RLJ Lodging Trust
Form 10-Q
November 10, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# 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 September 30, 2011**

**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**

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# RLJ LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

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

**(301) 280-7777**

(Registrant s Telephone Number, Including Area Code)

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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 o | Accelerated filer o |
| Non-accelerated filer x<br>(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 November 10, 2011, 106,300,067 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)**

*(unaudited)*

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Investment in hotel properties, net | $ 2,760,784 | $ 2,626,690 |
| Investment in loans | 12,685 | 12,840 |
| Property and equipment, net | 1,147 | 1,585 |
| Cash and cash equivalents | 368,461 | 267,454 |
| Restricted cash reserves | 89,590 | 70,520 |
| Hotel receivables, net of allowance of $246 and $406, respectively | 27,299 | 19,556 |
| Deferred financing costs, net | 8,628 | 9,298 |
| Deferred income tax asset | 1,453 | 799 |
| Prepaid expense and other assets | 28,583 | 37,082 |
| **Total assets** | **$ 3,298,630** | **$ 3,045,824** |
| **Liabilities and Owners Equity** | | |
| Mortgage loans | $ 1,202,817 | $ 1,747,077 |
| Term loan | 140,000 | |
| Interest rate swap liability | 2,326 | 3,820 |
| Accounts payable and accrued expense | 78,095 | 60,973 |
| Deferred income tax liability | 1,453 | 799 |
| Advance deposits and deferred revenue | 4,995 | 5,927 |
| Accrued interest | 2,099 | 3,495 |
| Distributions payable | 16,079 | |
| **Total liabilities** | **1,447,864** | **1,822,091** |
| **Equity** | | |
| Partners capital | | |
| Fund II general partner | | (13,409) |
| Fund II limited partners | | 433,013 |
| Fund III general partner | | (23,328) |
| Fund III limited partners | | 811,918 |
| Members capital | | |
| Class A members | | 6,592 |
| Class B members | | 4,751 |
| Fund II - Series A preferred units, no par value, 12.5%, 250 units authorized, issued and outstanding at May 16, 2011 and December 31, 2010, respectively | | 189 |
| Fund III - Series A preferred units, no par value, 12.5%, 250 units authorized, issued and outstanding at May 16, 2011 and December 31, 2010, respectively | | 190 |
| Accumulated other comprehensive loss | (2,312) | (3,806) |
| | | |
| Shareholders equity: | | |

| | | | | |
|---|---|---|---|---|
| Preferred shares of beneficial interest, $0.01 par value, 50,000,000 shares authorized; zero shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively | | | | |
| Common shares of beneficial interest, $0.01 par value, 450,000,000 shares authorized; 106,300,067 and zero shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively | | 1,063 | | |
| Additional paid-in-capital | | 1,835,041 | | |
| Distributions in excess of net earnings | | (1,745) | | |
| Total shareholders equity | | 1,834,359 | | |
| | | | | |
| Noncontrolling interest | | | | |
| Noncontrolling interest in joint venture | | 7,068 | | 7,623 |
| Noncontrolling interest in Operating Partnership | | 11,651 | | |
| Total noncontrolling interest | | 18,719 | | 7,623 |
| **Total equity** | | **1,850,766** | | **1,223,733** |
| **Total liabilities and equity** | **$** | **3,298,630** | **$** | **3,045,824** |

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**

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

*(unaudited)*

| | For the three months ended September 30, 2011 | For the three months ended September 30, 2010 | For the nine months ended September 30, 2011 | For the nine months ended September 30, 2010 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Hotel operating revenue | | | | |
| Room revenue | $ 172,589 | $ 119,134 | $ 495,217 | $ 327,672 |
| Food and beverage revenue | 19,497 | 13,870 | 59,664 | 41,749 |
| Other operating department revenue | 5,165 | 3,448 | 14,810 | 9,394 |
| **Total revenue** | **197,251** | **136,452** | **569,691** | **378,815** |
| | | | | |
| **Expense** | | | | |
| Hotel operating expense | | | | |
| Room | 39,012 | 25,304 | 110,753 | 70,278 |
| Food and beverage | 13,479 | 9,443 | 41,767 | 28,016 |
| Management fees | 6,755 | 4,828 | 19,519 | 13,497 |
| Other hotel expenses | 59,559 | 41,532 | 172,744 | 115,948 |
| Total hotel operating expense | 118,805 | 81,107 | 344,783 | 227,739 |
| | | | | |
| Depreciation and amortization | 29,026 | 24,422 | 91,479 | 70,465 |
| Property tax, insurance and other | 12,463 | 9,677 | 35,951 | 27,417 |
| General and administrative | 6,329 | 4,647 | 17,504 | 14,547 |
| Transaction and pursuit costs | 282 | 5,455 | 3,614 | 7,438 |
| IPO Costs | 89 | | 10,333 | |
| Total operating expense | 166,994 | 125,308 | 503,664 | 347,606 |
| Operating income | 30,257 | 11,144 | 66,027 | 31,209 |
| Other income | 518 | 177 | 742 | 411 |
| Interest income | 424 | 2,730 | 1,264 | 2,889 |
| Interest expense | (21,664) | (21,580) | (75,415) | (64,760) |
| | | | | |
| Income (Loss) from continuing operations before income taxes | 9,535 | (7,529) | (7,382) | (30,251) |
| | | | | |
| Income tax expense | (858) | (382) | (1,546) | (898) |
| Income (Loss) from continuing operations | 8,677 | (7,911) | (8,928) | (31,149) |
| | | | | |
| Income (loss) from discontinued operations | 22,970 | (619) | 21,838 | 19,034 |
| | | | | |
| Net income (loss) | 31,647 | (8,530) | 12,910 | (12,115) |
| | | | | |
| Net loss (income) attributable to non-controlling interests | | | | |
| Noncontrolling interest in joint venture | (22) | | 55 | |
| Noncontrolling interest in common units of Operating Partnership | (306) | | (285) | |

| | | | | |
|---|---|---|---|---|
| Net income (loss) attributable to the Company | 31,319 | (8,530) | 12,680 | (12,115) |
| Distributions to preferred unitholders | | (16) | (61) | (48) |
| **Net income (loss) attributable to common shareholders** | **$ 31,319** | **$ (8,546)** | **$ 12,619** | **$ (12,163)** |
| Basic and diluted per common share data: | | | | |
| Net income (loss) per share attributable to common shareholders before discontinued operations - basic and diluted | $ 0.08 | | $ (0.10) | |
| Discontinued operations | 0.22 | | 0.24 | |
| Net income per share attributable to common shareholders - basic and diluted | $ 0.30 | | $ 0.14 | |
| Weighted-average number of common shares - basic and diluted | 105,228,305 | | 89,316,830 | |

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

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**RLJ Lodging Trust**

**Combined Consolidated Statement of Changes in Equity and Comprehensive Loss**

**(Amounts in thousands, except share data)**

*(unaudited)*

| | Partners Capital Fund II General Partner | Partners Capital Fund II Limited Partners | Partners Capital Fund III General Partner | Partners Capital Fund III Limited Partners | Members Capital Class A | Members Capital Class B | Preferred Units Fund II | Preferred Units Fund III | Shareholders Equity Common Stock Shares | Shareholders Equity Common Stock Par Value | Additional Paid-in-Capital | Distributions in excess of net earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interests Operating Partnership | Noncontrolling Interests Consolidated Joint Venture | Total Noncontrolling Interests |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2010** | **$ (13,409)** | **$ 433,013** | **$ (23,328)** | **$ 811,918** | **$ 6,592** | **$ 4,751** | **$ 189** | **$ 190** | | **$** | **$** | **$** | **$ (3,806)** | **$** | **$ 7,623** | **$ 7,623** |
| Components of comprehensive income: | | | | | | | | | | | | | | | | |
| Net income (loss) | (7) | (9,444) | | (234) | (256) | (85) | | | | | | 22,706 | | 285 | (55) | 230 |
| Unrealized gain on interest rate derivatives | | | | | | | | | | | | | 1,494 | | | |
| Total comprehensive income | | | | | | | | | | | | | | | | |
| Partners contributions | 4,258 | 3,291 | 5,031 | 114,141 | | | | | | | | | | | | |
| Partners distributions | (3,230) | (4,876) | (3,798) | (4,392) | | | | | | | | | | | | |
| Members distributions | | | | | (2,547) | (557) | | | | | | | | | | |
| | | | | | | | | | | | | | | | | |
| Proceeds from sale of common stock, net | | | | | | | | | 31,595,000 | 316 | 529,058 | | | | | |
| Issuance of restricted stock | | | | | | | | | 1,120,830 | 11 | (11) | | | | | |
| Amortization of share based compensation | | | | | | | | | | | 1,962 | | | | | |
| Share grants to trustees | | | | | | | | | 5,434 | | 80 | | | | | |
| Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock | | | | | | | | | (24,148) | | (338) | | | | | |
| Forfeiture of restricted stock | | | | | | | | | (3,000) | | (53) | | | | | |
| Exchange of owners equity for common stock and units | 12,388 | (421,960) | 22,095 | (921,396) | (3,789) | (4,109) | 61 | 60 | 73,605,951 | 736 | 1,304,343 | | | 11,571 | | 11,571 |
| | | | | | | | | | | | | | | | (500) | (500) |

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Distributions to JV partner | | | | | | | | | | | | | | | | | |
| Distributions to preferred unitholders | | (24) | | (37) | | | | | | | | | | | | | |
| Redemption of preferred units | | | | | | | (250) | (250) | | | | | | | | | |
| Distributions on common shares and units | | | | | | | | | | | | (24,451) | | (205) | | (205) | |
| **Balance at September 30, 2011** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **106,300,067** | **$ 1,063** | **$ 1,835,041** | **$ (1,745)** | **$ (2,312)** | **$ 11,651** | **$ 7,068** | **$ 18,719** | **$** |

| | **Partners Capital Fund II General Partner** | **Partners Capital Fund II Limited Partners** | **Partners Capital Fund III General Partner** | **Partners Capital Fund III Limited Partners** | **Members Capital Class A** | **Members Capital Class B** | **Preferred Units Fund II** | **Preferred Units Fund III** | **Accumulated Other Comprehensive Loss** | **Total Owners Equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2009** | **$ (11,440)** | **$ 459,903** | **$ (17,852)** | **$ 50,163** | **$ 13,643** | **$ 5,807** | **$ 189** | **$ 190** | **$ (14,856)** | **$ 485,747** |
| Components of comprehensive loss: | | | | | | | | | | |
| Net (loss) income | (17) | (22,399) | (5) | (10,161) | 15,351 | 5,116 | | | | (12,115) |
| Reclassification adjustment for gains included in net loss | | | | | | | | | (58) | (58) |
| Unrealized gain on interest rate derivatives | | | | | | | | | 10,745 | 10,745 |
| Total comprehensive loss | | | | | | | | | | (1,428) |
| | | | | | | | | | | |
| Partners contributions | 5,017 | 6,483 | 6,037 | 278,392 | | | | | | 295,929 |
| Partners distributions | (6,483) | (6,483) | (10,283) | | | | | | | (23,249) |
| Members distributions | | | | | (21,395) | (7,131) | | | | (28,526) |
| Distributions to preferred unitholders | | (24) | | (24) | | | | | | (48) |
| **Balance at September 30, 2010** | **$ (12,923)** | **$ 437,480** | **$ (22,103)** | **$ 318,370** | **$ 7,599** | **$ 3,792** | **$ 189** | **$ 190** | **$ (4,169)** | **$ 728,425** |

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 nine months ended September 30, 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 12,910 | $ (12,115) |
| Adjustments to reconcile net loss to cash flow provided by operating activities: | | |
| Gain on sale of properties | | (23,711) |
| Gain on extinguishment of indebtedness | (23,516) | |
| Depreciation and amortization | 91,479 | 73,335 |
| Amortization of deferred financing costs | 4,816 | 2,322 |
| Amortization of deferred management fees | 750 | 750 |
| Share grants to trustees | 80 | |
| Amortization of share based compensation | 1,962 | |
| Unrealized gain on interest rate swaps | | (58) |
| Changes in assets and liabilities: | | |
| Hotel receivables, net | (7,286) | (7,999) |
| Prepaid expense and other assets | (7,895) | 328 |
| Accounts payable and accrued expense | 19,969 | 10,596 |
| Advance deposits and deferred revenue | (1,300) | 2,421 |
| Accrued interest | (1,396) | 1,131 |
| Net cash flow provided by operating activities | 90,573 | 47,000 |
| **Cash flows from investing activities:** | | |
| Acquisition of hotel properties, net of cash acquired | (194,830) | (310,209) |
| Purchase deposit | | (5,250) |
| Proceeds from principal payments on investment in loans | 155 | |
| Improvements and additions to hotel properties | (51,988) | (8,543) |
| Additions to property and equipment | (93) | |
| Advances from related parties | | 10,724 |
| Proceeds from sale of hotel properties | | 73,117 |
| Funding of restricted cash reserves, net | (19,070) | (9,849) |
| Net cash flow used in investing activities | (265,826) | (250,010) |
| **Cash flows from financing activities:** | | |
| Borrowings under credit facility | | 383,506 |
| Repayments under credit facility | | (399,905) |
| Proceeds from term loan | 140,000 | |
| Proceeds from mortgage loans | | 60,000 |
| Payment of mortgage principal | (486,260) | (71,729) |
| Payment of members distributions | (3,104) | (28,526) |
| Proceeds from partners contributions | 126,721 | 295,929 |
| Payment of partners distributions | (16,296) | (23,249) |
| Distributions to preferred unitholders | (500) | |
| Proceeds from issuance of common shares | 568,700 | |
| Payment of offering costs | (39,379) | |
| Distributions to noncontrolling interest | (500) | |
| Repurchase of common stock | (338) | |

| | | | | |
|---|---|---|---|---|
| Distributions on common shares | | (8,506) | | |
| Distributions on OP units | | (71) | | |
| Payment of preferred unitholder distributions | | (61) | | (32) |
| Payment of deferred financing costs | | (4,146) | | (4,093) |
| Net cash flow provided by financing activities | | 276,260 | | 211,901 |
| Net change in cash and cash equivalents | | 101,007 | | 8,891 |
| Cash and cash equivalents, beginning of period | | 267,454 | | 151,382 |
| **Cash and cash equivalents, end of period** | **$** | **368,461** | **$** | **160,273** |

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 invests primarily in premium-branded, focused-service and compact full-service hotels. The Company completed the initial public offering of its common shares of beneficial interest (the IPO ) on May 16, 2011. The IPO resulted in the sale of 27,500,000 common shares at a price per share of $18.00 and generated gross proceeds of $495.0 million. The aggregate proceeds to the Company, net of underwriters discounts in connection with the IPO, were approximately $464.1 million. On June 3, 2011, the Company issued and sold an additional 4,095,000 common shares at a price per share of $18.00 upon exercise of the underwriters overallotment option (the Overallotment ), generating gross proceeds of approximately $73.7 million. The Company received aggregate proceeds, net of underwriters discounts, in connection with the Overallotment of approximately $69.1 million. Subsequent to the IPO, the Company contributed the net proceeds from the IPO, including proceeds received from the Overallotment, to the Company s operating partnership, RLJ Lodging Trust, L.P. (the Operating Partnership ), which was formed as a Delaware limited partnership on January 31, 2011, in exchange for units of limited partnership interest in the Operating Partnership ( OP Units ). The Operating Partnership holds substantially all of the Company s assets and conducts substantially all of its business. Upon completion of the IPO, the Company owned approximately 99.1% of the aggregate OP units. The Company intends to elect and qualify to be taxed as a REIT, for U.S. federal income tax purposes, commencing with the portion of its taxable year ending December 31, 2011.

Upon completion of the IPO and related formation transactions, the Company succeeded to the operations and hotel investment and ownership platform of RLJ Development, LLC ( RLJ Development ), and the lodging assets of RLJ Lodging Fund II, L.P. (and its parallel fund) ( Fund II ) and RLJ Real Estate Fund III, L.P. (and its parallel fund) ( Fund III ), which collectively comprise the Company s predecessor (the RLJ Predecessor ). Accordingly, the RLJ Predecessor was not a separate legal entity. RLJ Development, Fund II and Fund III were entities under the common control of Robert L. Johnson, the Company s Executive Chairman, and were formed for the purpose of acquiring and operating hotel properties. Upon completion of the IPO and formation transactions, all of the existing investors in RLJ Development, Fund II and Fund III received common shares or OP units, as applicable, as consideration for their respective interests in RLJ Development, Fund II and Fund III, and as a result became equity owners of the Company and/or the Operating Partnership, as applicable. The formation transactions, including the consideration received by the owners of RLJ Development, Fund II and Fund III, are described in greater detail in the final prospectus relating to the IPO, dated May 10, 2011, which the Company filed with the Securities and Exchange Commission (the SEC ).

Due to the timing of the IPO and the formation transactions, the Company s financial condition as of December 31, 2010 and results of operations for the three and nine months ended September 30, 2010 reflect the financial condition and results of operations of the RLJ Predecessor. The Company s results of operations for the nine months ended September 30, 2011 reflect the financial condition and results of operations of the RLJ Predecessor together with the Company, while the financial condition as of September 30, 2011 reflects solely the Company.

Substantially all of the Company s assets are held by, and all of its operations are conducted through, the Operating Partnership. The Company is the sole general partner of the Operating Partnership. The Company owned, through a combination of direct and indirect interests, 99.2% of the OP units at September 30, 2011. See Note 9 for additional disclosures on OP units.

As of September 30, 2011, the Company owned interests in 140 hotels with 20,488 rooms located in 19 states and the District of Columbia. The Company owned interests in land parcels located adjacent to certain hotels. The Company, through wholly-owned subsidiaries, also owned a 100% interest in two mortgage loans secured by hotels. The Company, through wholly-owned subsidiaries, owned a 100% interest in all of its assets, with the exception of the Doubletree Metropolitan Hotel New York City, in which the Company, through wholly-owned subsidiaries, owned a 95% 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 hotel operator manages each hotel.

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**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Principles of Consolidation***

The accompanying unaudited interim 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 interim financial information. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. All significant inter-company balances and transactions have been eliminated in consolidation. The accompanying unaudited interim financial statements include adjustments based on management s estimates (consisting of normal recurring adjustments), which the Company considers necessary for a fair statement of the combined consolidated balance sheets, statements of operations, statements of changes in equity and comprehensive loss and statements of cash flows for the interim periods presented. The financial information should be read in conjunction with the combined consolidated financial statements for the year ended December 31, 2010, included in the final prospectus relating to the IPO, dated May 10, 2011, which the Company filed with the SEC. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of actual operating results for the entire year.

***Use of Estimates***

The preparation of the financial statements and accompanying notes 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.

***Reporting Periods***

As of September 30, 2011, the Company owned four hotels that are managed by affiliates of Marriott International ( Marriott ). The Company s hotels managed by Marriott are 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 nine months ended September 30, 2011 and 2010 include the results of operations for the Company s Marriott-managed hotels for the 36-week periods ending September 9, 2011 and September 10, 2010, respectively.

***Reclassifications***

Certain de minimus 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.

***Investment in Hotel Properties***

Hotel acquisitions consist almost exclusively of land, land improvements, buildings, furniture, fixtures and equipment and inventory. The Company records the purchase price among these asset classes based on their respective fair values. When the Company acquires properties, they are acquired for use. Generally, the Company does not acquire any significant in-place leases or other intangible assets (e.g., management agreements, franchise agreements or trademarks) when hotels are acquired. The only intangible assets acquired through September 30, 2011 consisted of favorable tenant lease agreements and miscellaneous operating agreements, which are short-term in nature and at market rates. In conjunction with the acquisition of a hotel, the Company typically negotiates new franchise and management agreements with the selected brand and manager.

The Company s investments in hotels are carried at cost and are depreciated using the straight-line method over estimated useful lives of 15 years for land improvements, 40 years for buildings and improvements and three to five years for furniture, fixtures and equipment. 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 operations.

The Company considers each individual hotel to be an identifiable component of the business. In accordance with the

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impairment or disposal of long-lived assets guidance, the Company does not consider a hotel 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 hotel is designated as held for sale the operations for that hotel are included in discontinued operations. The Company does not depreciate hotel assets so long as they are classified as held for sale. Upon designation of a hotel 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 hotel classified as held for sale is reflected in discontinued operations. The Company includes in discontinued operations the operating results of those hotels that are classified as held for sale.

The Company assesses the carrying values of each hotel whenever events or changes in circumstances indicate that the carrying amounts of these hotels may not be fully recoverable. Recoverability of the hotel is measured by comparison of the carrying amount of the hotel 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 hotel. If the Company s analysis indicates that the carrying value of the hotel 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 hotel. 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 the Company s plans to manage the underlying hotels. However, assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions and the Company s ultimate investment intent that occur subsequent to a current impairment analysis could impact these assumptions and result in future impairment charges of the hotels.

***Earnings Per Share***

Basic earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period excluding the weighted average number of unvested restricted shares ( participating securities as defined in Note 11). The basic earnings per share calculation includes the effect of such participating securities. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period plus other potentially dilutive securities such as stock grants or shares that would be issued in the event of conversion of operating partnership units. No adjustment is made for shares that are anti-dilutive during a period.

***Share Based Compensation***

From time to time, the Company may award non-vested shares under the 2011 Equity Incentive Plan (the 2011 Plan ), as compensation to officers, employees and non-employee trustees (see Note 10). 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 grant, adjusted for forfeitures.

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## 3. Acquisition of Hotel Properties

The Company did not acquire any hotels during the three months ended September 30, 2011. During the nine months ended September 30, 2011, the Company, through wholly-owned subsidiaries, acquired the following hotels, which were funded by capital contributions:

| Hotel | Location | Acquisition Date | Management Company | Rooms | | Purchase Price | | % Interest |
|---|---|---|---|---|---|---|---|---|
| Embassy Suites Columbus | Columbus, OH | January 11, 2011 | Crescent Hotels and Resorts | 221 | $ | 9.5 | million | 100% |
| Renaissance Pittsburgh Hotel | Pittsburgh, PA | January 12, 2011 | Sage Hospitality | 300 | | 47.1 | million | 100% |
| Courtyard Atlanta Buckhead | Atlanta, GA | January 18, 2011 | Noble Management Group | 181 | | 27.0 | million | 100% |
| Doubletree Hotel Columbia | Columbia, MD | January 18, 2011 | Urgo Hotels | 152 | | 10.5 | million | 100% |
| Denver Airport Marriott at Gateway Park | Denver, CO | January 18, 2011 | Sage Hospitality | 238 | | 46.0 | million | 100% |
| Crowne Plaza Hotel West Palm Beach | West Palm Beach, FL | January 18, 2011 | Windsor Capital Group | 219 | | 16.0 | million | 100% |
| Wyndham Raleigh Durham-Research Triangle Park | Durham, NC | January 24, 2011 | Noble Management Group | 175 | | 7.0 | million | 100% |
| Wyndham Pittsburgh | Pittsburgh, PA | January 24, 2011 | Urgo Hotels | 198 | | 21.2 | million | 100% |
| Hampton Inn Houston-Near the Galleria | Houston, TX | March 14, 2011 | Interstate Management Company | 176 | | 20.3 | million | 100% |
| | | | | 1,860 | $ | 204.6 | million | |

During the nine months ended September 30, 2010, the Company, through wholly-owned subsidiaries, acquired the following hotels, which were funded by capital contributions:

| Hotel | Location | Acquisition Date | Management Company | Rooms | | Purchase Price | | % Interest |
|---|---|---|---|---|---|---|---|---|
| Embassy Suites Tampa | Tampa, FL | April 15, 2010 | Hilton Hotels Corporation | 360 | $ | 76.9 | million | 100% |
| Fairfield Inn and Suites Washington, DC | Washington, DC | June 1, 2010 | Urgo Hotels | 198 | | 40.0 | million | 100% |
| Embassy Suites Ft Myers/Estero | Ft Myers, FL | June 23, 2010 | Hilton Hotels Corporation | 150 | | 13.2 | million | 100% |
| Homewood Suites Washington DC | Washington, DC | July 1, 2010 | Crestline Hotels and Resorts | 175 | | 58.5 | million | 100% |
| Hilton New York/Fashion District | New York, NY | September 22, 2010 | Highgate Hotels | 280 | | 121.8 | million | 100% |
| | | | | 1,163 | $ | 310.4 | million | |

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

| | September 30, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| Land and land improvements | $ | 29,131 | $ | 50,959 |
| Buildings and improvements | | 153,557 | | 249,334 |
| Furniture, fixtures and equipment | | 21,900 | | 10,116 |
| **Total Purchase Price** | **$** | **204,588** | **$** | **310,409** |

There were no contingent consideration arrangements associated with these acquisitions nor was any goodwill recognized. See Note 16 for detail of non-cash prorations assumed at acquisition dates.

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Total revenues and net income (loss) from the hotels acquired during the nine months ended September 30, 2011 and 2010, which are included in the accompanying unaudited combined consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010, respectively, were as follows (in thousands):

| | 2011 acquisitions | | | |
|---|---|---|---|---|
| | For the three months ended | | For the nine months ended | |
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Revenue | $ 17,615 | $ | $ 51,189 | $ |
| Net income | $ 803 | $ | $ 738 | $ |

| | 2010 acquisitions | | | |
|---|---|---|---|---|
| | For the three months ended | | For the nine months ended | |
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Revenue | $ 16,538 | $ 9,051 | $ 48,843 | $ 13,187 |
| Net income (loss) | $ 1,598 | $ (3,140) | $ 7,389 | $ (4,132) |

The following unaudited condensed pro forma financial information presents the results of operations as if the 2011 and 2010 acquisitions had taken place on the latter of January 1, 2010 or the opening date of the hotel. The Hilton New York / Fashion District did not open until April 2010. The Garden District Hotel acquired on October 26, 2010 has been closed since 2008 and accordingly has no operating history and is excluded from the condensed pro forma financial information. The condensed pro forma financial information excludes discontinued operations and is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had taken place on January 1, 2010, nor does it purport to represent the results of operations for future periods. The unaudited condensed pro forma financial information, excluding discontinued operations, is as follows, (in thousands, except share and per share data):

| | For the three months ended | | For the nine months ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Revenue | $ 197,251 | $ 183,185 | $ 572,879 | $ 529,248 |
| Net income (loss) | $ 8,371 | $ 4,336 | $ (5,776) | $ (13,454) |
| Net income (loss) per share attributable to common shareholders - basic and diluted | $ 0.08 | | $ (0.06) | |
| Weighted average number of shares outstanding - basic and diluted | 105,228,305 | | 89,316,830 | |

**4. Discontinued Operations**

On November 16, 2009, RLJ Development, through wholly-owned subsidiaries, entered into a purchase and sale agreement to sell six hotels. The assets were reclassified as held for sale and the operating results for the hotels were reclassified to discontinued operations. On April 23, 2010, RLJ Development completed the sale of the six hotels for a total sale price of $73.5 million. The sale resulted in a gain of approximately $23.7 million.

On April 23, 2010, the Company defeased five individual mortgages associated with the aforementioned six hotels sold on April 23, 2010 by replacing the original collateral with government securities. These loans carried an outstanding balance of $34.0 million at April 23, 2010. On

April 28, 2010, the Company fully repaid the remaining outstanding $8.5 million mortgage loan associated with the six hotels sold on April 23, 2010, including a mortgage prepayment penalty totaling $0.2 million.

In February 2010, Fund II received a notice of event of default for failure to make the required monthly payment on its mortgage loan secured by the New York LaGuardia Airport Marriott located in New York, NY. The mortgage loan matured in July 2010. In April 2011, Fund II escrowed an executed deed in lieu of foreclosure agreement for the benefit of the lenders. On August 5, 2011, the Company transferred title to the hotel to the lenders pursuant to the deed in lieu of foreclosure arrangement. The Company recorded a gain on extinguishment of indebtedness of approximately $23.5 million to discontinued operations in August 2011 and removed the hotel s net assets and liabilities from its combined consolidated

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balance sheet at that time.

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

| | For the three months ended September 30, 2011 | For the three months ended September 30, 2010 | For the nine months ended September 30, 2011 | For the nine months ended September 30, 2010 |
|---|---|---|---|---|
| Net revenues | $ 3,537 | $ 7,032 | $ 16,917 | $ 26,337 |
| Operating expenses | 4,006 | 7,356 | 18,107 | 25,555 |
| Operating income (loss) | (469) | (324) | (1,190) | 782 |
| Interest expense | (77) | (291) | (488) | (5,459) |
| Net loss from discontinued operations, before gain on sale | (546) | (615) | (1,678) | (4,677) |
| Gain on extinguishment of indebtedness | 23,516 | | 23,516 | |
| Gain on sale of properties | | (4) | | 23,711 |
| Net income (loss) from discontinued operations | **$ 22,970** | **$ (619)** | **$ 21,838** | **$ 19,034** |

## 5. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2011 and December 31, 2010 consisted of the following (in thousands):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Land and land improvements | $ 512,302 | $ 488,031 |
| Buildings and improvements | 2,320,128 | 2,188,153 |
| Furniture, fixtures and equipment | 363,308 | 310,266 |
| Intangibles | 1,298 | 1,298 |
| | 3,197,036 | 2,987,748 |
| Accumulated depreciation and amortization | (436,252) | (361,058) |
| **Investment in hotel properties, net** | **$ 2,760,784** | **$ 2,626,690** |

For the three and nine months ended September 30, 2011, depreciation and amortization expense related to investment in hotel properties was approximately $28.8 million and $90.8 million (excluding discontinued operations), respectively.  For the three and nine months ended September 30, 2010, depreciation and amortization expense related to investment in hotel properties was approximately $24.3 million and $69.8 million (excluding discontinued operations), respectively.

*Impairment*

During each of the three and nine month periods ended September 30, 2011 and 2010, the Company determined there was no impairment on its investment in hotels.

**6. Debt**

*Credit Facility*

The Company, through the Operating Partnership, has an unsecured revolving credit facility that provides for maximum borrowings of up to $300.0 million.  The credit facility requires that a group of no less than fifteen of the Company s hotel properties remain unencumbered by outstanding indebtedness.  The credit facility contains certain financial covenants relating to maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness.  If an event of default exists, under the terms of the credit facility, the Company is not permitted to make

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distributions to shareholders, other than those required to qualify for and maintain REIT status. As of September 30, 2011, the Company was in compliance with all financial covenants.

The credit facility matures on June 20, 2014 and may be extended for an additional year, at the Company s option. In addition, the Company has the option to increase the revolving loan commitment to $450.0 million, subject to certain conditions (including consent of the lenders). The Company incurred $3.0 million in deferred financing fees related to the credit facility.

Borrowings under the credit facility bear interest at variable rates equal to the London InterBank Offered Rate ( LIBOR ) plus an applicable margin. The margin ranges from 2.25% to 3.25%, depending on the Company s leverage ratio, as calculated under the terms of the credit facility. The Company incurs an unused facility fee of between 0.30% and 0.40%, based on the amount by which the maximum borrowing amount exceeds the total principal balance of outstanding borrowings.

Under the terms of the credit facility, one or more standby letters of credit, up to a maximum aggregate outstanding balance of $30.0 million, may be issued on behalf of the Company by the lenders holding the credit facility. 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 credit facility by a corresponding amount. No standby letters of credit were outstanding at September 30, 2011. The Company also may borrow up to a maximum aggregate outstanding balance of $40.0 million of swingline loans. Any outstanding swingline loans would reduce the available borrowings on the credit facility by a corresponding amount. No swingline loans were outstanding at September 30, 2011.

The Company did not incur any interest expense on the credit facility for the three or nine months ended September 30, 2011. For both the three and nine months ended September 30, 2011, the Company incurred an unused commitment fee of approximately $0.3 million. There were no borrowings outstanding at September 30, 2011.

*RLJ Predecessor Credit Facility*

Fund III, through wholly-owned subsidiaries, maintained a credit facility that provided for maximum borrowings of up to $200.0 million. The credit facility was collateralized by Fund III s partners committed and uncalled capital and was guaranteed by Fund III. Borrowings under the credit facility bore interest at variable rates equal to the LIBOR plus a margin of 0.75%. For both the three and nine months ended September 30, 2010, the weighted average interest rate for borrowings under the credit facility was approximately 1.00%. There were no borrowings at September 30, 2011 since the credit facility matured on January 31, 2011.

Fund III incurred interest expense related to the credit facility of approximately $0.2 million and $0.8 million for the three and nine months ended September 30, 2010. No interest expense related to the credit facility was incurred for either the three or nine months ended September 30, 2011. Additionally, there was an unused commitment fee of 0.15% of the unused portion of the credit facility. For the three and nine months ended September 30, 2011, Fund III incurred an unused commitment fee of approximately zero and $12,000, respectively. For the three and nine months ended September 30, 2010, Fund III incurred an unused commitment fee of approximately $39,000 and $0.1 million, respectively.

A letter of credit was issued on Fund III s behalf (now by the Company) with a value of approximately $1.9 million related to securing a swap agreement on certain variable rate mortgages. No balances were drawn on this letter of credit as of September 30, 2011 or December 31, 2010.

At December 31, 2010, Fund III had approximately $198.1 million available for borrowing.

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*Mortgage Loans*

As of September 30, 2011 and December 31, 2010, the Company was subject to the following mortgage loans (in thousands):

| Lender | Number of Assets Encumbered | Interest rate at September 30, 2011 (1) | Maturity Date | Principal balance at, September 30, 2011 | Principal balance at, December 31, 2010 |
|---|---|---|---|---|---|
| Keybank (2) | 6 | 1.47%(3) | April 2012 | $ 48,000 | $ 48,000 |
| State Street Bank (2) | | 2.98%(3) | April 2012 | 37,000 | 37,000 |
| Wells Fargo | 1 | 4.25%(4) | June 2013(5) | 60,000 | 60,000 |
| Wells Fargo | 1 | 5.50%(4) | Oct 2013(5) | 40,000 | 40,000 |
| Wells Fargo | 1 | 5.50%(4) | Oct 2013(5) | 31,000 | 31,000 |
| Wells Fargo | 1 | 4.90%(6) | Dec 2013(5) | 150,000 | 150,000 |
| Blackstone | | 10.75%(6) | Dec 2013(5) | 50,000 | 50,000 |
| Capmark Financial Group | 1 | 6.12% | April 2015 | 4,357 | 4,446 |
| Capmark Financial Group | 1 | 5.50% | May 2015 | 5,014 | 5,123 |
| Capmark Financial Group | 1 | 5.55% | May 2015 | 11,742 | 11,997 |
| Capmark Financial Group | 1 | 5.55% | June 2015 | 5,094 | 5,205 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 2,661 | 2,718 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 4,368 | 4,462 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 10,181 | 10,400 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 9,086 | 9,282 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 8,142 | 8,317 |
| Barclay s Bank | 1 | 5.60% | June 2015 | 5,645 | 5,751 |
| Barclay s Bank | 1 | 5.60% | June 2015 | 8,771 | 8,956 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 5,335 | 5,450 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 35,371 | 36,135 |
| Barclay s Bank | 1 | 5.60% | June 2015 | 6,717 | 6,861 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 5,986 | 6,116 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 6,880 | 7,028 |
| Barclay s Bank | 1 | 5.60% | June 2015 | 8,764 | 8,952 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 6,870 | 7,018 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 7,562 | 7,724 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 6,880 | 7,028 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 7,853 | 8,023 |
| Barclay s Bank | 1 | 5.55% | June 2015 | 9,855 | 10,068 |
| Capmark Financial Group | 1 | 5.50% | July 2015 | 6,933 | 7,083 |
| Barclay s Bank | 1 | 5.44% | Sept 2015 | 11,304 | 11,547 |
| Merrill Lynch | 1 | 6.29% | July 2016 | 9,321 | 9,403 |
| Merrill Lynch | 1 | 6.29% | July 2016 | 5,558 | 5,605 |
| Merrill Lynch | 1 | 6.29% | July 2016 | 7,802 | 7,871 |
| Merrill Lynch | 1 | 6.29% | July 2016 | 9,336 | 9,416 |
| Wachovia Securities | 43 | 6.29% | July 2016 | 494,770 | 499,132 |
| Wachovia Securities | 1 | 6.29% | July 2016 | 6,683 | 6,742 |
| Wells Fargo / Morgan Stanley | 2 | 6.29% | July 2016 | 35,357 | 35,669 |
| Wells Fargo / Morgan Stanley | 1 | 6.29% | July 2016 | 6,857 | 6,916 |
| Wells Fargo / Morgan Stanley | 1 | 6.29% | July 2016 | 9,762 | 9,845 |
| Capmark Financial Group | | | | (7) | 72,246 |
| Merrill Lynch | | | | (7) | 92,000 |

| | | | | | |
|---|---|---|---|---|---|
| Wells Fargo | | | | (7) | 23,967 |
| Wells Fargo / GE | | | | (7) | 186,392 |
| Capmark Financial Group | | | | (7) | 10,818 |
| Capmark Financial Group | | | | (7) | 9,975 |
| Capmark Financial Group | | | | (7) | 12,350 |
| Capmark Financial Group | | | | (7) | 10,334 |
| Capmark Financial Group | | | | (7) | 22,934 |
| Capmark Financial Group | | | | (7) | 11,078 |
| Capmark Financial Group | | | | (7) | 11,355 |
| Capmark Financial Group | | | | (7) | 13,339 |
| Capmark Financial Group | | | | (8) | 58,000 |
| | **86** | **$** | **1,202,817** | **$** | **1,747,077** |

(1) Interest rate at September 30, 2011 gives effect to interest rate swaps and LIBOR floors, where applicable.

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(2) The Keybank and State Street Bank loans are a senior and a mezzanine loan, respectively, which, as of September 30, 2011 had outstanding balances of $48 million and $37 million, respectively.

(3) Requires payments of interest only.

(4) Requires payments of interest only until the commencement of the extension periods.

(5) 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).

(6) Requires payments of interest only until the commencement of the second extension period.

(7) Loan(s) was/(were) paid off in conjunction with the IPO on May 16, 2011.

(8) Loan was terminated in conjunction with the deed in lieu of foreclosure arrangement.

Some mortgage agreements are subject to customary financial covenants. The Company was in compliance with these covenants at September 30, 2011 and December 31, 2010.

*Term Loan*

On January 14, 2011, Fund III entered into a $140.0 million unsecured term loan. Fund III agreed to maintain an unencumbered asset pool of ten hotel properties during the term of the term loan. The term loan contains certain financial covenants related to maximum leverage ratio, minimum fixed charge coverage ratio and minimum net worth. As of September 30, 2011, the Company was in compliance with all financial covenants.

The term loan had an original maturity date of September 30, 2011, with two six month extension options, and bears interest at LIBOR plus 4.25%, with a LIBOR floor of 1.00% (5.25% and zero at September 30, 2011 and December 31, 2010, respectively). For the three and nine months ended September 30, 2011, the Company incurred $1.9 million and $5.1 million of interest expense, respectively, related to the term loan. On September 30, 2011, the Company amended the term loan to extend the maturity date to November 15, 2011, with one extension to December 31, 2011, at the Company s option. On October 21, 2011, the term loan was fully repaid.

**7. Income Taxes**

The Company intends to elect and qualify to be taxed as a real estate investment trust under Section 856 through 860 of the Internal Revenue Code. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its owners. The Company s current 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 owners. 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 September 30, 2011 and December 31, 2010.

**8. Commitments and Contingencies**

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of furniture, fixtures and equipment) 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 2.0% to 5.0% of the individual hotel s revenues and maintain the reserves in restricted cash reserve escrows. Amounts will be capitalized as incurred. Any unexpended amounts will remain the property of the Company upon termination of the management agreements, franchise agreements or mortgage loan documents. Additionally, some mortgage agreements require the Company to reserve restricted cash for the periodic payment of real estate taxes and insurance. As of September 30, 2011 and December 31, 2010, approximately $89.6 million and $70.5 million, respectively, was available in restricted cash reserves for future capital expenditures, real estate taxes and insurance.

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*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.

**9. Equity**

*Common Shares of Beneficial Interest*

Under the declaration of trust of the Company, the total number of shares initially authorized for issuance was 100,000 common shares. At formation, the Company issued to each of its two initial shareholders 500 common shares at $1 per share, which shares were subsequently redeemed. On May 5, 2011, the declaration of trust was amended to authorize the issuance of up to 450,000,000 common shares.

On May 16, 2011, RLJ Lodging Trust completed its IPO and formation transactions. The IPO resulted in the sale of 27,500,000 common shares of beneficial interest, $0.01 par value per share, at $18.00 per share, for total gross proceeds of $495.0 million. The aggregate proceeds to the Company, net of underwriters discounts, were approximately $464.1 million. The Company used the net proceeds from the IPO and cash on hand to repay approximately $472.6 million of secured indebtedness. The Company recorded costs incurred in connection with the IPO as a reduction of additional paid-in capital in shareholders equity. Costs incurred in connection with the formation transactions for the transfer and assumption of indebtedness and other contractual obligations of the RLJ Predecessor were expensed as incurred and are included in IPO costs. In connection with the formation transactions, the Company issued 73,605,951 common shares of beneficial interest as consideration to certain entities for their interest in certain entities that merged with and into the Company or the Company s subsidiaries in the formation transactions.

On May 16, 2011, the Company granted 1,075,000 restricted common shares of beneficial interest to certain executives and employees. The shares vest ratably over 16 quarters. These common shares of beneficial interest were issued under the 2011 Plan.

On May 16, 2011, the Company granted 20,830 restricted common shares of beneficial interest to certain members of the Board of Trustees. The shares vest ratably over 4 quarters. These common shares of beneficial interest were issued under the 2011 Plan.

On June 3, 2011, the Company issued and sold an additional 4,095,000 common shares of beneficial interest, $0.01 par value per share, at a price per share of $18.00 upon exercise of the Overallotment, for total gross proceeds of $73.7 million. The Company received aggregate net proceeds of approximately $69.1 million in connection with the Overallotment. The Company holds the net proceeds from the Overallotment as cash to be used for working capital purposes or to invest in short-term, interest-bearing, investment-grade securities, and money market accounts that are consistent with its intention to qualify as a REIT.

On June 17, 2011, the Company granted 25,000 restricted common shares of beneficial interest to certain employees. The shares vest ratably over 16 quarters. These common shares of beneficial interest were issued under the 2011 Plan.

On June 17, 2011, the Company s Board of Trustees declared a prorated cash dividend of $0.08 per common share of beneficial interest, payable on or about July 15, 2011 to shareholders of record as of June 30, 2011. The $0.08 dividend was prorated from May 16, 2011, the closing date of the IPO, through June 30, 2011.

On June 30, 2011, the Company granted an aggregate of 2,302 fully vested common shares of beneficial interest to certain members of the Board of Trustees as part of their 2011 compensation.

On August 16, 2011, the Company acquired 23,614 common shares of beneficial interest that were surrendered by certain employees in satisfaction of their statutory minimum federal income tax obligations in connection with the vesting of restricted common shares of beneficial interest issued to such employees under the 2011 Plan.

On September 14, 2011, 3,000 restricted common shares of beneficial interest previously issued under the 2011 Plan were forfeited as a result of the recipient of the granted unvested common shares of beneficial interest leaving the Company.

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On September 16, 2011, the Company acquired 534 common shares of beneficial interest that were surrendered by certain employees in satisfaction of their statutory minimum federal income tax obligations in connection with the vesting of restricted common shares of beneficial interest issued to such employees under the 2011 Plan.

On September 19, 2011, the Company s Board of Trustees declared a cash dividend of $0.15 per common share of beneficial interest, payable on or about October 17, 2011 to shareholders of record as of September 30, 2011.

On September 30, the Company granted an aggregate of 3,132 fully vested common shares of beneficial interest to certain members of the Board of Trustees as part of their 2011 compensation.

*Preferred Shares of Beneficial Interest*

Under the declaration of trust of the Company, the total number of shares initially authorized for issuance was 10,000 preferred shares. On May 5, 2011, the declaration of trust was amended to authorize the issuance of up to 50,000,000 preferred shares. As of September 30, 2011 and December 31, 2010, respectively, there were no preferred shares of beneficial interest outstanding.

*Noncontrolling Interest in Joint Venture*

As of September 30, 2011, the Company consolidates DBT Met Hotel Venture, LP, a majority-owned limited partnership that has a third-party partner that owns a noncontrolling 5.0% ownership interest. The third-party partnership interest is included in noncontrolling interest in joint venture on the balance sheet.

*Noncontrolling Interest in Operating Partnership*

The Company consolidates its Operating Partnership, a majority owned limited partnership that has a noncontrolling ownership interest and is included in noncontrolling interest in Operating Partnership on the balance sheet. As of September 30, 2011, the Operating Partnership had 107,194,067 OP units outstanding, of which 99.2% were owned by the Company and its subsidiaries and 0.8% were owned by other limited partners.

The outstanding OP units held by limited partners are redeemable for cash, or at the option of the Company, for a like number of common shares of beneficial interest of the Company.

*Partners Capital*

As of May 16, 2011, the Fund II partners had made aggregate capital contributions of approximately $726.2 million. In addition, $16.9 million of advisory fees, which reduce limited partner capital commitments, had been paid by the limited partners to the Fund II General Partner. Accordingly, 100.0% of total capital commitments had been committed as of May 16, 2011. As of May 16, 2011, Fund II had made distributions of approximately $162.0 million, in aggregate, including approximately $26.5 million of advisory fees distributed to the Fund II General Partner on behalf of the limited partners. On May 16, 2011, Fund II was merged into the Company.

As of May 16, 2011, the Fund III partners had made aggregate capital contributions of approximately $917.3 million. In addition, $50.1 million of advisory fees, which reduce limited partner capital commitments, had been paid by the limited partners to the Fund III General Partner. Accordingly, 81.2% of total capital commitments had been deployed as of May 16, 2011. As of May 16, 2011, Fund III had made no distributions, except for advisory fees (see Note 14). On May 16, 2011, Fund III was merged into the Company.

On May 16, 2011, in conjunction with the IPO, the partners of Fund II and Fund III received 73,605,951 common shares of beneficial interest, $0.01 par value per share, at $18.00 per share, for a total gross amount of $1,324.9 million, in exchange for their partnership interests in Fund II and Fund III.

*Members Capital*

The rights and obligations of the equity holders of RLJ Development (the Members ) are governed by the limited liability company agreement of RLJ Development, dated December 19, 2000 and amended January 1, 2002 (the Operating

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Agreement ). Each Member s interest in the Company is equal to the percentage of capital initially contributed by that Member. The Class A Member holds a 75% ownership interest and the two Class B Members hold a total interest of 25%. The Class A Member has made capital contributions totaling $115.3 million, none of which were contributed during the period from January 1, 2011 through May 16, 2011 or the year ended December 31, 2010. The Class B Members were not required to make, nor have they made any, capital contributions during the period from January 1, 2011 through May 16, 2011 or the year ended December 31, 2010.

On May 16, 2011, in conjunction with the IPO, the Members of RLJ Development received 894,000 OP Units, at $18.00 per unit, for a total gross amount of $16.1 million, in exchange for their contribution to the Operating Partnership of substantially all of the assets and liabilities of RLJ Development.

*Preferred Distributions*

Fund II, through wholly-owned subsidiaries, made distributions to preferred unitholders semi-annually on June 30 and December 31 each year. As of May 16, 2011, an aggregate of approximately $0.1 million had been distributed or was payable to preferred unitholders. On May 16, 2011, in conjunction with the IPO, the Fund II unitholders interests in Fund II were redeemed. The Company paid the unitholders the liquidation value of $250,000 plus accumulated and unpaid dividends of approximately $12,000 and a redemption premium of approximately $12,000.

Fund III, through wholly-owned subsidiaries, made distributions to preferred unitholders semi-annually on June 30 and December 31 each year. As of May 16, 2011, an aggregate of approximately $0.1 million had been distributed or was payable to preferred unitholders. On May 16, 2011, in conjunction with the IPO, the Fund III unitholders interests in Fund III were redeemed. The Company paid the unitholders the liquidation value of $250,000 plus accumulated and unpaid dividends of approximately $12,000 and a redemption premium of approximately $24,000.

**10. 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. In addition, the maximum number of common shares subject to awards of any combination that may be granted under the 2011 Plan during any calendar year to any one individual is limited to 1,000,000 shares. The exercise price of share options is determined by the Board of Trustees, but may not be less than 100% of the fair market value of the common shares on the date of grant. For grantees that own greater than ten percent of the total combined voting power of all classes of outstanding voting securities of the Company, the exercise price of share options may not be less than 110% of the fair market value of the common shares on the date of grant. The fair market value for all other types of share awards is determined by the closing price on the date of grant. As of September 30, 2011, there were 3,876,736 common shares available for future grant under the 2011 Plan.

**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.

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A summary of the non-vested shares as of September 30, 2011 is as follows:

| | Number of Shares | | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Unvested at January 1, 2011 | | $ | |
| Granted | 1,120,830 | | 17.93 |
| Vested | (73,771) | | 17.93 |
| Forfeited | (3,000) | | 17.53 |
| Unvested at September 30, 2011 | 1,044,059 | $ | 17.93 |

For the three and nine months ended September 30, 2011, the Company recognized approximately $1.3 million and $2.0 million, respectively, of share-based compensation expense related to these restricted share awards. As of September 30, 2011, there was $18.1 million of total unrecognized compensation costs related to non-vested share awards. As of September 30, 2011, these costs were expected to be primarily recognized over a weighted-average period of 3.6 years. The total fair value of shares vested (calculated as number of shares multiplied by vesting date share price) during both the three and nine months ended September 30, 2011 was approximately $1.3 million.

**11. Earnings per Common Share**

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 nine months ended September 30, 2011, since the limited partners share of income would also be added back to net income. 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 securities and are included in the computation of earnings per share pursuant to the two-class method. Accordingly, distributed and undistributed earnings attributable to unvested restricted shares (participating securities) have been excluded, as applicable, from net income or loss attributable to common shareholders utilized in the basic and diluted earnings per share calculations. Net income or loss figures are presented net of noncontrolling interests in the earnings per share calculations. The weighted average number of OP units held by the noncontrolling interest was 894,000 for both the three and nine months ended September 30, 2011.

For the three and nine months ended September 30, 2011, diluted weighted average common shares do not include the impact of unvested compensation-related shares because the effect of these items on diluted earnings per share would be anti-dilutive. For the three and nine months ended September 30, 2011, there were 1,044,059 anti-dilutive compensation-related shares outstanding.

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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, September 30, 2011 | | For the nine months ended, September 30, 2011 | |
|---|---|---|---|---|
| **Numerator:** | | | | |
| Net income (loss) attributable to common shareholders before discontinued operations | $ | 8,349 | $ | (9,219) |
| Add: Income from discontinued operations | | 22,970 | | 21,838 |
| Net income attributable to common shareholders | | 31,319 | | 12,619 |
| Less: Dividends paid on unvested restricted shares | | (157) | | (247) |
| Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares | $ | 31,162 | $ | 12,372 |
| | | | | |
| **Denominator:** | | | | |
| Weighted-average number of common shares - basic | | 105,228,305 | | 89,316,830 |
| Unvested restricted shares (1) | | | | |
| Weighted-average number of common shares - diluted | | 105,228,305 | | 89,316,830 |
| | | | | |
| Net income (loss) per share attributable to common shareholders before discontinued operations - basic and diluted | $ | 0.08 | $ | (0.10) |
| Discontinued operations | | 0.22 | | 0.24 |
| Net income per share attributable to common shareholders - basic and diluted | $ | 0.30 | $ | 0.14 |

(1) Anti-dilutive for all periods presented.

Unvested restricted shares are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the three months and nine months ended September 30, 2011, no earnings representing nonforfeitable dividends were allocated to the unvested restricted shares issued, because those shares were anti-dilutive for both periods.

**12. Financial Instruments: Derivatives and Hedging**

The Company employs interest rate swaps and caps to hedge against interest rate fluctuations. Unrealized gains and losses are reported in other comprehensive loss with no effect recognized in earnings as long as the characteristics of the swap and the hedged item are closely matched. The ineffective portion of all hedges is recognized in earnings in the current period. As of both September 30, 2011 and December 31, 2010, approximately 25.0% of the Company s borrowings were subject to variable rates, after taking into consideration the effect of interest rate swaps and caps.

As of September 30, 2011 and December 31, 2010, the Company has entered into the following interest rate swaps and caps (in thousands):

| Hedge type | Notional value at September 30, 2011 | Notional value at December 31, 2010 | Hedge interest rate | Maturity | Fair value at September 30, 2011 | Fair value at December 31, 2010 |
|---|---|---|---|---|---|---|
| Swap-cash flow | $ | $ 28,269 | 3.09% | 1/22/2011 | $ | $ (120) |
| Swap-cash flow | | 8,732 | 3.45% | 4/30/2011 | | (114) |
| Interest rate cap | | 73,168 | 5.00% | 6/9/2011 | | |
| Interest rate cap | (1) | 60,000 | 5.00% | 7/15/2011 | | |
| Interest rate cap | | 16,000 | 5.00% | 7/15/2011 | | |
| Interest rate cap | | 16,000 | 5.00% | 7/15/2011 | | |
| Swap-cash flow | (1) | 11,418 | 3.33% | 9/22/2011 | | (266) |
| Swap-cash flow | | 85,000 | 3.33% | 9/22/2011 | | (2,095) |
| Interest rate cap | 48,000 | 48,000 | 6.00% | 4/9/2012 | | |
| Interest rate cap | 37,000 | 37,000 | 6.00% | 4/9/2012 | | |
| Interest rate cap | 60,000 | 60,000 | 5.00% | 6/29/2012 | 1 | 18 |
| Interest rate cap | 50,000 | 50,000 | 3.50% | 12/23/2012 | 6 | 71 |
| Swap-cash flow | 150,000 | 150,000 | 1.15% | 12/23/2012 | (1,497) | (1,384) |
| Swap-cash flow | 40,000 | 40,000 | 1.00% | 10/6/2013 | (471) | 39 |
| Swap-cash flow | 31,000 | 31,000 | 1.00% | 10/6/2013 | (365) | 31 |
| | **$ 416,000** | **$ 714,587** | | | **$ (2,326)** | **$ (3,820)** |

(1) Interest rate swap was terminated in conjunction with the IPO on May 16, 2011.

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As of September 30, 2011 and December 31, 2010, there was approximately $2.3 million and $3.8 million, respectively, in unrealized losses included in accumulated other comprehensive loss, a component of shareholders equity, related to interest rate hedges that are effective in offsetting the variable cash flows. For the three and nine months ended September 30, 2010 approximately $16,000 and $58,000, respectively, in unrealized gains were recognized in earnings related to hedges that were ineffective in offsetting variable cash flows. There were no ineffective hedges during the three and nine months ended September 30, 2011.

**13. Fair Value**

*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 discounting the future contractual cash flows to the present value using a current market interest rate. The fair value estimated at both September 30, 2011 and December 31, 2010 was $22.1 million.

- Interest rate swaps and caps - The fair value of interest rate swaps and caps is determined as discussed in Note 12 to these financial statements.

- 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 quoted market rates for similar loans with similar terms.

- Fixed rate mortgage notes payable - The fair value estimated at September 30, 2011 and December 31, 2010 of $777.5 million and $796.5 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.

*Fair Value Measurement*

Fair value is defined as the price that would be received to sell 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.

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

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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 September 30, 2011 (in thousands).

| | Fair Value at September 30, 2011 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Interest rate swap and cap liability | $ | $ (2,326) | $ | $ (2,326) |
| Total | $ | $ (2,326) | $ | $ (2,326) |

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 counterparties. As of September 30, 2011, 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 s derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

## 14. Advisory Fees

Pursuant to the terms of the Fund II LP Agreements, the Fund II General Partner was entitled to receive annual advisory fees directly from the limited partners in consideration for the Fund II General Partner providing and managing the day-to-day operations and expenditures of Fund II. Total advisory fees due to the Fund II General Partner from limited partners, including advisory fees due from the limited partners admitted during subsequent closes, for the three and nine months ended September 30, 2011, were approximately zero and $3.2 million, respectively and for the three and nine months ended September 30, 2010, were approximately $2.2 million and $6.5 million, respectively. As of September 30, 2011 and December 31, 2010, all advisory fees due had been paid by the limited partners.

Pursuant to the terms of the Fund III LP Agreements, the Fund III General Partner was entitled to receive annual advisory fees directly from the limited partners in consideration for the Fund III General Partner providing and managing the day-to-day operations and expenditures of Fund III. Total advisory fees due to the Fund III General Partner from limited partners, including advisory fees due from the limited partners admitted during subsequent closes, for the three and nine months ended September 30, 2011, were approximately zero and $3.8 million, respectively and for the three and nine months ended September 30, 2010, were approximately $3.4 million and $10.3 million, respectively. As of September 30, 2011 and December 31, 2010, all advisory fees due had been paid by the limited partners.

The combined consolidated financial statements of the Company reflect these advisory fees as contributions and distributions within the respective partner accounts. As a result of the combination of RLJ Development with Fund II and Fund III and after elimination entries, the actual expenses associated with operating Fund II and Fund III have been reflected in these financial statements. Upon completion of the IPO and related formation transactions, the advisory fee obligations of the limited partners ceased to exist.

## 15. Related Party Transactions

The RLJ Predecessor paid monthly fees for management advisory services to the managing member of RLJ Development, which are included in general and administrative expense. Such fees amounted to zero and $0.9 million for the three and nine months ended September 30, 2011, respectively and $0.5 million and $1.7 million for the three and nine months ended September 30, 2010, respectively. Upon completion of the IPO and related formation transactions, the management fee obligation of the RLJ Predecessor ceased to exist.

RLJ Companies LLC and its affiliates, a related party, periodically provide services or pay certain amounts on the Company s behalf. At September 30, 2011 and December 31, 2010, there was approximately $35,000 and $0.1 million due to RLJ Companies, LLC, which was included in accounts payable and accrued expenses.

The RLJ Predecessor paid certain costs on behalf of RLJ Development (Mexico), LLC, a related party through common-ownership, and RLJ Development (Mexico), LLC paid for certain amounts on the RLJ Predecessor s behalf. At December

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31, 2010, the amounts due from RLJ Development (Mexico), LLC were $0.7 million which were included in prepaid and other assets. The Company did not have any amount due from or payable to RLJ Development (Mexico), LLC at September 30, 2011.

For the three and nine months ended September 30, 2011, the Company made charitable contributions to various foundations and charitable organizations totaling $27,000 and $0.2 million, respectively, which are included in general and administrative expense. For the three and nine months ended September 30, 2011, zero and $25,000 respectively, of these charitable contributions were directed by related parties. For the three and nine months ended September 30, 2010, the Company made charitable contributions to various foundations and charitable organizations totaling $0.1 million and $0.3 million, respectively, which are included in general and administrative expense. For the three and nine months ended September 30, 2010, $5,000 and $55,000, respectively, of these contributions were directed by related parties.

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

| | For the nine months ended September 30, | | | |
|---|---|---|---|---|
| | | 2011 | | 2010 |
| **Interest paid** | $ | 71,995 | $ | 63,575 |
| **Income taxes paid** | $ | 1,799 | $ | (178) |
| **Supplemental investing and financing transactions:** | | | | |
| In conjunction with the hotel acquisitions, the Company assumed the following assets and liabilities: | | | | |
| Purchase of real estate | $ | 204,588 | $ | 310,409 |
| Accounts receivable | | 457 | | 118 |
| Other assets | | 862 | | 1,344 |
| Advance deposits | | (368) | | (624) |
| Accounts payable and accrued expenses | | (2,209) | | (1,038) |
| Application of purchase deposit | | (8,500) | | |
| Acquisition of hotel properties | $ | 194,830 | $ | 310,209 |
| In conjunction with the hotel disposals, the Company disposed of the following assets and liabilities: | | | | |
| Sale of real estate | $ | (31,534) | $ | (49,406) |
| Other assets | | (8,006) | | |
| Other liabilities | | 5,056 | | |
| Gain on sale of property | | | | (23,711) |
| Gain on extinguishment of indebtedness | | (23,516) | | |
| Forgiveness of indebtedness | | 58,000 | | |
| Disposition of hotel properties | $ | | $ | (73,117) |
| **Supplemental non-cash transactions:** | | | | |
| Change in fair market value of interest rate swaps | $ | 1,494 | $ | 10,745 |
| Distributions payable | $ | 16,079 | $ | |
| Preferred distributions payable | $ | 47 | $ | 16 |

## 17. Subsequent Events

On October 14, 2011, the Company paid a dividend of $0.15 per common share of beneficial interest to shareholders of record at September 30, 2011.

On October 21, 2011, the Company, through wholly-owned subsidiaries, entered into five separate first mortgage non-recourse loans, which resulted in aggregate proceeds to the Company $142.0 million. Each loan is collateralized by a hotel property. The mortgage loans have an initial term of three years and bear interest at LIBOR plus 3.60%. The Company utilized $140.0 million of the proceeds from these new loans to fully repay the Company s unsecured term loan (See Note 6).

On October 27, 2011, the Company, through wholly-owned subsidiaries, acquired a 100% interest in the 176-room Courtyard Charleston Historic District for a purchase price of approximately $42.0 million. The hotel is located in Charleston, South Carolina. Noble Management Group was engaged to manage the hotel.

In November, 2011, the Company elected to cease the subsidization of debt service on the mortgage loans secured by the Courtyard Goshen and Springhill Suites Southfield. As of September 30, 2011, the principal balance outstanding was $5.6 million and $5.0 million, respectively. The loans mature in July 2016 and May 2015, respectively. The Company will work with the lenders to negotiate a deed in lieu of foreclosure process.

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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 the prospectus related to our IPO dated May 10, 2011, filed with the SEC in accordance with Rule 424(b) of the Securities Act of 1933, as amended, on May 11, 2011, which is accessible on the SEC s website at www.sec.gov.

**Statement Regarding Forward-Looking Information**

The following information contains forward-looking statements within the meaning Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, cash flows, earnings before interest, tax, depreciation and amortization ( EBITDA ), funds from operations ( FFO ) and plans and objectives or the current or future state of the lodging industry. These statements generally are characterized by the use of the words believe, expect, anticipate, estimate, plan, continue, intend, should, may or similar express 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 downturn, 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, our ability to obtain lines of credit or permanent financing on satisfactory terms, changes in interest rates, availability of proceeds from offerings of our debt or equity securities, our ability to identify suitable investments, our ability to close on identified investments and inaccuracies of our accounting estimates. Given these uncertainties, undue reliance should not be placed on such statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances or to reflect the occurrence of unanticipated events. We urge you to review the disclosures concerning risks in the sections entitled Risk Factors, Forward-Looking Statements, and Management s Discussion and Analysis of Financial Condition and Results of Operations in the prospectus relating to our IPO.

**Overview**

We are a self-advised and self-administered Maryland real estate investment trust, which invests primarily in premium-branded, focused-service and compact full-service hotels. As of September 30, 2011, we owned 140 hotels in 19 states and the District of Columbia comprising 20,488 rooms. 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 generally exhibit multiple demand generators and high barriers to entry.

Our strategy is to invest primarily in 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 hotels have the potential to generate attractive returns relative to other types of hotels due to their ability to achieve revenue per available room ( 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 expected 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 expected access to capital (including availability under our revolving 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.

**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 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 derived from hotel operations, including the sale of rooms, food and beverage revenue and other operating department revenue, which consist 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 hotel expenses. Room expense includes housekeeping, reservation systems, room supplies, laundry services and front desk costs. Food and beverage expense primarily includes food, beverage 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**

Our discussion and analysis of the historical financial condition and results of operations is based on our combined consolidated financial statements. 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 historical combined consolidated financial statements. 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 Properties***

Hotel acquisitions consist almost exclusively of land, land improvements, buildings, furniture, fixtures and equipment and inventory. We record the purchase price among these asset classes based on their respective fair values. When we acquire hotels, we acquire them for use. Generally, we do not acquire any significant in-place leases or other intangible assets (e.g., management agreements, franchise agreements or trademarks) when hotels are acquired. The only intangible assets acquired through September 30, 2011 consist of favorable tenant lease agreements and miscellaneous operating agreements, which are short-term in nature and at market rates. In conjunction with the acquisition of a hotel, we typically negotiate new franchise and management agreements with the selected brand and manager.

Our investments in hotels are carried at cost and are depreciated using the straight-line method over estimated useful

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lives of 15 years for land improvements, 40 years for buildings and improvements and three to five years for furniture, fixtures and equipment. Intangible assets arising from favorable or unfavorable leases are amortized using the straight-line method over the term of the non-cancelable 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 operations.

We assess the carrying values of each hotel whenever events or changes in circumstances indicate that the carrying amounts of these hotels may not be fully recoverable. Recoverability of the hotel is measured by comparison of the carrying amount of the hotel 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 hotel. If our analysis indicates that the carrying value of the hotel is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the fair value of the hotel. 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 strategic plans to manage the underlying hotels. 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 hotels.

**Results of Operations**

At September 30, 2011 and 2010, we owned 140 and 121 hotels respectively (excluding seven hotels carried as discontinued operations in all periods presented). All hotels owned during these periods, excluding discontinued operations, have been included in our results of operations during those respective periods or since their date of acquisition.

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***Comparison of the three months ended September 30, 2011 to the three months ended September 30, 2010***

Net income from continuing operations for the three months ended September 30, 2011 was $8.7 million compared to a net loss from continuing operations of $7.9 million for the three months ended September 30, 2010, representing an increase of $16.6 million. This improved performance was primarily due to a $60.8 million, or 44.6%, increase in total revenue (including $50.6 million attributable to hotels acquired during the periods), partially offset by a $41.7 million, or 33.3%, increase in operating expenses (including $32.3 million attributable to hotels acquired during the periods), and a decrease in interest income of $2.3 million, which was primarily the result of interest income related to our investment in two mortgage loans secured by hotels, which were brought current during the quarter ended September 30, 2010.

| | For the three months ended September 30, 2011 | 2010 | $ change | % change |
|---|---|---|---|---|
| **Revenue** | | | | |
| Hotel operating revenue | | | | |
| Room revenue | $ 172,589 | $ 119,134 | $ 53,455 | 44.9% |
| Food and beverage revenue | 19,497 | 13,870 | 5,627 | 40.6% |
| Other operating department revenue | 5,165 | 3,448 | 1,717 | 49.8% |
| **Total revenue** | **197,251** | **136,452** | **60,799** | 44.6% |
| | | | | |
| **Expense** | | | | |
| Hotel operating expense | | | | |
| Room | 39,012 | 25,304 | 13,708 | 54.2% |
| Food and beverage | 13,479 | 9,443 | 4,036 | 42.7% |
| Management fees | 6,755 | 4,828 | 1,927 | 39.9% |
| Other hotel expenses | 59,559 | 41,532 | 18,027 | 43.4% |
| Total hotel operating expense | 118,805 | 81,107 | 37,698 | 46.5% |
| | | | | |
| Depreciation and amortization | 29,026 | 24,422 | 4,604 | 18.9% |
| Property tax, insurance and other | 12,463 | 9,677 | 2,786 | 28.8% |
| General and administrative | 6,329 | 4,647 | 1,682 | 36.2% |
| Transaction and pursuit costs | 282 | 5,455 | (5,173) | (94.8)% |
| IPO Costs | 89 | | 89 | 0.0% |
| Total operating expense | 166,994 | 125,308 | 41,686 | 33.3% |
| Operating income | 30,257 | 11,144 | 19,113 | 171.5% |
| Other income | 518 | 177 | 341 | 192.7% |
| Interest income | 424 | 2,730 | (2,306) | (84.5)% |
| Interest expense | (21,664) | (21,580) | (84) | 0.4% |
| | | | | |
| Income (Loss) from continuing operations before income taxes | 9,535 | (7,529) | 17,064 | (226.6)% |
| | | | | |
| Income tax expense | (858) | (382) | (476) | 124.6% |
| Income (Loss) from continuing operations | 8,677 | (7,911) | 16,588 | (209.7)% |
| | | | | |
| Income (loss) from discontinued operations | 22,970 | (619) | 23,589 | (3810.8)% |
| | | | | |
| Net income (loss) | 31,647 | (8,530) | 40,177 | (471.0)% |
| | | | | |
| Net income attributable to non-controlling interests | | | | |
| Noncontrolling interest in joint venture | (22) | | (22) | 0.0% |
| Noncontrolling interest in common units of Operating Partnership | (306) | | (306) | 0.0% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net income (loss) attributable to the Company | | 31,319 | | (8,530) | | 39,849 | (467.2)% |
| Distributions to preferred unitholders | | | | (16) | | 16 | (100.0)% |
| **Net income (loss) attributable to common shareholders** | **$** | **31,319** | **$** | **(8,546)** | **$** | **39,865** | (466.5)% |

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***Revenue***

Total revenue increased $60.8 million, or 44.6%, to $197.3 million for the three months ended September 30, 2011 from $136.5 million for the three months ended September 30, 2010. The increase was a result of $50.6 million in revenue attributable to nine hotels that were acquired in 2011 and fifteen hotels that were acquired in 2010 and the effects of improving economic conditions as demonstrated by a 7.9% increase in RevPAR for properties held during the entirety of both periods.

The following are the key hotel operating statistics for hotels owned at September 30, 2011 and 2010, respectively, for our ownership period:

| | For the three months ended September 30, 2011 | For the three months ended September 30, 2010 | % Change |
|---|---|---|---|
| Number of hotels (at end of period) | 140 | 121 | 15.7% |
| Occupancy % | 75.2% | 72.1% | 4.4% |
| ADR | $ 122.75 | $ 110.22 | 11.4% |
| RevPAR | $ 92.37 | $ 79.45 | 16.3% |

Portfolio RevPAR increased to $92.37 from $79.45, a 16.3% increase. For the 120 properties owned for the entirety of both periods, RevPAR increased 7.9% and was driven by a 4.2% increase in occupancy and a 3.5% increase in ADR. The addition of new hotels to the portfolio drove occupancy up by 0.3% and ADR by $8.82 for a total RevPAR impact of $6.94.

*Room Revenue*

Our portfolio consists primarily of premium-branded focused-service and compact full-service hotels that generate the majority of their revenues through room sales. Room revenue increased $53.5 million, or 44.9%, to $172.6 million for the three months ended September 30, 2011 from $119.1 million for the three months ended September 30, 2010. This increase was primarily a result of $44.0 million of room revenue from hotels acquired during the periods. The remaining increase was the result of a 7.9% RevPAR growth at properties owned for the entirety of both periods.

*Food and Beverage Revenue*

Food and beverage revenue increased $5.6 million, or 40.6%, to $19.5 million for the three months ended September 30, 2011 from $13.9 million for the three months ended September 30, 2010. The increase includes $4.9 million in food and beverage revenue arising from hotels acquired during the periods.

*Other Operating Department Revenue*

Other operating department revenue, which includes revenue derived from ancillary sources, increased $1.7 million, or 49.8%, to $5.2 million for the three months ended September 30, 2011 from $3.4 million for the three months ended September 30, 2010 primarily due to hotels acquired during the periods.

***Hotel Operating Expense***

Hotel operating expense increased $37.7 million, or 46.5%, to $118.8 million for the three months ended September 30, 2011 from $81.1 million for the three months ended September 30, 2010. This increase includes $32.3 million in hotel operating expense attributed to hotels acquired during the periods. The remaining increase was primarily attributable to variable costs associated with increases in business activity.

***Depreciation and Amortization***

Depreciation and amortization expense increased $4.6 million, or 18.9%, to $29.0 million for the three months ended September 30, 2011 from $24.4 million for the three months ended September 30, 2010. The increase reflects a $6.5 million increase in depreciation and amortization expense attributable to hotels acquired during the periods.  The remaining decrease is the net impact of declines in depreciation expense due to assets being fully depreciated less any increases in

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depreciation expense due to capital expenditures.

***Property Tax, Insurance and Other***

Property tax, insurance and other expense increased $2.8 million, or 28.8%, to $12.5 million for the three months ended September 30, 2011 from $9.7 million for the three months ended September 30, 2010. The increase includes $3.4 million in property tax, insurance and other expense attributable to hotels acquired during the periods.

***General and Administrative***

General and administrative expense increased $1.7 million, or 36.2%, to $6.3 million for the three months ended September 30, 2011 from $4.6 million for the three months ended September 30, 2010. The increase in general and administrative expense is primarily attributable to an increase in accrued bonuses of $0.6 million, amortization of restricted share awards of $1.3 million and $0.2 million of legal fees, partially offset by a decrease in professional fees of $0.1 million and management advisory fee of $0.6 million.

***Transaction and Pursuit costs***

Transaction and pursuit costs decreased $5.2 million to $0.3 million for the three months ended September 30, 2011 from $5.5 million for the three months ended September 30, 2010. There were no acquisitions during the three months ended September 30, 2011 compared to two acquisitions during the three months ended September 30, 2010, which resulted in transaction costs of $4.9 million. There were approximately $0.1 million of costs incurred during the three months ended September 30, 2011 related to the finalization of transactions that were consummated in the fourth quarter of 2011. There was a net decrease of approximately $0.4 million of costs associated with unsuccessful acquisition efforts during the periods.

***Interest Income***

Interest income decreased $2.3 million to $0.4 million for the three months ended September 30, 2011 from $2.7 million for the three months ended September 30, 2010. This decrease was primarily due to a $2.2 million decline in interest income from our investment in two mortgage loans secured by hotels between the two periods which were brought current during the three months ended September 30, 2010.

***Interest Expense***

Interest expense increased $0.1 million, or 0.4%, to $21.7 million for the three months ended September 30, 2011 from $21.6 million for the three months ended September 30, 2010. Interest expense increased as a result of $4.4 million in additional interest expense arising from debt incurred related to hotel acquisitions during the periods, $1.9 million of interest expense related to borrowings on the $140.0 million term loan, an increase in deferred financing fee amortization of $0.4 million and an increase in unused fee incurred on the $300.0 million line of credit of $0.3 million.  The offsetting decrease was primarily due to the expiration of unfavorable interest rate hedges resulting in a decrease in expense of $1.9 million and a decrease in interest of $4.5 million due to the payoff of variable rate indebtedness.

***Income Taxes***

As part of its corporate structure, the Company owns TRSs that are subject to federal and state income taxes.  The TRSs   effective tax rates were 37.07% and 0.0% for the three months ended September 30, 2011 and September 30, 2010, respectively.  The change in rate is primarily due to recent acquisitions generating income affecting both the Company   s federal income tax rate and state apportionment factor.  The Company recorded tax expense of $0.9 million and $0.4 million for the three months ended September 30, 2011 and September 30, 2010, respectively, primarily as a result of state taxes based on revenues.

***Income from Discontinued Operations***

Net income from discontinued operations increased $23.6 million to $23.0 million for the three months ended September 30, 2011 from a loss of $0.6 million for the three months ended September 30, 2010. The increase in net income

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from discontinued operations arose from the August 5, 2011 transfer of title to the New York LaGuardia Airport Marriott to the former lenders pursuant to a deed in lieu of foreclosure arrangement.

***Comparison of the nine months ended September 30, 2011 to the nine months ended September 30, 2010***

Net loss from continuing operations for the nine months ended September 30, 2011 was $8.9 million compared to a net loss from continuing operations of $31.1 million for the nine months ended September 30, 2010, representing a decrease of $22.2 million. This improved performance was primarily due to a $190.9 million, or 50.4%, increase in total revenue (including $164.5 million attributable to hotels acquired during the periods), partially offset by a $156.1 million, or 44.9%, increase in operating expenses (including $103.1 million attributable to hotels acquired during the periods and nonrecurring IPO costs of $10.3 million), an increase in interest expense of $10.7 million, which was primarily the result of additional indebtedness incurred related to hotel acquisitions during the nine months ended September 30, 2011 as compared to the same period in the prior year and a decrease in interest income of $1.6 million, which was primarily the result of interest income related to our investment in loans which were brought current during the nine months ended September 30, 2010.

| | For the nine months ended September 30, 2011 | 2010 | $ change | % change |
|---|---|---|---|---|
| **Revenue** | | | | |
| Hotel operating revenue | | | | |
| Room revenue | $ 495,217 | $ 327,672 | $ 167,545 | 51.1% |
| Food and beverage revenue | 59,664 | 41,749 | 17,915 | 42.9% |
| Other operating department revenue | 14,810 | 9,394 | 5,416 | 57.7% |
| **Total revenue** | **569,691** | **378,815** | **190,876** | 50.4% |
| | | | | |
| **Expense** | | | | |
| Hotel operating expense | | | | |
| Room | 110,753 | 70,278 | 40,475 | 57.6% |
| Food and beverage | 41,767 | 28,016 | 13,751 | 49.1% |
| Management fees | 19,519 | 13,497 | 6,022 | 44.6% |
| Other hotel expenses | 172,744 | 115,948 | 56,796 | 49.0% |
| Total hotel operating expense | 344,783 | 227,739 | 117,044 | 51.4% |
| | | | | |
| Depreciation and amortization | 91,479 | 70,465 | 21,014 | 29.8% |
| Property tax, insurance and other | 35,951 | 27,417 | 8,534 | 31.1% |
| General and administrative | 17,504 | 14,547 | 2,957 | 20.3% |
| Transaction and pursuit costs | 3,614 | 7,438 | (3,824) | (51.4)% |
| IPO Costs | 10,333 | | 10,333 | 0.0% |
| Total operating expense | 503,664 | 347,606 | 156,058 | 44.9% |
| Operating income | 66,027 | 31,209 | 34,818 | 111.6% |
| Other income | 742 | 411 | 331 | 80.5% |
| Interest income | 1,264 | 2,889 | (1,625) | (56.2)% |
| Interest expense | (75,415) | (64,760) | (10,655) | 16.5% |
| | | | | |
| Income (Loss) from continuing operations before income taxes | (7,382) | (30,251) | 22,869 | (75.6)% |
| | | | | |
| Income tax expense | (1,546) | (898) | (648) | 72.2% |
| Income (Loss) from continuing operations | (8,928) | (31,149) | 22,221 | (71.3)% |

| | | | | |
|---|---|---|---|---|
| Income (loss) from discontinued operations | 21,838 | 19,034 | 2,804 | 14.7% |
| Net income (loss) | 12,910 | (12,115) | 25,025 | (206.6)% |
| Net loss (income) attributable to non-controlling interests | | | | |
| Noncontrolling interest in joint venture | 55 | | 55 | 0.0% |
| Noncontrolling interest in common units of Operating Partnership | (285) | | (285) | 0.0% |
| Net income (loss) attributable to the Company | 12,680 | (12,115) | 24,795 | (204.7)% |
| Distributions to preferred unitholders | (61) | (48) | (13) | 27.1% |
| **Net income (loss) attributable to common shareholders** | **$ 12,619** | **$ (12,163)** | **$ 24,782** | (203.7)% |

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***Revenue***

Total revenue increased $190.9 million, or 50.4%, to $569.7 million for the nine months ended September 30, 2011 from $378.8 million for the nine months ended September 30, 2010. The increase was a result of $164.5 million in revenue attributable to nine hotels that were acquired in 2011 and fifteen hotels that were acquired in 2010 and the effects of improving economic conditions as demonstrated by an 8.0% increase in RevPAR for properties held during the entirety of both periods.

The following are the key hotel operating statistics for hotels owned at September 30, 2011 and 2010, respectively, for our ownership period:

| | For the nine months ended September 30, 2011 | For the nine months ended September 30, 2010 | % Change |
|---|---|---|---|
| Number of hotels (at end of period) | 140 | 121 | 15.7% |
| Occupancy % | 73.2% | 69.2% | 5.8% |
| ADR | $ 123.28 | $ 109.64 | 12.4% |
| RevPAR | $ 90.24 | $ 75.84 | 19.0% |

Portfolio RevPAR increased to $90.24 from $75.84, a 19.0% increase. For the 116 properties owned for the entirety of both periods, RevPAR increased 8.0% and was driven by a 4.0% increase in occupancy and a 3.8% increase in ADR. The addition of new hotels to the portfolio drove occupancy up by 1.2% and ADR by $10.22 for a total RevPAR impact of $8.85.

*Room Revenue*

Our portfolio consists primarily of premium-branded focused-service and compact full-service hotels that generate the majority of their revenues through room sales. Room revenue increased $167.5 million, or 51.1%, to $495.2 million for the nine months ended September 30, 2011 from $327.7 million for the nine months ended September 30, 2010. This increase was primarily a result of $142.2 million of room revenue from hotels acquired during the periods. The remaining amount came from an 8.0% RevPAR growth in properties owned for the entirety of both periods.

*Food and Beverage Revenue*

Food and beverage revenue increased $17.9 million, or 42.9%, to $59.7 million for the nine months ended September 30, 2011 from $41.7 million for the nine months ended September 30, 2010. The increase includes $16.7 million in food and beverage revenue arising from hotels acquired during the periods.

*Other Operating Department Revenue*

Other operating department revenue, which includes revenue derived from ancillary sources, increased $5.4 million, or 57.7%, to $14.8 million for the nine months ended September 30, 2011 from $9.4 million for the nine months ended September 30, 2010 primarily due to hotels acquired during the periods.

***Hotel Operating Expense***

Hotel operating expense increased $117.0 million, or 51.4%, to $344.8 million for the nine months ended September 30, 2011 from $227.7 million for the nine months ended September 30, 2010. This increase includes $103.1 million in hotel operating expense attributable to hotels acquired during the periods. The remaining increase was primarily attributable to variable costs associated with increases in business activity.

***Depreciation and Amortization***

Depreciation and amortization expense increased $21.0 million, or 29.8%, to $91.5 million for the nine months ended September 30, 2011 from $70.5 million for the nine months ended September 30, 2010. The increase reflects a $22.1 million increase in depreciation and amortization expense attributable to hotels acquired during the periods.  The remaining decrease is the net impact of declines in depreciation expense due to assets being fully depreciated less any increases in depreciation expense due to capital expenditures.

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***Property Tax, Insurance and Other***

Property tax, insurance and other expense increased $8.5 million, or 31.1%, to $36.0 million for the nine months ended September 30, 2011 from $27.4 million for the nine months ended September 30, 2010. The increase includes $10.1 million in property tax, insurance and other expense attributable to hotels acquired during the periods.

***General and Administrative***

General and administrative expense increased $3.0 million, or 20.3%, to $17.5 million for the nine months ended September 30, 2011 from $14.5 million for the nine months ended September 30, 2010. The increase in general and administrative expense is primarily attributable to an increase in accrued bonuses of $1.9 million, amortization of restricted share awards of $1.9 million and an increase in professional fees of $0.2 million, offset by a decrease in legal fees of $0.7 million.

***Transaction and Pursuit costs***

Transaction and pursuit costs decreased $3.8 million to $3.6 million for the nine months ended September 30, 2011 from $7.4 million for the nine months ended September 30, 2010. There were nine acquisitions during the nine months ended September 30, 2011 resulting in transaction costs of $3.4 million for the period compared to five acquisitions during the nine months ended September 30, 2010 resulting in transaction costs of $6.6 million. The period-over-period increase in transaction costs was partially offset by a net decrease of $0.7 million of costs associated with unsuccessful acquisition efforts during the periods.

***IPO Costs***

In connection with the IPO and related formation transactions, for the nine months ended September 30, 2011, we incurred $10.3 million in non-recurring expenses for the transfer and assumption of indebtedness and other contractual obligations of the RLJ Predecessor.

***Interest Income***

Interest income decreased $1.6 million to $1.3 million for the nine months ended September 30, 2011 from $2.9 million for the nine months ended September 30, 2010. This decrease was primarily due to a $1.4 million decline in interest income from our investment in two mortgage loans secured by hotels between the two periods which were brought current during the nine months ended September 30, 2010.

***Interest Expense***

Interest expense increased $10.7 million, or 16.5%, to $75.4 million for the nine months ended September 30, 2011 from $64.8 million for the nine months ended September 30, 2010. Interest expense increased as a result of $13.2 million in additional interest expense arising from debt incurred related to hotel acquisitions during the periods, $2.9 million of expenses related to the payoff of variable rate indebtedness, $5.1 million of interest expense related to borrowings on the term loan, an increase in deferred financing fee amortization of $1.1 million and an increase in unused fee incurred on the $300.0 million line of credit of $0.3 million. The offsetting decrease was primarily due to the expiration of unfavorable interest rate hedges resulting in a decrease in interest expense of $8.0 million and a decrease in interest expense of $4.3 million due to the payoff of variable rate indebtedness.

***Income Taxes***

As part of its corporate structure, the Company owns TRSs that are subject to federal and state income taxes. The TRSs effective tax rates were 37.07% and 0.0% for the nine months ended September 30, 2011 and September 30, 2010, respectively. The change in rate is primarily due to recent acquisitions generating income affecting both the Company s federal income tax rate and state apportionment factor. The Company recorded tax expense of $1.5 million and $0.9 million for the nine months ended September 30, 2011 and September 30, 2010, respectively, primarily as a result of state taxes based on revenues.

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***Income from Discontinued Operations***

Net income from discontinued operations increased $2.8 million, or 14.7% to $21.8 million for the nine months ended September 30, 2011 from $19.0 million for the nine months ended September 30, 2010. The increase in net income from discontinued operations arose from the August 5, 2011 transfer of title to the New York LaGuardia Airport Marriott to the former lenders pursuant to a deed in lieu of foreclosure arrangement.

**Non-GAAP Financial Measures**

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our performance: (1) FFO, (2) Adjusted FFO, (3) EBITDA, and (4) Adjusted EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as a measure of our operating performance. FFO, Adjusted FFO, EBITDA and Adjusted EBITDA, as calculated by us, may not be comparable to FFO, Adjusted FFO, EBITDA and Adjusted EBITDA as reported by other companies that do not define such terms exactly as we define such terms.

***Funds From Operations***

We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, ( NAREIT ), which defines FFO as net income or loss (calculated in accordance with GAAP), excluding gains or losses from sales of real estate, items classified by GAAP as extraordinary, the cumulative effect of changes in accounting principles, plus depreciation and amortization, and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most real estate industry investors consider FFO to be helpful in evaluating a real estate company s operations. We believe that the presentation of FFO provides useful information to investors regarding our operating performance by excluding the effect of depreciation and amortization, gains or losses from sales for real estate, extraordinary items and the portion of items related to unconsolidated entities, all of which are based on historical cost accounting, and that FFO can facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common shareholders. Our calculation of FFO may not be comparable to measures calculated by other companies who do not use the NAREIT definition of FFO or do not calculate FFO per diluted share in accordance with NAREIT guidance. Additionally, FFO may not be helpful when comparing us to non-REITs. We present FFO attributable to common shareholders, which includes our OP units, because our OP units are redeemable for common shares of beneficial interest. We believe it is meaningful for the investor to understand FFO attributable to all common shares of beneficial interest and OP units.

We further adjust FFO for certain additional items that are not in NAREIT s definition of FFO, such as hotel transaction and pursuit costs, the amortization of share based compensation and other nonrecurring expenses that were the result of the IPO and related formation transactions. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs.

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The following is a reconciliation of our GAAP net income (loss) to FFO and Adjusted FFO for the three and nine months ended September 30, 2011 and 2010 (in thousands):

| | For the three months ended September 30, 2011 | For the three months ended September 30, 2010 | For the nine months ended September 30, 2011 | For the nine months ended September 30, 2010 |
|---|---|---|---|---|
| Net income (loss) | $ 31,647 | $ (8,530) | $ 12,910 | $ (12,115) |
| Depreciation and amortization | 29,026 | 24,422 | 91,479 | 70,465 |
| Distributions to preferred unitholders | | (16) | (61) | (48) |
| (Income) loss from discontinued operations | (22,970) | 619 | (21,838) | (19,034) |
| Noncontrolling interest in joint venture | (22) | | 55 | |
| **FFO** | **37,681** | **16,495** | **82,545** | **39,268** |
| | | | | |
| Transaction and pursuit costs | 282 | 5,455 | 3,614 | 7,438 |
| IPO costs (1) | 89 | | 10,333 | |
| Amortization of share based compensation | 1,322 | | 1,962 | |
| Nonrecurring expenses (2)(3) | | 782 | 5,665 | 2,345 |
| **Adjusted FFO** | **$ 39,374** | **$ 22,732** | **$ 104,119** | **$ 49,051** |

(1) Includes nonrecurring expenses for the transfer and assumption of indebtedness and other contractual obligations of the RLJ Predecessor.

(2) Includes zero and $4.3 million, for the three and nine months ended September 30, 2011, respectively, of incremental interest expense related to the accelerated payoff of mortgage indebtedness.

(3) Includes zero and $1.4 million, for the three and nine months ended September 30, 2011 and $0.8 million and $2.3 million for the three and nine months ended September 30, 2010 of certain general and administrative expenses of the RLJ Predecessor.

***Earnings Before Interest, Taxes, Depreciation and Amortization***

EBITDA is defined as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; and (3) depreciation and amortization. We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. In addition, EBITDA is used as one measure in determining the value of hotel acquisitions and dispositions.

We further adjust EBITDA for certain additional items such as discontinued operations, hotel transaction and pursuit costs, the amortization of share based compensation and other nonrecurring expenses that were the result of the IPO and related formation transactions. We believe that Adjusted EBITDA provides investors with another financial measure that can facilitate comparisons of operating performance between periods and between REITs. We present EBITDA attributable to common shareholders, which includes our OP units, because our OP units are redeemable for common shares of beneficial interest. We believe it is meaningful for the investor to understand EBITDA attributable to all common shares of beneficial interest and OP units.

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The following is a reconciliation of our GAAP net income (loss) to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2011 and 2010 (in thousands):

| | For the three months ended September 30, 2011 | For the three months ended September 30, 2010 | For the nine months ended September 30, 2011 | For the nine months ended September 30, 2010 |
|---|---|---|---|---|
| Net income (loss) | $ 31,647 | $ (8,530) | $ 12,910 | $ (12,115) |
| Depreciation and amortization | 29,026 | 24,422 | 91,479 | 70,465 |
| Distributions to preferred unitholders | | (16) | (61) | (48) |
| Interest expense, net (1)(2) | 21,651 | 21,468 | 75,371 | 64,489 |
| Income tax expense | 858 | 382 | 1,546 | 898 |
| Noncontrolling interest in joint venture | (22) | | 55 | |
| **EBITDA** | **83,160** | **37,726** | **181,300** | **123,689** |
| | | | | |
| Transaction and pursuit costs | 282 | 5,455 | 3,614 | 7,438 |
| IPO Costs (2) | 89 | | 10,333 | |
| (Income) loss from discontinued operations | (22,970) | 619 | (21,838) | (19,034) |
| Amortization of share based compensation | 1,322 | | 1,962 | |
| Nonrecurring expenses (3) | | 782 | 1,363 | 2,345 |
| **Adjusted EBITDA** | **$ 61,883** | **$ 44,582** | **$ 176,734** | **$ 114,438** |

(1) Excludes amounts attributable to investment in loans of $411 and $1.2 million for the three and nine months ended September 30, 2011 and $2.6 million for both the three and nine months ended September 30, 2010, respectively.

(2) Includes nonrecurring expenses for the transfer and assumption of indebtedness and other contractual obligations of the RLJ Predecessor.

(3) Includes zero and $1.4 million, for the three and nine months ended September 30, 2011 and $0.8 million and $2.3 million for the three and nine months ended September 30, 2010 of certain general and administrative expenses of the RLJ Predecessor.

**Liquidity and Capital Resources**

Our short-term liquidity requirements consist primarily of funds necessary to pay for operating expenses and other expenditures directly associated with our hotels, including:

- recurring maintenance and capital expenditures necessary to maintain our hotels in accordance with brand standards;
- interest expense and scheduled principal payments on outstanding indebtedness;
- distributions necessary to qualify for taxation as a REIT; and

- capital expenditures to improve our hotels, including capital expenditures required by our franchisors in connection with our formation transactions, recent hotel acquisitions and the rebranding of five of our hotels.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our credit facility.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional hotels and redevelopments, renovations, expansions and other capital expenditures that need to be made periodically with respect to our hotels and scheduled debt payments. We expect to meet our long-term liquidity requirements through various sources of capital, including our credit facility and future equity (including OP units) or debt offerings, existing working capital, net cash provided by operations, long-term hotel mortgage indebtedness and other secured and unsecured borrowings. However, there are a number of factors that may have a material adverse effect on our ability to access these capital sources, including the current state of overall equity and credit markets, our degree of leverage, the value of our unencumbered assets

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and borrowing restrictions imposed by lenders, general market conditions for REITs, our operating performance and liquidity and market perceptions about us. The success of our business strategy will depend, in part, on our ability to access these various capital sources.

Our hotels will require periodic capital expenditures and renovation to remain competitive. In addition, acquisitions, redevelopments or expansions of hotels will require significant capital outlays. We may not be able to fund such capital improvements solely from net cash provided by operations because we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gains, to qualify and maintain our qualification as a REIT, and we are subject to tax on any retained income and gains. As a result, our ability to fund capital expenditures, acquisitions or hotel redevelopment through retained earnings is very limited. Consequently, we expect to rely heavily upon the availability of debt or equity capital for these purposes. If we are unable to obtain the necessary capital on favorable terms, or at all, our financial condition, liquidity, results of operations and prospects could be materially and adversely affected.

***Credit Facility***

We, through the Operating Partnership, have an unsecured revolving credit facility that provides for maximum borrowings of up to $300.0 million. The credit facility requires that a group of no less than fifteen of the Company s hotel properties remain unencumbered by outstanding indebtedness. The credit facility contains certain financial covenants relating to maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default exists, under the terms of the credit facility, the Company is not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. The credit facility matures on June 20, 2014 and may be extended for an additional year, at our option.

Borrowings under the credit facility bear interest at variable rates equal to the LIBOR plus an applicable margin. The margin ranges from 2.25% to 3.25%, depending on our leverage ratio, as calculated under the terms of the credit facility. We incur an unused facility fee of between 0.30% and 0.40%, based on the amount by which the maximum borrowing amount exceeds the total principal balance of outstanding borrowings.

We did not incur any interest expense on the credit facility for the three or nine months ended September 30, 2011. For both the three and nine months ended September 30, 2011, the Company incurred an unused commitment fee of approximately $307,000 and $343,000, respectively. There were no borrowings outstanding under the revolving credit facility at September 30, 2011.

***Term Loan***

On January 14, 2011, we entered into a $140.0 million unsecured term loan. Fund III agreed to maintain an unencumbered asset pool of ten hotel properties during the term of the term loan. The term loan contains certain financial covenants related to maximum leverage ratio, minimum fixed charge coverage ratio and minimum net worth. The term loan has an original maturity date of September 30, 2011 and bears interest at LIBOR plus 4.25%, with a LIBOR floor of 1.00%. We have the option to extend the term loan for two additional six-month periods subject to our prior satisfaction of certain conditions, including compliance with certain financial covenants and advance notice of our intention to exercise the extension. As of September 30, 2011, we were in compliance with all of the financial covenants. On September 30, 2011, the Company amended the term loan to extend the maturity date to November 15, 2011, with one extension to December 31, 2011, at the Company s option. On October 21, 2011, the term loan was fully repaid.

**Sources and Uses of Cash**

As of September 30, 2011, we had $368.5 million of cash and cash equivalents compared to $267.5 million at December 31, 2010.

***Cash flows from Operating Activities***

Net cash flow provided by operating activities totaled $90.6 million for the nine months ended September 30, 2011. Net income of $12.9 million was due in significant part to non-cash expenses, including $91.5 million of depreciation, $4.8 million of amortization of deferred financing costs, $0.8 million of amortization of deferred management fees and $2.0

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million of amortization of share based compensation.  In addition, there was a gain on the extinguishment of indebtedness of $23.5 million and changes in operating assets and liabilities due to the timing of cash receipts and payments from our hotels resulted in net cash inflow of $2.3 million.

Net cash flow provided by operating activities totaled $47.0 million for the nine months ended September 30, 2010.  Net loss of $12.1 million was due in significant part to non-cash expenses, including $73.3 million of depreciation and $2.3 million of amortization of deferred financing fees, partially offset by a $23.7 million gain on the sale of six hotels.  Changes in operating assets and liabilities due to the timing of cash receipts and payments from our hotels resulted in net cash inflow of $6.5 million.

***Cash flows from Investing Activities***

Net cash flow used in investing activities totaled $265.8 million for nine months ended September 30, 2011 primarily due to $194.8 million used for the purchase of nine hotels, $52.0 million in improvements and additions to hotels, and the net funding of restricted cash reserves of $19.1 million.

Net cash flow used in investing activities totaled $250.0 million for the nine months ended September 30, 2010 primarily due to $310.2 million used for the purchase of five hotels, $8.5 million in improvements and additions to hotels, and the net funding of restricted cash reserves of $9.8 million, partially offset by $73.1 million of proceeds from the sale of six hotels.

***Cash flows from Financing Activities***

Net cash flow provided by financing activities totaled $276.3 million for nine months ended September 30, 2011 primarily due to $568.7 of proceeds from the issuance and sale of common shares of beneficial interest, $140.0 million in proceeds from the term loan and $126.7 million in net contributions from partners.  This was offset by $486.3 million of mortgage loan repayments, $39.4 million paid for offering costs related to the issuance and sale of common shares of beneficial interest, $16.3 million of partners   distributions, $8.6 million in payment of distributions to shareholders and unitholders, $4.1 million paid for deferred financing fees, $3.1 million in payment of member distributions, $0.5 million of payments for the redemption of preferred units, a $0.5 million distribution related to the joint venture noncontrolling interest and $0.3 million of shares acquired to satisfy the statutory minimum federal and state tax obligations of certain employees in connection with the vesting of restricted common shares of beneficial interest issued to such employees under our 2011 Equity Incentive Plan.

Net cash flow provided by financing activities totaled $211.9 million for nine months ended September 30, 2010 primarily due to $383.5 million of borrowings on the RLJ Predecessor credit facility, $60.0 million of proceeds related to mortgage indebtedness and $295.9 million of contributions from partners.  These cash inflows were offset by $399.9 million of repayments under the RLJ Predecessor credit facility, $71.7 million of mortgage loan repayments, $23.2 million in payment of partners   distributions, $28.5 million in payment of member distributions and $4.1 million paid for deferred financing fees.

**Capital Expenditures and Reserve Funds**

We maintain each of our hotels in good repair and condition and in conformity with applicable laws and regulations, franchise agreements and management agreements. The cost of all such routine improvements and alterations will be paid out of furniture, fixture and equipment ( FF&E ) reserves, which will be funded by a portion of each hotel s gross revenues. Routine capital expenditures will be administered by the hotel management companies. However, we will have approval rights over the capital expenditures as part of the annual budget process for each of our hotels.

From time to time, certain of our hotels may be undergoing renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, public space, meeting space, and/or restaurants, in order to better compete with other hotels in our markets. In addition, often upon acquisition of a hotel we are required to complete a property improvement plan in order to bring the hotel up to the respective franchisor s standards. If permitted by the terms of the management agreement, funding for a renovation will first come from the FF&E reserves. To the extent that the FF&E reserves are not available or adequate to cover the cost of the renovation, we will fund all or the remaining portion of the renovation with cash and cash equivalents on hand, our three-year, $300 million unsecured credit facility and other sources of available liquidity.

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In 2011, the Company authorized renovation projects totaling $115 million. The 2011 capital improvement program is largely focused on upgrading and/or repositioning 24 hotels acquired in 2010 and 2011, including seven brand conversions. The balance of the renovations will include brand related upgrades at other select hotels.

With respect to some of our hotels that are operated under franchise agreements with major national hotel brands and for some of our hotels subject to first mortgage liens, we are obligated to maintain FF&E reserve accounts for future capital expenditures at these hotels. The amount funded into each of these reserve accounts is generally determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents for each of the respective hotels, and typically ranges between 2.0% and 5.0% of the respective hotel s total gross revenue. As of September 30, 2011, approximately $50.6 million was held in FF&E reserve accounts for future capital expenditures.

**Off-Balance Sheet Arrangements**

As of September 30, 2011, we had no off-balance sheet arrangements.

**Inflation**

We rely entirely on the performance of the hotels and their ability to increase revenues to keep pace with inflation. Increases in the costs of operating our hotels due to inflation would adversely affect the operating performance of our TRS, which in turn, could inhibit the ability of our TRS to make required rent payments to us. Hotel management companies, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our hotel management companies to raise room rates.

**Seasonality**

Depending on a hotel s location and market, operations for the hotel may be seasonal in nature. This seasonality can be expected to cause fluctuations in our quarterly operating performance. For hotels located in non-resort markets, demand is generally lower in the winter months due to decreased travel and higher in the spring and summer months during the peak travel season. Accordingly, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk includes risks that arise from changes in interest rates, equity prices and other market changes that affect market sensitive instruments. Our primary market risk exposure is to changes in interest rates on our variable rate debt. As of September 30, 2011, we had approximately $556.0 million of total variable debt outstanding (or 41.4% of total indebtedness) with a weighted average interest rate of 5.10%

per annum. If market rates of interest on our variable rate debt outstanding as of September 30, 2011 were to increase by 1.00%, or 100 basis points, interest expense would decrease future earnings and cash flows by approximately $1.9 million annually, taking into account our existing contractual hedging arrangements.

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable. We have entered into derivative financial instruments such as interest rate swaps or caps to mitigate our interest rate risk or to effectively lock the interest rate on a portion of our variable rate debt. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

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The following table provides information about our financial instruments that are sensitive to changes in interest rates, including mortgage obligations and the term loan. For debt obligations outstanding as of September 30, 2011, the following table presents principal repayments and related weighted average interest rates by contractual maturity dates (in thousands):

| | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Fixed rate debt | $ | $ | $ | $ | $ 201,371 | $ 585,446 | $ 786,817 |
| Weighted average interest rate | | | | | 5.56% | 6.29% | 6.11% |
| | | | | | | | |
| Variable rate debt | $ 140,000 | $ 85,000 | $ 331,000 | $ | $ | $ | $ 556,000 |
| Weighted average interest rate | 5.25% | 2.13% | 5.79% | | | | 5.10% |
| | | | | | | | |
| **Total** | **$ 140,000** | **$ 85,000** | **$ 331,000** | **$** | **$ 201,371** | **$ 585,446** | **$ 1,342,817** |

The foregoing table reflects indebtedness outstanding as of September 30, 2011 and does not consider indebtedness, if any, incurred or repaid after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during future periods, prevailing interest rates, and our hedging strategies at that time.

Changes in market interest rates on our fixed rate debt impact the fair value of the debt, but such changes have no impact on our combined consolidated financial statements. If interest rates rise, and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease. As of September 30, 2011, the estimated fair value of our fixed rate debt was $777.5 million, which is based on having the same debt service requirements that could have been borrowed at the date presented, at prevailing current market interest rates.

## Item 4. Controls and Procedures.

***Disclosure Controls and Procedures***

The Company has established disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC s rules and forms, and is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at September 30, 2011.

***Changes in Internal Control over Financial Reporting***

There have been no changes in the Company s internal control over financial reporting (as defined in Rule 13a-15 and 15d-15 of the Exchange Act) during the period ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The nature of the operations of the hotels exposes the hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. Other than routine litigation arising out of the ordinary course of business, the Company is not presently subject to any material litigation nor, to the Company s knowledge, is any material litigation threatened against the Company.

**Item 1A. Risk Factors.**

For a discussion of our potential risks and uncertainties, see the information under the heading Risk Factors in the prospectus related to our IPO dated May 10, 2011, filed with the SEC in accordance with Rule 424(b) of the Securities Act of 1933, as amended, on May 11, 2011, which is accessible on the SEC s website at www.sec.gov. There have been no material changes to the risk factors previously disclosed in the prospectus.

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

***Unregistered Sales of Equity Securities***

The Company did not sell any securities during the quarter ended September 30, 2011 that were not registered under the Securities Act of 1933, as amended.

***Use of Proceeds from Registered Securities***

Our registration statement on Form S-11, as amended (Registration No. 333-172011) (the Registration Statement ), with respect to the IPO, registered up to $495.0 million of our common shares, par value $0.01 per share, and was declared effective by the SEC on May 10, 2011. We sold a total of 27,500,000 common shares in the IPO for gross proceeds of $495.0 million. The IPO was completed on May 16, 2011. The joint book-running managers of the IPO were BofA Merrill Lynch, Barclays Capital Inc. and Wells Fargo Securities. Senior Co-managers of the IPO were Deutsche Bank Securities and Goldman, Sachs & Co. Co-managers of the IPO were Keybanc Capital Markets, Raymond James and RBC Capital Markets.

All of the foregoing underwriting discounts and expenses were direct or indirect payments to persons other than: (i) our trustees, officers or any of their associates; (ii) persons owning ten percent (10%) or more of our common shares; or (iii) our affiliates.

The proceeds to us from the IPO were approximately $464.1 million, net of the underwriters discount of approximately $30.9 million. The net proceeds from the IPO were contributed to the Operating Partnership in exchange for 99.1% of the OP units in our Operating Partnership. The Company used all of the net proceeds from the IPO and cash on hand to repay approximately $472.6 million of secured indebtedness.

On June 3, 2011, we sold 4,095,000 common shares in connection with the Overallotment for gross proceeds of approximately $73.7 million. The proceeds to us from the Overallotment were approximately $69.1 million, net of the underwriters discount of approximately $4.6 million. As of September 30, 2011, the Company holds all of the net proceeds from the sale of shares upon exercise of the underwriters overallotment option as cash, to be used for working capital purposes or to invest in short-term, interest-bearing, investment-grade securities, and money market accounts that are consistent with our intention to qualify as a REIT.

***Issuer Purchases of Equity Securities***

We do not have a share repurchase program. However, during the quarter ended September 30, 2011, certain of our employees surrendered common shares owned by them to satisfy their statutory minimum federal income tax obligations associated with the vesting of restricted common shares of beneficial interest issued under our 2011 Equity Incentive Plan. In addition, in connection with our formation and initial capitalization, on January 31, we issued 500 of our common shares to each of Robert L. Johnson, our Executive Chairman, and Thomas J. Baltimore, Jr., our President and Chief Executive

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Officer, for $1.00 per share. On August 19, 2011, we repurchased for $1.00 per share each of the common shares issued to Messrs. Johnson and Baltimore in connection with our formation and initial capitalization. The following table summarizes all of these repurchases during the quarter ended September 30, 2011:

| **Period** | **Total number of shares purchased** | **Average price paid per share** | **Total number of shares purchased as part of publicly announced plans or programs** | **Maximum number of shares that may yet be purchased under the plans or programs** |
|---|---|---|---|---|
| July 1, 2011 through July 31, 2011 | | N/A | N/A | N/A |
| August 1, 2011 through August 31, 2011 | 24,614 | 13.72(1) | N/A | N/A |
| September 1, 2011 through September 30, 2011 | 534 | 13.62(2) | N/A | N/A |
| Total during quarter ended September 30, 2011 | 25,148 | 13.72(3) | N/A | N/A |

(1) The number of shares purchased represents (i) 23,614 common shares surrendered by certain of our employees to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted common shares of beneficial interest issued under our 2011 Equity Incentive Plan and (ii) an aggregate of 1,000 common shares repurchased from Messrs. Johnson and Baltimore at $1.00 per share. With respect to the 23,614 common shares surrendered by certain of our employees, the price paid per share is based on the closing price of our common shares as of the date of the determination of the statutory minimum federal income tax amounts (i.e., the date that the restricted common shares vested). We did not pay any cash consideration to repurchase these shares.

(2) The number of shares purchased represents 534 common shares surrendered by certain of our employees to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted common shares of beneficial interest issued under our 2011 Equity Incentive Plan . With respect to the 534 common shares surrendered by certain of our employees, the price paid per share is based on the closing price of our common shares as of the date of the determination of the statutory minimum federal income tax amounts (i.e., the date that the restricted common shares vested). We did not pay any cash consideration to repurchase these shares.

(3) The weighted average price paid per share during the period was $13.72.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. [Removed and Reserved]**

**Item 5. Other information.**

None.

**Item 6. Exhibits.**

The following exhibits are filed as part of this report:

| Exhibit Number | Description of Exhibit | |
|---|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | |
| 101.INS | XBRL Instance Document | Submitted electronically with this report |
| 101.SCH | XBRL Taxonomy Extension Schema Document | Submitted electronically with this report |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document | Submitted electronically with this report |

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| | | |
|---|---|---|
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | Submitted electronically with this report |
| 101.LAB | XBRL Taxonomy Label Linkbase Document | Submitted electronically with this report |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document | Submitted electronically with this report |

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Combined Consolidated Balance Sheets at September 30, 2011, and December 31, 2010, respectively, for RLJ Lodging Trust; (ii) the Combined Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and September 30, 2010, respectively, for RLJ Lodging Trust; (iii) the Combined Consolidated Statements of Changes in Equity and Comprehensive Loss for the nine months ended September 30, 2011 and September 30, 2010, respectively, for RLJ Lodging Trust and (iv) the Combined Consolidated Statements of Cash Flows for nine months ended September 30, 2011 and September 30, 2010, respectively, for RLJ Lodging Trust. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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## SIGNATURES

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

| | |
|---|---|
| | **RLJ LODGING TRUST** |
| Dated: November 10, 2011 | /s/ THOMAS J. BALTIMORE, JR.<br>**Thomas J. Baltimore, Jr.**<br>President, Chief Executive Officer and Trustee |
| Dated: November 10, 2011 | /s/ LESLIE D. HALE<br>**Leslie D. Hale**<br>Chief Financial Officer and Treasurer<br>(Principal Financial Officer) |
| Dated: November 10, 2011 | /s/ JULIO E. MORALES<br>**Julio E. Morales**<br>Chief Accounting Officer<br>(Principal Accounting Officer) |

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**Exhibit Index**

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