrying value, less cost to sell, in accordance with the guidance. Any such adjustment in the carrying value of a property classified as held for sale is reflected in discontinued operations, as an impairment charge.

The Company assesses the carrying values of each property whenever events or changes in circumstances indicate that the carrying amounts of these properties may not be fully recoverable. Recoverability of the property is measured by comparison of the carrying amount of the property to the estimated future undiscounted cash flows which take into account current market conditions and the Company s intent with respect to holding or disposing of the property. If the Company s analysis indicates that the carrying value of the property is not recoverable on an undiscounted cash flow basis, it recognizes an impairment charge for the amount by which the carrying value exceeds the fair value of the property. Fair value is

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determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third party appraisals, where considered necessary.

The use of projected future cash flows is based on assumptions that are consistent with a market participant s future expectations for the travel industry and economy in general and the Company s expected use of the underlying properties. The assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions that occur subsequent to a current impairment analysis and the Company s ultimate use of the property could impact these assumptions and result in future impairment charges of the properties.

Franchise Agreements

As of June 30, 2013, 142 of the Company s hotel properties were operated under franchise agreements with terms ranging from 10 to 30 years. The franchise agreements for these hotels allow the properties to operate under the respective brands. Pursuant to the franchise agreements, the Company pays a royalty fee, generally between 3.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs that amount to between 1.0% and 4.3% of room revenue. Certain hotels are also charged a royalty fee of between 2.0% and 3.0% of food and beverage revenues. Franchise fees are included in other hotel expenses in the accompanying unaudited combined consolidated financial statements.

Earnings Per Share

Basic earnings per common share is calculated by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding during the period excluding the weighted average number of unvested restricted shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period, plus any shares that could potentially be outstanding during the period. Potential shares consist of unvested restricted share grants and unvested performance units, calculated using the treasury stock method. Any anti-dilutive shares have been excluded from the diluted earnings per share calculation.

Share-based Compensation

From time to time, the Company may issue share-based awards under the 2011 Equity Incentive Plan (the 2011 Plan), as compensation to officers, employees and non-employee trustees (see Note 11). The vesting of awards issued to officers and employees is based on either continued employment (time-based) or based on the relative total shareholder returns of the Company and continued employment (performance-based), as determined by the Board of Trustees at the date of grant. For time-based awards, the Company recognizes compensation expense for non-vested shares on a straight-line basis over the vesting period based upon the fair market value of the shares on the date of grant, adjusted for forfeitures. For performance-based awards, the Company recognizes compensation expense over the requisite service period for each award, based on the fair market value of the shares on the date of grant, as determined using a Monte Carlo simulation, adjusted for forfeitures.

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3. Acquisition of Hotel and Other Properties

During the six months ended June 30, 2013, the Company acquired the following properties, which were funded through a combination of available cash and borrowings under its credit facility:

[redacted]								
Courtyard Houston Downtown	Houston, TX	March 19, 2013	White Lodging Services	191	$	34.3	million	100%
Residence Inn Houston Downtown	Houston, TX	March 19, 2013	White Lodging Services	171		29.4	million	100%
Humble Tower Apartments (1)	Houston, TX	March 19, 2013	The Sterling Group	82		15.6	million	100%
Courtyard Waikiki Beach	Honolulu, HI	June 17, 2013	Highgate Hotels	399		75.3	million	100%
Vantaggio Suites Cosmo (2)	San Francisco, CA	June 21, 2013	n/a	150		29.4	million	100%
				993	$	184.0	million	

(1) Conversion to a 166-room SpringHill Suites expected to be complete by mid-2015.

(2) The property is not currently open for operations. Conversion to a 150-room Courtyard expected to be complete by late 2014.

During the six months ended June 30, 2012, the Company acquired the following properties, which were funded through a combination of available cash and borrowings under its credit facility:

[redacted]								
Residence Inn Bethesda	Bethesda, MD	May 29, 2012	Marriott International	187	$	64.5	million	100%
Courtyard New York Manhattan/Upper East Side	New York, NY	May 30, 2012	Highgate Hotels	226		82.0	million	100%
Hilton Garden Inn San Francisco/Oakland Bay Bridge	Emeryville, CA	June 11, 2012	Davidson Hotels & Resorts	278		36.2	million	100%
				691	$	182.7	million	

The allocation of purchase price for the properties acquired was as follows (in thousands):

		June 30, 2013		**June 30, 2012**
Land and land improvements	$	24,132	$	40,711
Buildings and improvements		160,070		135,727
Furniture, fixtures and equipment		3,151		6,220
Lease intangibles		342		
Management agreement intangibles		(3,695)		
Total Purchase Price	**$**	**184,000**	**$**	**182,658**

The allocation of the purchase price for the Courtyard Waikiki Beach is preliminary due to certain market information not yet being available. See Note 14 for detail of other assets acquired and liabilities assumed in conjunction with the Company s acquisitions.

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For the properties acquired during the six months ended June 30, 2013, total revenues and net income (loss) from the date of acquisition through June 30, 2013 are included in the accompanying combined consolidated statements of operations for the three and six months ended June 30, 2013, as follows (in thousands). For the properties acquired during the six months ended June 30, 2012, total revenues and net income (loss) from the date of acquisition through June 30, 2012 are included in the accompanying combined consolidated statements of operations for the three and six months ended June 30, 2012, as follows (in thousands):

	2013 acquisitions			
	For the three months ended June 30, 2013		For the six months ended June 30,2013	
Revenue	$	5,868	$	6,561
Net income (loss)	$	319	$	(568)

	2012 acquisitions			
	For the three months ended June 30, 2012		For the six months ended June 30,2012	
Revenue	$	3,022	$	3,022
Net loss	$	(2,413)	$	(2,413)

The following unaudited condensed pro forma financial information presents the results of operations as if the 2013 acquisitions had taken place on January 1, 2012 and the 2012 acquisitions had taken place on January 1, 2011. The unaudited condensed pro forma financial information is not necessarily indicative of what actual results of operations of the Company would have been assuming the 2013 and 2012 acquisitions had taken place on January 1, 2012 and 2011, respectively, nor does it purport to represent the results of operations for future periods. Operating results for the Vantaggio Suites Cosmo have not been included in the following unaudited condensed pro forma financial information as the acquisition was an asset purchase, not a business combination. The unaudited condensed pro forma financial information is as follows (in thousands, except share and per share data):

	For the three months ended June 30,				For the six months ended June 30,			
	2013		2012		2013		2012	
Revenue	$	266,219	$	244,531	$	492,266	$	447,920
Net income	$	39,663	$	24,948	$	51,914	$	21,287
Net income per share attributable to common shareholders - basic	$	0.33	$	0.24	$	0.45	$	0.20
Net income per share attributable to common shareholders - diluted	$	0.32	$	0.24	$	0.45	$	0.20
Weighted average number of shares outstanding - basic		121,520,253		105,388,743		114,208,435		105,360,778
Weighted average number of shares outstanding - diluted		122,280,431		105,454,679		114,912,726		105,414,876

4. Discontinued Operations

In November 2011, the Company elected to cease the subsidization of debt service on the mortgage loan secured by the SpringHill Suites Southfield, Michigan. In January 2012, the Company received notice of an event of default for failure to

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make the required monthly payments. Under the terms of the mortgage loan, the lender received the monthly net cash from operations from the hotel. In December 2012, the Company entered into a deed in lieu of foreclosure agreement with the lender, providing for a consensual transfer of the property to the lender or its designee. On May 30, 2013, the Company transferred title to the hotel to the lenders pursuant to the deed in lieu of foreclosure arrangement. The Company removed the hotel s net assets and liabilities in its combined consolidated balance sheet in May 2013 and recorded a gain on extinguishment of indebtedness of approximately $2.4 million to discontinued operations at that time.

Operating results of discontinued operations were as follows (in thousands):

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Operating revenues	$ 353	$ 454	$ 805	$ 852
Operating expenses	270	400	676	783
Operating income	83	54	129	69
Interest expense	(93)	(1)	(163)	(71)
Income (loss) from discontinued operations before gain on sale	(10)	53	(34)	(2)
Gain on extinguishment of indebtedness	2,425		2,425	
Net income (loss) from discontinued operations	**$ 2,415**	**$ 53**	**$ 2,391**	**$ (2)**

5. Investment in Hotel and Other Properties

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

	June 30, 2013	December 31, 2012
Land and land improvements	$ 587,616	$ 563,524
Buildings and improvements	2,823,966	2,655,086
Furniture, fixtures and equipment	455,374	438,807
Intangibles	2,199	1,857
	3,869,155	3,659,274
Accumulated depreciation and amortization	(647,484)	(585,791)
Investment in hotel and other properties, net	**$ 3,221,671**	**$ 3,073,483**

For the three and six months ended June 30, 2013, depreciation and amortization expense related to investment in hotel and other properties was approximately $31.8 million and $63.1 million (excluding discontinued operations), respectively. For the three and six months ended June 30, 2012, depreciation and amortization expense related to investment in hotel and other properties was approximately $31.3 million and $64.9 million (excluding discontinued operations), respectively.

Impairment

The Company determined that there was no impairment of any assets for each of the three or six month periods ended June 30, 2013 or 2012.

6. Debt

Revolving Credit Facility and Term Loans

The Company entered into a credit agreement on November 20, 2012 that provides for (i) an unsecured revolving credit facility of up to $300.0 million with a scheduled maturity date of November 20, 2016 with a one-year extension option (the Revolver), and (ii) an unsecured term loan of $275.0 million with a scheduled maturity date of November 20, 2017 (the Five-Year Term Loan). The credit agreement amends and restates in its entirety the Company s prior unsecured revolving credit facility, which was originally entered into as of June 20, 2011. In addition, on November 20, 2012 the Company also entered into an unsecured term loan of $125.0 million with a scheduled maturity date of November 20, 2019 (the Seven-Year Term Loan).

The credit agreements for these loans require that a group of no less than 20 of the Company s hotel properties remain unencumbered by outstanding indebtedness. The credit agreements contain certain financial covenants relating to the Company s maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default exists, the Company is not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of June 30, 2013, the Company was in compliance with all financial covenants.

The Company incurred $5.2 million in fees related to the credit agreements that were deferred and are being amortized over the term of the Revolver, the Five-Year Term Loan and the Seven-Year Term Loan, respectively.

Borrowings under the Revolver, the Five-Year Term Loan and the Seven-Year Term Loan bear interest at variable rates equal to the London InterBank Offered Rate (LIBOR) plus an applicable margin. The margin ranges from 1.70% to 3.00%, depending on the Company s leverage ratio, as calculated under the terms of each facility. The Company incurs an unused facility fee on the Revolver of between 0.25% and 0.35%, based on the amount by which the maximum borrowing amount exceeds the total principal balance of outstanding borrowings.

Under the terms of the credit agreement for the Revolver, one or more standby letters of credit, up to a maximum aggregate outstanding balance of $30.0 million, may be issued on behalf of the Company by the lenders under the Revolver. The Company will incur a fee of 0.125% of the value of each standby letter of credit that is issued on its behalf. Any outstanding standby letters of credit would reduce the available borrowings on the Revolver by a corresponding amount. No standby letters of credit were outstanding at June 30, 2013. The Company also may borrow up to a maximum aggregate outstanding balance of $40.0 million of swingline loans. Any outstanding swingline loans reduce the available borrowings under the Revolver by a corresponding amount. No swingline loans were outstanding at June 30, 2013.

For the three and six months ended June 30, 2013, the Company incurred an unused commitment fee on the Revolver of approximately $0.3 million and $0.5 million, respectively. At June 30, 2013, outstanding borrowings on the Revolver, the Five-Year Term Loan and the Seven-Year Term Loan were zero, $275.0 million and $125.0 million, respectively. At June 30, 2013, the interest rates on the Five-Year Term Loan and the Seven-Year Term Loan were 2.04% and 2.44%, respectively. For the three months ended June 30, 2013, interest expense incurred on the Revolver, the Five-Year Term Loan and the Seven-Year Term Loan was zero, $1.4 million and $0.8 million, respectively. For the six months ended June 30, 2013, interest expense incurred on the Revolver, the Five-Year Term Loan and the Seven-Year Term Loan was $0.1 million, $2.8 million and $1.5 million, respectively.

Prior Credit Facility

The Company entered into an unsecured revolving credit facility on June 20, 2011, that provided for maximum borrowings of up to $300.0 million. The credit facility required that a group of no less than 15 of the Company s hotel properties remain unencumbered by outstanding indebtedness. The credit facility contained certain financial covenants relating to the Company s maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default existed, the Company was not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of June 30, 2012, the

Company was in compliance with all financial covenants. On November 20, 2012, the unsecured revolving credit facility agreement was amended and restated in its entirety with the Revolver and Five-Year Term Loan as discussed above.

The Company incurred $3.0 million in fees related to the credit facility that were deferred and were being amortized over the term of the credit facility. On November 20, 2012, when the unsecured revolving credit facility agreement was amended and restated in its entirety, approximately $1.7 million of the fees unamortized at the time of the amendment and restatement were transferred to the Revolver and will be amortized over the term of that credit facility.

Borrowings under the credit facility bore interest at variable rates equal to LIBOR plus an applicable margin. The margin ranged from 2.25% to 3.25%, depending on the Company s leverage ratio, as calculated under the terms of the credit facility. The Company incurred an unused facility fee of between 0.30% and 0.40%, based on the amount by which the maximum

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borrowing amount exceeded the total principal balance of outstanding borrowings.

The Company incurred interest expense on the credit facility for the three and six months ended June 30, 2012 of approximately $0.6 million and $0.6 million, respectively. For the three and six months ended June 30, 2012, the Company incurred an unused commitment fee of approximately $0.2 million and $0.5 million, respectively. There were $85.0 million of borrowings outstanding at June 30, 2012.

Mortgage Loans

As of June 30, 2013 and December 31, 2012, the Company was subject to the following mortgage loans (in thousands):

Lender	Number of Assets Encumbered	Interest rate at June 30, 2013 (1)		Maturity Date		Principal balance at, June 30, 2013	Principal balance at, December 31, 2012
Wells Fargo	1	4.60%	(2)	Oct 2014	(3)	$ 68,500	$ 68,500
Wells Fargo	1	3.79%	(2)	Oct 2014	(3)	17,500	17,500
Wells Fargo	1	3.79%	(2)	Oct 2014	(3)	21,000	21,000
Wells Fargo	1	3.79%	(2)	Oct 2014	(3)	11,000	11,000
Wells Fargo	1	3.79%	(2)	Oct 2014	(3)	24,000	24,000
Capmark Financial Group	1	6.12%		April 2015		4,135	4,202
Capmark Financial Group	1	5.55%		May 2015		11,107	11,298
Capmark Financial Group	1	5.55%		June 2015		4,818	4,901
Barclay s Bank	1	5.55%		June 2015		2,518	2,561
Barclay s Bank	1	5.55%		June 2015		4,133	4,203
Barclay s Bank	1	5.55%		June 2015		9,634	9,798
Barclay s Bank	1	5.55%		June 2015		8,598	8,745
Barclay s Bank	1	5.55%		June 2015		7,708	7,839
Barclay s Bank	1	5.60%		June 2015		5,345	5,434
Barclay s Bank	1	5.60%		June 2015		8,282	8,422
Barclay s Bank	1	5.55%		June 2015		5,048	5,134
Barclay s Bank	1	5.55%		June 2015		33,472	34,042
Barclay s Bank	1	5.60%		June 2015		6,359	6,466
Barclay s Bank	1	5.55%		June 2015		5,665	5,762
Barclay s Bank	1	5.55%		June 2015		6,510	6,621
Barclay s Bank	1	5.60%		June 2015		8,296	8,437
Barclay s Bank	1	5.55%		June 2015		6,504	6,614
Barclay s Bank	1	5.55%		June 2015		7,159	7,280
Barclay s Bank	1	5.55%		June 2015		6,510	6,621
Barclay s Bank	1	5.55%		June 2015		7,431	7,558
Barclay s Bank	1	5.55%		June 2015		9,326	9,484
Capmark Financial Group	1	5.50%		July 2015		6,562	6,673
Barclay s Bank	1	5.44%		Sept 2015		10,702	10,883
PNC Bank (4)	7	2.54%	(2)	May 2016	(5)	85,000	85,000
Merrill Lynch	1	6.29%		July 2016		9,117	9,180
Merrill Lynch	1	6.29%		July 2016		5,531	5,531
Merrill Lynch	1	6.29%		July 2016		7,631	7,684
Merrill Lynch	1	6.29%		July 2016		9,133	9,194
Wachovia Securities (6)	43	6.29%		July 2016		483,949	487,296

Wachovia Securities	1	6.29%	July 2016	6,537	6,582
Wells Fargo / Morgan Stanley	2	6.29%	July 2016	34,583	34,823
Wells Fargo / Morgan Stanley	1	6.29%	July 2016	6,706	6,753
Wells Fargo / Morgan Stanley	1	6.29%	July 2016	9,549	9,616
VFC Partners 20 LLC				(7)	5,014
	87			**$ 985,558**	**$ 997,651**

(1) Interest rate at June 30, 2013 gives effect to interest rate hedges and LIBOR floors, as applicable.

(2) Requires payments of interest only until the commencement of the extension period(s).

(3) Maturity date may be extended for up to two additional one-year terms at the Company s option (subject to the Company s prior satisfaction of certain conditions and advance notice of the exercise of the Company s option).

(4) The seven hotels encumbered by the PNC Bank loan are cross-collateralized.

(5) Maturity date may be extended for one one-year term at the Company s option (subject to the Company s prior satisfaction of certain conditions and advance notice of the exercise of the Company s option).

(6) The 43 hotels encumbered by the Wachovia Securities loans are cross-collateralized.

(7) Loan was extinguished in May 2013 in conjunction with the transfer of title pursuant to a deed in lieu of foreclosure arrangement.

Some mortgage agreements are subject to customary financial covenants. The Company was in compliance with these

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covenants at June 30, 2013 and December 31, 2012.

In November 2011, the Company elected to cease the subsidization of debt service on the mortgage loan secured by the Courtyard Goshen, Indiana. In December 2011, the Company received notice of an event of default for failure to make the required monthly payments. In May 2012, an Order Appointing Receiver (the Order) was entered in the Elkhart County, Indiana, Superior Court No. 1. In June 2012, the receiver, pursuant to the Order, took control of the property for the benefit of the lender of the mortgage loan. As of June 30, 2013, the principal balance outstanding was $5.5 million. In February 2013, the lender filed suit against the Company claiming amounts due from the Company in its capacity as a guarantor of certain borrower obligations. The Company disputes the lender s claim and intends to defend itself against the claim.

7. Financial Instruments: Derivatives and Hedging

The Company employs interest rate swaps and caps to hedge against interest rate fluctuations. For derivative instruments designated as cash flow hedges, unrealized gains and losses on the effective portion are reported in accumulated other comprehensive income (loss), a component of shareholders equity. Unrealized gains and losses on the ineffective portion of all designated hedges are recognized in earnings in the current period. For derivative instruments not designated as hedging instruments, unrealized gains or losses are recognized in earnings in the current period.

At June 30, 2013, the fair value of interest rate swap assets of $4.5 million was included in prepaid expenses and other assets in the accompanying combined consolidated financial statements. At June 30, 2013 and December 31, 2012, the aggregate fair value of interest rate swap liabilities of $0.2 million and $0.5 million, respectively, was included in accounts payable and accrued expenses in the accompanying combined consolidated financial statements.

As of June 30, 2013 and December 31, 2012, the Company had entered into the following interest rate swaps and caps (in thousands):

	Notional value at		Hedge		Fair value at	
Hedge type	**June 30, 2013**	**December 31, 2012**	**interest rate**	**Maturity**	**June 30, 2013**	**December 31, 2012**
Swap-cash flow (1)	$ 40,000	$ 40,000	1.00%	10/6/2013	$ (112)	$ (265)
Swap-cash flow (1)	31,000	31,000	1.00%	10/6/2013	(87)	(205)
Interest rate cap (1)		60,000	1.00%	6/29/2013		
Swap-cash flow (2)	275,000		1.12%	11/20/2017	4,527	
	$ 346,000	**$ 131,000**			**$ 4,328**	**$ (470)**

(1) Undesignated as a cash flow hedge

(2) Designated as a cash flow hedge

As of June 30, 2013 and December 31, 2012, there was approximately $4.5 million and zero, respectively, in unrealized gains included in accumulated other comprehensive income related to interest rate hedges that are effective in offsetting the variable cash flows. There was no ineffectiveness recorded on designated hedges during each the three or six months ended June 30, 2013 or 2012.

8. Fair Value

Fair Value Measurement

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The fair value hierarchy has three levels of inputs, both observable and unobservable:

- Level 1 Inputs include quoted market prices in an active market for identical assets or liabilities.

- Level 2 Inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data.

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- Level 3 Inputs are unobservable and corroborated by little or no market data.

Fair Value of Financial Instruments

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methods. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The Company used the following market assumptions and/or estimation methods:

- Cash and cash equivalents, hotel receivables, accounts payable and accrued expenses - The carrying amounts reported in the combined consolidated balance sheet for these financial instruments approximate fair value because of their short maturities.

- Investment in collateralized loans - Fair value is determined by obtaining a third-party appraisal or discounting the future contractual cash flows to the present value using a current market interest rate. The market rate is determined by giving consideration to one or both of the following criteria, as appropriate: (1) interest rates for loans of comparable quality and maturity, and (2) the value of the underlying collateral. The fair values of the Company s investment in collateralized loans are generally classified within Level 3 of the valuation hierarchy. The fair value at June 30, 2013 and December 31, 2012 was $22.1 million and $23.0 million, respectively.

- Variable rate mortgage notes payable and borrowings under the credit facility - The carrying amounts reported in the combined consolidated balance sheets for these financial instruments approximate fair value. The Company estimates the fair value of its variable rate debt by using estimated market rates for similar loans with similar terms and loan to value ratios, which is a Level 3 input. As a result, the Company determined that its variable rate mortgage notes payable in their entirety are classified in Level 3 of the fair value hierarchy.

- Fixed rate mortgage notes payable - The fair value estimated at June 30, 2013 and December 31, 2012 of $735.6 million and $745.3 million, respectively, is calculated based on the net present value of payments over the term of the loans using estimated market rates for similar mortgage loans with similar terms and loan to value ratios, which is a Level 3 input. As a result, the Company determined that its fixed rate mortgage notes payable in their entirety are classified in Level 3 of the fair value hierarchy. The carrying value of fixed rate mortgage notes payable at June 30, 2013 and December 31, 2012 was $758.6 million and $770.7 million, respectively.

Recurring Fair Value Measurements

The following table presents the Company s fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 (in thousands):

	Fair Value at June 30, 2013			
	Level 1	Level 2	Level 3	Total
Interest rate swap asset	$	$ 4,527	$	$ 4,527
Interest rate swap liability	$	$ (199)	$	$ (199)
Total	$	$ 4,328	$	$ 4,328

The fair values of the derivative financial instruments are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. The Company determined that the significant inputs, such as interest yield curves and discount rates, used to value its derivatives fall within Level 2 of the fair value hierarchy and that the credit valuation adjustments associated with the Company s counterparties and its own credit risk utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its

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counterparties. As of June 30, 2013, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

9. Income Taxes

The Company elected to be taxed as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code when it filed its U.S. federal tax return for its short taxable year ended December 31, 2011. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it distribute at least 90% of its adjusted taxable income to its shareholders, subject to certain adjustments and excluding any net capital gain. The Company s intention is to adhere to these requirements and maintain the qualification for taxation as a REIT. As a REIT, the Company is not subject to federal corporate income tax on that portion of net income that is currently distributed to its shareholders. However, the Company s taxable REIT subsidiaries (TRS) will generally be subject to federal, state, and local income taxes.

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted.

The Company had no accruals for tax uncertainties as of June 30, 2013 and December 31, 2012.

10. Commitments and Contingencies

Ground Leases

The Courtyard Waikiki Beach is subject to a ground lease with a term extending to 2112. The annual ground rent is $3.5 million through 2016, after which the annual rent shall increase by the increase, if any, in the Consumer Price Index (CPI) from the immediately preceding calendar year. The increase is limited to five percent per annum for the first 10 years in which the annual rent is subject to increase, and six percent per annum during the seven subsequent years in which the annual rent is subject to increase. Thereafter, there is no cap on the increase in the CPI. For both the three and six months ended June 30, 2013, $0.1 million of rent was incurred. There was no ground rent expense in 2012 as this property was acquired in 2013.

Restricted Cash Reserves

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of FF&E) as determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents. The management agreements, franchise agreements and/or mortgage loan documents require the Company to reserve restricted cash ranging from 1.0% to 5.0% of the individual hotel s revenues and maintain the reserves in restricted cash reserve escrows. Any unexpended amounts will remain the property of the Company upon termination of the management agreements, franchise agreements or mortgage loan documents. Additionally, some loan agreements require the Company to reserve restricted cash for the periodic payment of real estate taxes and insurance. As of June 30, 2013 and December 31, 2012, approximately $65.1 million and $64.8 million, respectively, was available in restricted cash reserves for future capital expenditures, real estate taxes and insurance.

Litigation

Neither the Company nor any of its subsidiaries are currently involved in any regulatory or legal proceedings that management believes will have a material adverse effect on the financial position, operations or liquidity of the Company.

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11. Equity Incentive Plan

The Company may issue equity-based awards to officers, employees, non-employee trustees and other eligible persons under the 2011 Plan. The 2011 Plan provides for a maximum of 5,000,000 common shares of beneficial interest to be issued in the form of share options, share appreciation rights, restricted share awards, unrestricted share awards, share units, dividend equivalent rights, long-term incentive units, other equity-based awards and cash bonus awards.

Non-vested Restricted Share Awards

From time to time, the Company may award non-vested shares under the 2011 Plan, as compensation to officers, employees and non-employee trustees. The shares issued to officers and employees vest over a period of time as determined by the Board of Trustees at the date of grant. The Company recognizes compensation expense for non-vested shares on a straight-line basis over the vesting period based upon the fair market value of the shares on the date of issuance, adjusted for forfeitures.

A summary of the non-vested shares as of June 30, 2013 is as follows:

	2013		
	Number of Shares		Weighted Average Grant Date Fair Value
Unvested at January 1,	1,013,673	$	17.80
Granted	377,830		21.55
Vested	(215,538)		18.21
Forfeited	(2,270)		18.90
Unvested at June 30,	1,173,695	$	18.93

For the three and six months ended June 30, 2013, the Company recognized approximately $2.2 million and $4.1 million, respectively, of share-based compensation expense related to these restricted share awards. For the three and six months ended June 30, 2012, the Company recognized approximately $1.7 million and $3.2 million, respectively, of share-based compensation expense related to these restricted share awards. As of June 30, 2013, there was $21.2 million of total unrecognized compensation costs related to non-vested share awards and these costs were expected to be primarily recognized over a weighted-average period of 2.7 years. The total fair value of shares vested (calculated as number of shares multiplied by vesting date share price) during the six months ended June 30, 2013 was approximately $4.8 million.

Performance Units

The Company awarded performance units to certain employees under the 2011 Plan. The performance units vest over a four-year period, including three years of performance-based vesting (measurement period) plus an additional one year of time-based vesting.

As of June 30, 2013, there were 1.0 million unvested performance units outstanding with a weighted average grant date fair value of $15.36 per performance unit.

For the three and six months ended June 30, 2013, the Company recognized $1.1 million and $2.2 million, respectively, of share-based compensation expense related to performance unit awards. There was no share-based compensation expense during the three or six months ended June 30, 2012 related to the performance units as they were granted in the third quarter of 2012. As of June 30, 2013, there was $11.2 million of total unrecognized compensation cost related to the performance units and these costs are expected to be recognized over a weighted-average period of 2.6 years.

As of June 30, 2013, there were 3,077,497 common shares available for future grant under the 2011 Plan. Any performance units that convert into restricted shares will reduce the number of common shares available for future grant under the 2011 Plan.

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12. Earnings per Common Share

Basic earnings per common share is calculated by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding during the period excluding the weighted average number of unvested restricted shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period, plus any shares that could potentially be outstanding during the period. Potential shares consist of unvested restricted share grants and unvested performance units, calculated using the treasury stock method. Any anti-dilutive shares have been excluded from the diluted earnings per share calculation.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating shares and are considered in the computation of earnings per share pursuant to the two-class method. If there were any undistributed earnings allocable to participating shares, they would be deducted from net income attributable to common shareholders utilized in the basic and diluted earnings per share calculations.

For the three months ended June 30, 2013 and 2012, approximately $0.1 million and $12,000, respectively, represented undistributed earnings that were allocable to participating shares. For the six months ended June 30, 2013 and 2012, no earnings representing undistributed earnings were allocated to participating shares because the Company paid dividends in excess of net income.

The limited partners outstanding limited partnership units in the Operating Partnership (which may be redeemed for common shares of beneficial interest under certain circumstances) have been excluded from the diluted earnings per share calculation as there was no effect on the amounts for the three and six months ended June 30, 2013 and 2012, since the limited partners share of income would also be added back to net income attributable to common shareholders.

The computation of basic and diluted earnings per common share is as follows (in thousands, except share and per share data):

	For the three months ended,		For the six months ended,	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Numerator:				
Net income attributable to common shareholders before discontinued operations	$ 38,095	$ 18,832	$ 46,612	$ 12,374
Add: Income (loss) from discontinued operations	2,415	53	2,391	(2)
Net income attributable to common shareholders	40,510	18,885	49,003	12,372
Less: Dividends paid on unvested restricted shares	(241)	(199)	(497)	(411)
Less: Undistributed earnings attributable to unvested restricted shares	(124)	(12)		
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$ 40,145	$ 18,674	$ 48,506	$ 11,961
Denominator:				
Weighted-average number of common shares - basic	121,520,253	105,388,743	114,208,435	105,360,778
Unvested restricted shares	247,894	65,936	211,290	54,098
Unvested performance units	512,284		493,001	

Weighted-average number of common shares - diluted		122,280,431		105,454,679		114,912,726		105,414,876
Net income per share attributable to common shareholders before discontinued operations - basic	$	0.31	$	0.18	$	0.41	$	0.11
Discontinued operations		0.02				0.02		
Net income per share attributable to common shareholders - basic	$	0.33	$	0.18	$	0.43	$	0.11
Net income per share attributable to common shareholders before discontinued operations - diluted	$	0.31	$	0.18	$	0.41	$	0.11
Discontinued operations		0.02				0.02		
Net income per share attributable to common shareholders - diluted	$	0.33	$	0.18	$	0.43	$	0.11

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13. Related Party Transactions

RLJ Companies LLC and its affiliates, a related party, periodically provide or receive services or pay or collect certain amounts to or from the Company. At June 30, 2013 and December 31, 2012, there was approximately $56,000 and $45,000, respectively, due from RLJ Companies, LLC which was included in other assets.

14. Supplemental Information to Statements of Cash Flows (in thousands)

	For the six months ended June 30,			
	2013		2012	
Interest paid	$	32,441	$	38,265
Income taxes paid	$	1,108	$	1,221
Supplemental investing and financing transactions:				
In conjunction with the acquisitions, the Company acquired and assumed the following assets and liabilities:				
Purchase of real estate	$	187,695	$	182,658
Accounts receivable		708		71
Other assets		340		556
Advance deposits		(313)		(163)
Accounts payable and accrued expenses		(4,265)		(432)
Acquisition of hotel and other properties	$	184,165	$	182,690
In conjunction with the hotel disposals, the Company disposed of the following assets and liabilities:				
Sale of real estate	$	(2,458)	$	
Other assets		(503)		
Other liabilities		572		
Gain on extinguishment of indebtedness		(2,425)		
Forgiveness of indebtedness		4,814		
Disposition of hotel properties	$		$	
Supplemental non-cash transactions:				
Change in fair market value of designated interest rate swaps	$	4,527	$	375
Accrued capital expenditures	$	109	$	1,813
Distributions payable	$	26,111	$	17,742

15. Subsequent Events

On July 15, 2013, the Company paid a dividend of $0.205 per common share to shareholders of record at June 28, 2013.

On August 6, 2013, the Company was the successful bidder at a foreclosure sale of the 78-room Residence Inn Atlanta Midtown/Historic. The property collateralized one of the mortgage loans held by the Company.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report, as well as the information contained in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on February 28, 2013 (the Annual Report), which is accessible on the SEC s website at www.sec.gov.

Statement Regarding Forward-Looking Information

The following information contains certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements generally are identified by the use of the words believe, project, expect, anticipate, estimate, plan, may, will, will continue, intend, should expressions. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, beliefs and expectations, such forward-looking statements are not predictions of future events or guarantees of future performance and our actual results could differ materially from those set forth in the forward-looking statements. Some factors that might cause such a difference include the following: the current global economic uncertainty, increased direct competition, changes in government regulations or accounting rules, changes in local, national and global real estate conditions, declines in the lodging industry, seasonality of the lodging industry, risks related to natural disasters, such as earthquakes and hurricanes, hostilities, including future terrorist attacks or fear of hostilities that affect travel, our ability to obtain lines of credit or permanent financing on satisfactory terms, changes in interest rates, access to capital through offerings of our common and preferred shares of beneficial interest, or debt, our ability to identify suitable acquisitions, our ability to close on identified acquisitions and integrate those businesses and inaccuracies of our accounting estimates. Given these uncertainties, undue reliance should not be placed on such statements.

Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. We caution investors not to place undue reliance on these forward-looking statements and urge investors to carefully review the disclosures we make concerning risks and uncertainties in the sections entitled Risk Factors, Forward-Looking Statements, and Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report, as well as risks, uncertainties and other factors discussed in this Quarterly Report on Form 10-Q and identified in other documents filed by us with the SEC.

Overview

We are a self-advised and self-administered Maryland real estate investment trust, or REIT, that acquires primarily premium-branded, focused-service and compact full-service hotels. We are one of the largest U.S. publicly-traded lodging REITs in terms of both number of hotels and number of rooms. Our hotels are concentrated in urban and dense suburban markets that we believe exhibit multiple demand generators and high barriers to entry.

Our strategy is to acquire primarily premium-branded, focused-service and compact full-service hotels. Focused-service hotels typically generate most of their revenue from room rentals, have limited food and beverage outlets and meeting space and require fewer employees than traditional full-service hotels. We believe premium-branded, focused-service and compact full-service hotels have the potential to generate attractive returns relative to other types of hotels due to their ability to achieve RevPAR levels at or close to those achieved by traditional full-service hotels while achieving higher profit margins due to their more efficient operating model and less volatile cash flows.

We recognize the challenging geopolitical environment and the possibility that the current economic recovery might not be as robust as anticipated or that economic conditions could deteriorate. However, with growth in lodging supply expected to be below historical averages for the next few years and corporate profits rising, we currently do not anticipate any significant slowdown in lodging fundamentals. Accordingly, we remain cautiously optimistic that we are in the midst of a multiyear lodging recovery.

Furthermore, we believe that attractive acquisition opportunities that meet our investment profile remain available in the market. We believe our cash on hand and expected access to capital (including availability under our unsecured revolving

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credit facility) along with our senior management team s experience, extensive industry relationships and asset management expertise, will enable us to compete effectively for such acquisitions and enable us to generate additional internal and external growth.

As of June 30, 2013, we owned 149 properties, comprised of 147 hotels with approximately 22,300 rooms and two planned hotel conversions, located in 22 states and the District of Columbia, interests in land parcels located adjacent to certain hotels and an interest in two mortgage loans secured by hotels. We own, through wholly-owned subsidiaries, 100% of the interests in 146 hotels and two planned hotel conversions and a 95% interest in one hotel.

We elected to be taxed as a REIT, for U.S. federal income tax purposes, when we filed our U.S. federal tax return for the taxable year ended December 31, 2011. Substantially all of our assets are held by, and all of our operations are conducted through, our operating partnership RLJ Lodging Trust, L.P. (the Operating Partnership). We are the sole general partner of our operating partnership. As of June 30, 2013, we owned, through a combination of direct and indirect interests, 99.3% of the units of limited partnership interest in the Operating Partnership (OP units).

Our Customers

Substantially all of our hotels consist of premium-branded focused-service and compact full-service hotels. As a result of this property profile, the majority of our customers are transient in nature. Transient business typically represents individual business or leisure travelers. The majority of our hotels are located in the business districts and suburban markets of major metropolitan areas. Accordingly, business travelers represent the majority of the transient demand at our hotels. As a result, macroeconomic factors impacting business travel have a greater effect on our business than factors impacting leisure travel.

Group business is typically defined as a minimum of 10 guestrooms booked together as part of the same piece of business. Group business may or may not use the meeting space at any given hotel. Given the limited meeting space at the majority of our hotels, group business that utilizes meeting space represents a smaller component of our customer base.

A number of our hotels are affiliated with brands marketed toward extended-stay customers. Extended-stay customers are generally defined as those staying five nights or longer. Reasons for extended stays may include, but are not limited to, training and/or special project business, relocation, litigation and insurance claims.

Our Revenues and Expenses

Our revenue is primarily derived from hotel operations, including the sale of rooms, food and beverage revenue and other operating department revenue, which consists of telephone, parking and other guest services.

Our operating costs and expenses consist of the costs to provide hotel services, including room expense, food and beverage expense, management fees and other operating expenses. Room expense includes housekeeping wages and payroll taxes, reservation systems, room supplies, laundry services and front desk costs. Food and beverage expense primarily includes the cost of food, the cost of beverages and associated labor costs. Other hotel expenses include labor and other costs associated with the other operating department revenue, as well as labor and other costs associated with administrative departments, franchise fees, sales and marketing, repairs and maintenance and utility costs. Our hotels are managed by independent, third-party management companies under long-term agreements under which the management companies typically earn base and incentive management fees based on the levels of revenues and profitability of each individual hotel. We generally receive a cash distribution from the hotel management companies on a monthly basis, which reflects hotel-level sales less hotel-level operating expenses.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ significantly from these estimates and assumptions. We have provided a summary of our significant accounting policies in the notes to the combined consolidated financial statements included elsewhere in this filing. We have set forth below those accounting policies that we believe require material subjective or complex judgments and have the most significant impact on our financial condition and results of operations. We evaluate our estimates, assumptions and judgments on an ongoing basis, based on information that is then available to us, our experience and various matters that we believe are reasonable and appropriate for consideration under the circumstances.

Investment in Hotel and Other Properties

Our acquisitions generally consist of land, land improvements, buildings, building improvements, furniture, fixtures and equipment (FF&E), and inventory. We may also acquire intangibles related to in-place leases, management agreements and franchise agreements when properties are acquired. We allocate the purchase price among the assets acquired and liabilities assumed based on their respective fair values.

Our investments in hotels and other properties are carried at cost and are depreciated using the straight-line method over estimated useful lives of 15 years for land improvements, 15 years for building improvements, 40 years for buildings and three to five years for FF&E. Intangible assets arising from favorable or unfavorable leases are amortized using the straight-line method over the non-cancelable portion of the term of the agreement. Maintenance and repairs are expensed and major renewals or improvements are capitalized. Upon the sale or disposition of a fixed asset, the asset and related accumulated depreciation are removed from the accounts and the related gain or loss is included in discontinued operations.

We consider each individual property to be an identifiable component of the business. In accordance with the guidance on impairment or disposal of long-lived assets, we do not consider a property as held for sale until it is probable that the sale will be completed within one year and the other requisite criteria for such classification have been met. Once a property is designated as held for sale the operations for that property are included in discontinued operations. We do not depreciate properties so long as they are classified as held for sale. Upon designation of a property as being held for sale and quarterly thereafter, we review the realizability of the carrying value, less cost to sell, in accordance with the guidance. Any such adjustment in the carrying value of a property classified as held for sale is reflected in discontinued operations.

We assess the carrying values of each property whenever events or changes in circumstances indicate that the carrying amounts of these properties may not be fully recoverable. Recoverability of the property is measured by comparison of the carrying amount of the property to the estimated future undiscounted cash flows which take into account current market conditions and our intent with respect to holding or disposing of the property. If our analysis indicates that the carrying value of the property is not recoverable on an undiscounted cash flow basis, it recognizes an impairment charge for the amount by which the carrying value exceeds the fair value of the property. Fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third party appraisals, where considered necessary.

The use of projected future cash flows is based on assumptions that are consistent with a market participant s future expectations for the travel industry and economy in general and our plans to manage the underlying properties. However, assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions and our ultimate investment intent that occur subsequent to a current impairment analysis could impact these assumptions and result in future impairment charges of the properties.

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Results of Operations

At June 30, 2013 and 2012, we owned 149 and 143 properties, respectively (excluding one hotel carried as discontinued operations for the three and six months ended June 30, 2013 and 2012). All properties owned during these periods have been included in our results of operations during the respective periods or since their date of acquisition. Based on when a property is acquired or closed for renovation, operating results for certain properties are not comparable for the three and six months ended June 30, 2013 and 2012. The properties listed in the table below are hereafter referred to as non-comparable properties:

			Non-comparable property for the	
Property	**Location**	**Acquisition Date**	**three months ended June 30, 2013 and 2012**	**six months ended June 30, 2013 and 2012**
Hotel Indigo New Orleans Garden District (1)	New Orleans, LA	October 26, 2010	x	x
Residence Inn Bethesda Hotel Downtown	Bethesda, MD	May 29, 2012	x	x
Courtyard New York / Manhattan Upper East Side	New York, NY	May 30, 2012	x	x
Hilton Garden Inn San Francisco / Oakland Bay Bridge	Emeryville, CA	June 11, 2012	x	x
Embassy Suites Boston/Waltham	Waltham, MA	November 13, 2012	x	x
Courtyard Houston Downtown	Houston, TX	March 19, 2013	x	x
Residence Inn Houston Downtown	Houston, TX	March 19, 2013	x	x
Humble Tower Apartments (2)	Houston, TX	March 19, 2013	x	x
Courtyard Waikiki Beach	Honolulu, HI	June 17, 2013	x	x
Vantaggio Suites Cosmo (3)	San Francisco, CA	June 21, 2013	x	x

(1) Property was closed for renovation until December 27, 2012.

(2) Conversion to a 166-room SpringHill Suites expected to be complete by mid-2015.

(3) The property is not currently open for operations. Conversion to a 150-room Courtyard expected to be complete by late 2014.

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Comparison of the three months ended June 30, 2013 to the three months ended June 30, 2012

Income from continuing operations for the three months ended June 30, 2013 was $38.6 million compared to $19.0 million for the three months ended June 30, 2012, representing an increase of $19.6 million. This improved performance was primarily due to a $38.8 million, or 17.4%, increase in total revenue (including $21.0 million arising from non-comparable properties) and a decrease in interest expense of $3.5 million, or 17.2%. This increase in performance was partially offset by the net impact of a $23.0 million, or 12.6%, increase in total operating expenses. The increase in total operating expenses was primarily attributable to $14.8 million from non-comparable properties.

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	$ change	% change
Revenue				
Operating revenue				
Room revenue	$ 229,111	$ 194,396	$ 34,715	17.9%
Food and beverage revenue	25,113	22,402	2,711	12.1%
Other operating department revenue	7,351	6,003	1,348	22.5%
Total revenue	**261,575**	**222,801**	**38,774**	17.4%
Expense				
Operating expense				
Room expense	47,271	40,841	6,430	15.7%
Food and beverage expense	17,246	15,508	1,738	11.2%
Management fee expense	9,398	7,621	1,777	23.3%
Other operating expense	73,384	64,961	8,423	13.0%
Total property operating expense	147,299	128,931	18,368	14.2%
Depreciation and amortization	31,910	31,428	482	1.5%
Property tax, insurance and other	16,574	12,439	4,135	33.2%
General and administrative	9,083	7,478	1,605	21.5%
Transaction and pursuit costs	1,255	2,795	(1,540)	(55.1)%
Total operating expense	206,121	183,071	23,050	12.6%
Operating income	55,454	39,730	15,724	39.6%
Other income	91	106	(15)	(14.2)%
Interest income	240	418	(178)	(42.6)%
Interest expense	(16,874)	(20,373)	3,499	(17.2)%
Loss on disposal		(634)	634	(100.0)%
Income before income taxes	38,911	19,247	19,664	102.2%
Income tax expense	(345)	(281)	(64)	22.8%
Income from continuing operations	38,566	18,966		