UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission File Number 001-35169

RLJ LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

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

(301) 280-7777

(Registrant s Telephone Number, Including Area Code)

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

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (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 1, 2012, 106,600,365 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)

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Investment in hotel properties, net	$ 3,004,618	$ 2,820,457
Investment in loans	12,480	12,633
Cash and cash equivalents	192,102	310,231
Restricted cash reserves	68,275	87,288
Hotel receivables, net of allowance of $295 and $150, respectively	29,324	20,081
Deferred financing costs, net	8,235	9,639
Deferred income tax asset	1,682	1,369
Prepaid expense and other assets	28,521	28,320
Total assets	**$ 3,345,237**	**$ 3,290,018**
Liabilities and Equity		
Borrowings under credit facility	$ 85,000	$
Mortgage loans	1,331,967	1,341,735
Interest rate swap liability	1,032	1,796
Accounts payable and accrued expense	80,385	86,213
Deferred income tax liability	3,281	3,314
Advance deposits and deferred revenue	10,320	4,781
Accrued interest	2,397	2,115
Distributions payable	17,902	16,076
Total liabilities	**1,532,284**	**1,456,030**
Commitments and Contingencies (Note 9)		
Equity		
Shareholders equity:		
Preferred shares of beneficial interest, $0.01 par value, 50,000,000 shares authorized; zero shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively.		
Common shares of beneficial interest, $0.01 par value, 450,000,000 shares authorized; 106,600,365 and 106,279,049 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively.	1,067	1,063
Additional paid-in-capital	1,839,195	1,835,011
Accumulated other comprehensive loss	(1,018)	(1,782)
Distributions in excess of net earnings	(44,336)	(18,960)
Total shareholders equity	1,794,908	1,815,332
Noncontrolling interest		

Noncontrolling interest in joint venture		6,718		7,170
Noncontrolling interest in Operating Partnership		11,327		11,486
Total noncontrolling interest		18,045		18,656
Total equity		**1,812,953**		**1,833,988**
Total liabilities and equity	**$**	**3,345,237**	**$**	**3,290,018**

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

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RLJ Lodging Trust

Combined Consolidated Statements of Operations and Comprehensive Income

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

(unaudited)

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Revenue				
Hotel operating revenue				
Room revenue	$ 197,584	$ 172,589	$ 551,005	$ 495,217
Food and beverage revenue	21,359	19,497	63,267	59,664
Other operating department revenue	6,274	5,165	17,395	14,810
Total revenue	**225,217**	**197,251**	**631,667**	**569,691**
Expense				
Hotel operating expense				
Room	43,545	39,012	121,442	110,753
Food and beverage	15,159	13,479	45,107	41,767
Management fees	7,913	6,755	21,855	19,519
Other hotel expenses	67,506	59,559	191,220	172,744
Total hotel operating expense	134,123	118,805	379,624	344,783
Depreciation and amortization	30,811	29,026	95,962	91,479
Impairment loss	896		896	
Property tax, insurance and other	14,234	12,463	39,342	35,951
General and administrative	8,073	6,329	22,814	17,504
Transaction and pursuit costs	326	282	3,140	3,614
IPO costs		89		10,333
Total operating expense	188,463	166,994	541,778	503,664
Operating income	36,754	30,257	89,889	66,027
Other income	68	518	258	742
Interest income	438	424	1,275	1,264
Interest expense	(21,620)	(21,664)	(62,175)	(75,415)
Loss on disposal			(634)	
Income (loss) from continuing operations before income taxes	15,640	9,535	28,613	(7,382)
Income tax expense	(339)	(858)	(1,214)	(1,546)
Income (loss) from continuing operations	15,301	8,677	27,399	(8,928)
Income from discontinued operations		22,970		21,838
Net income	15,301	31,647	27,399	12,910
Net (income) loss attributable to non-controlling interests				
Noncontrolling interest in joint venture	44	(22)	452	55
Noncontrolling interest in common units of Operating Partnership	(149)	(306)	(283)	(285)
Net income attributable to the Company	15,196	31,319	27,568	12,680

Distributions to preferred unitholders								(61)
Net income attributable to common shareholders	$	15,196	$	31,319	$	27,568	$	12,619
Basic per common share data:								
Net income (loss) per share attributable to common shareholders before discontinued operations	$	0.14	$	0.08	$	0.26	$	(0.10)
Discontinued operations				0.22				0.24
Net income per share attributable to common shareholders	$	0.14	$	0.30	$	0.26	$	0.14
Weighted-average number of common shares		105,453,978		105,228,305		105,392,071		89,316,830
Diluted per common share data:								
Net income (loss) per share attributable to common shareholders before discontinued operations	$	0.14	$	0.08	$	0.26	$	(0.10)
Discontinued operations				0.22				0.24
Net income per share attributable to common shareholders	$	0.14	$	0.30	$	0.26	$	0.14
Weighted-average number of common shares		105,509,104		105,228,305		105,446,211		89,316,830
Comprehensive income								
Net income attributable to the Company	$	15,196	$	31,319	$	27,568	$	12,680
Unrealized gain on interest rate derivatives		389		682		764		1,494
Comprehensive income attributable to the Company	$	15,585	$	32,001	$	28,332	$	14,174

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

(Amounts in thousands, except share data)

(unaudited)

	Shareholders Equity					Noncontrolling Interests			
	Common Stock								
	Shares	Par Value	Additional Paid-in-Capital	Distributions in excess of net earnings	Accumulated Other Comprehensive Loss	Operating Partnership	Consolidated Joint Venture	Total Noncontrolling Interests	Total Equity
Balance at December 31, 2011	**106,279,049**	**$ 1,063**	**$ 1,835,011**	**$ (18,960)**	**$ (1,782)**	**$ 11,486**	**$ 7,170**	**$ 18,656**	**$ 1,833,988**
Net income				27,568		283	(452)	(169)	27,399
Unrealized gain on interest rate derivative					764				764
Issuance of restricted stock	436,646	4	(4)						
Amortization of share based compensation			5,763						5,763
Share grants to trustees	6,466		120						120
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(94,918)		(1,695)						(1,695)
Forfeiture of restricted stock	(26,878)								
Distributions on common shares and units				(52,944)		(442)		(442)	(53,386)
Balance at September 30, 2012	**106,600,365**	**$ 1,067**	**$ 1,839,195**	**$ (44,336)**	**$ (1,018)**	**$ 11,327**	**$ 6,718**	**$ 18,045**	**$ 1,812,953**

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

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	Partners Capital Fund II		Partners Capital Fund III		Members Capital		Preferred Units		Shareholders Equity Common Stock					Noncontrolling Interests		
	General Partner	Limited Partners	General Partner	Limited Partners	Class A	Class B	Fund II	Fund III	Shares	Par Value	Additional Paid-in-Capital	Distributions in excess of net earnings	Accumulated Other Comprehensive Loss	Operating Partnership	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**
Net income (loss)	(7)	(9,444)		(234)	(256)	(85)						22,706		285	(55)	230
Unrealized gain on interest rate derivatives													1,494			
Partners contributions	4,258	3,291	5,031	114,141												
Partners distributions	(3,230)	(4,876)	(3,798)	(4,392)												
Members distributions					(2,666)	(596)										
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)	(3,670)	(4,070)	61	60	73,605,951	736	1,304,343			11,571		11,571
Distributions to JV partner															(500)	(500)
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**

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, 2012	2011
Cash flows from operating activities:		
Net income	$ 27,399	$ 12,910
Adjustments to reconcile net income to cash flow provided by operating activities:		
Gain on extinguishment of indebtedness		(23,516)
Depreciation and amortization	95,962	91,479
Amortization of deferred financing costs	3,167	4,816
Amortization of deferred management fees	750	750
Impairment loss	896	
Loss on disposal	634	
Share grants to trustees	120	80
Amortization of share based compensation	5,763	1,962
Deferred income taxes	(346)	
Changes in assets and liabilities:		
Hotel receivables, net	(9,172)	(7,286)
Prepaid expense and other assets	(436)	(7,895)
Accounts payable and accrued expense	(6,721)	19,969
Advance deposits and deferred revenue	5,376	(1,300)
Accrued interest	282	(1,396)
Net cash flow provided by operating activities	123,674	90,573
Cash flows from investing activities:		
Acquisition of hotel properties, net of cash acquired	(182,690)	(194,830)
Proceeds from principal payments on investment in loans	153	155
Improvements and additions to hotel properties	(98,236)	(51,988)
Additions to property and equipment	(257)	(93)
Releases from (funding of) restricted cash reserves, net	19,013	(19,070)
Net cash flow used in investing activities	(262,017)	(265,826)
Cash flows from financing activities:		
Borrowings under credit facility	85,000	
Proceeds from term loan		140,000
Proceeds from mortgage loans	85,000	
Payment of mortgage principal	(94,768)	(486,260)
Distributions to noncontrolling interest		(500)
Repurchase of common shares	(1,695)	(338)
Distributions on common shares	(51,132)	(8,506)
Distributions on OP units	(428)	(71)
Payment of preferred unitholder distributions		(61)
Payment of deferred financing costs	(1,763)	(4,146)
Payment of members distributions		(3,104)
Proceeds from partners contributions		126,721
Payment of partners distributions		(16,296)

Distribution to preferred unitholders				(500)
Proceeds from issuance of common shares				568,700
Payment of offering costs				(39,379)
Net cash flow provided by financing activities		20,214		276,260
Net change in cash and cash equivalents		(118,129)		101,007
Cash and cash equivalents, beginning of period		310,231		267,454
Cash and cash equivalents, end of period	**$**	**192,102**	**$**	**368,461**

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 qualifies and has elected to be taxed as a REIT for U.S. federal income tax purposes, commencing with the portion of its taxable year ended December 31, 2011.

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.

Due to the timing of the IPO and the formation transactions, the Company s results of operations for the nine months ended September 30, 2011 reflect the combined financial condition and results of operations of the RLJ Predecessor together with the Company. The financial condition as of December 31, 2011 and September 30, 2012 and results of operations for the three months ended September 30, 2011 and the three and nine months ended September 30, 2012 reflect 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. As of September 30, 2012, there were 107,494,365 OP units outstanding and the Company owned, through a combination of direct and indirect interests, 99.2% of the outstanding OP units.

As of September 30, 2012, the Company owned interests in 144 hotels with 21,342 rooms located in 20 states and the District of Columbia, interests in land parcels located adjacent to certain hotels and an interest in two mortgage loans secured by hotels. The Company, through wholly-owned subsidiaries, owned a 100% interest in all of its 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.

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

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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. The accompanying unaudited interim financial statements include adjustments based on management s estimates (consisting of normal recurring adjustments), which the Company considers necessary for the fair statement of the combined consolidated balance sheets, statements of operations and comprehensive loss, statements of changes in equity and statements of cash flows for the interim periods presented. The unaudited interim combined consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2011, included in our Annual Report on Form 10-K filed with the SEC on March 8, 2012. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of actual operating results for the entire year.

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

The unaudited interim combined consolidated financial statements of RLJ Lodging Trust for the periods prior to the IPO include the accounts of Fund II, Fund III, and RLJ Development and their respective wholly-owned subsidiaries. All significant intercompany balances have been eliminated in consolidation. RLJ Development, Fund II and Fund III were entities under the common control of Robert L. Johnson and were formed for the purpose of acquiring and operating hotel properties. As part of the IPO and related formation transactions, the Company acquired certain of the assets of RLJ Development, including employees, furniture, fixtures and equipment (FF&E) and leases, which represented substantially all of RLJ Development s business. Since these three entities were under common control and the Company succeeded to their operations and businesses, the combined entities of Fund II, Fund III and RLJ Development, for the periods prior to the IPO, are presented as the RLJ Predecessor and referred to as the Company.

Reporting Periods

As of September 30, 2012, the Company owned five 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, 2012 and 2011 include the results of operations for the Company s Marriott-managed hotels for the 12-week and 36-week periods ending September 7, 2012 and September 9, 2011, respectively.

Use of Estimates

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

Revenue Recognition

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

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

Investment in Hotel Properties

Hotel acquisitions consist almost exclusively of land, land improvements, buildings, building improvements, furniture, fixtures and equipment and inventory. The Company allocates 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, 2012 consisted of favorable lease agreements and miscellaneous operating agreements, which are short-term in nature. 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, 15 years for building improvements, 40 years for buildings and three to five years for FF&E. Intangible assets arising from favorable or unfavorable leases are amortized using the straight-line method over the non-cancelable portion of the term of the agreement. Maintenance and repairs are expensed and major renewals or improvements are capitalized. Upon the sale or disposition of a fixed asset, the asset and related accumulated depreciation are removed from the accounts and the related gain or loss is included in discontinued operations.

The Company considers each individual hotel to be an identifiable component of the business. In accordance with the guidance on impairment or disposal of long-lived assets, the Company does not consider a 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.

Franchise Agreements

As of September 30, 2012, 139 of the Company s hotel properties are operated under franchise agreements with terms ranging from 10 to 30 years. The franchise agreements for these hotels allow the properties to operate under the respective brands. Pursuant to the franchise agreements, the Company pays a royalty fee, generally between 3.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs that amount to between 1.0% and 4.3% of room revenue. Certain hotels are also charged a royalty fee of between 1.0% and 3.0% of food and beverage revenues. Franchise fees are included in other hotel expenses in the accompanying unaudited interim combined consolidated financial statements.

Earnings Per Share

Basic earnings per common share is calculated by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding during the period excluding the weighted average number of

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

Share Based Compensation

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

Recent Accounting Pronouncements

Recently Adopted

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure requirements in U.S.GAAP and IFRSs (ASU 2011-04). ASU 2011-04 provides new guidance concerning fair value measurements and disclosure. The new guidance is the result of joint efforts by the FASB and the International Accounting Standards Board (IASB) to develop a single, converged fair value framework on how to measure fair value and the necessary disclosures concerning fair value measurements. The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. This ASU did not have a material effect on the Company s financial position, results of operations, or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 revised guidance over the manner in which entities present comprehensive income in the financial statements. This guidance removes the previous presentation options and provides that entities must report comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. This guidance does not change the items that must be reported in other comprehensive income nor does it require incremental disclosures in addition to those previously required. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This ASU did not have a material effect on the Company s financial position, results of operations, or cash flows.

In December 2011, the FASB issued ASU No. 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate-a Scope Clarification* (ASU No. 2011-10). ASU No. 2011-10 represents the consensus reached in EITF Issue No. 10-E, Derecognition of

in Substance Real Estate. The objective of this ASU is to resolve the diversity in practice about whether the guidance in *FASB Accounting Standards Codification*TM (Codification) Subtopic 360-20, Property, Plant, and Equipment Real Estate Sales, of Codification Topic 360, *Property, Plant, and Equipment,* applies to a parent that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt.

ASU 2011-10 provides that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity should apply the guidance in Codification Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary s operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt.

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This guidance should be applied on a prospective basis to deconsolidation events occurring after the effective date; with prior periods not adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. The guidance is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. This ASU did not have a material effect on the Company s financial position, results of operations, or cash flows.

In December 2011, the FASB released Accounting Standards Update No. 2011-11 (ASU 2011-11), *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires companies to provide new disclosures about offsetting and related arrangements for financial instruments and derivatives. The provisions of ASU 2011-11 are effective for annual reporting periods beginning on or after January 1, 2013, and are required to be applied retrospectively. When adopted, ASU 2011-11 is not expected to materially impact our condensed consolidated financial statements.

3. Acquisition of Hotel Properties

During the nine months ended September 30, 2012, the Company acquired the following hotels, which were funded through a combination of cash available on the Company s balance sheet and borrowings under its credit facility:

Hotel	Location	Acquisition Date	Management Company	Rooms		Purchase Price	% Interest
Residence Inn Bethesda	Bethesda, MD	May 29, 2012	Marriott International	187	$	64.5 million	100%
Courtyard New York Manhattan/Upper East Side	New York, NY	May 30, 2012	Highgate Hotels	226		82.0 million	100%
Hilton Garden Inn San Francisco/Oakland Bay Bridge	Emeryville, CA	June 11, 2012	Davidson Hotels & Resorts	278		36.2 million	100%
				691	$	182.7 million	

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	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%
Embassy Suites West Palm Beach-Central	West Palm Beach, FL	January 18, 2011	Windsor Capital Group	194		16.0 million	100%
Hilton Garden Inn Raleigh Durham-Research Triangle Park	Durham, NC	January 24, 2011	Noble Management Group	177		7.0 million	100%

Hilton Garden Inn Pittsburgh University Place	Pittsburgh, PA	January 24, 2011	Urgo Hotels	202		21.2 million	100%
Hampton Inn Houston-Near the Galleria	Houston, TX	March 14, 2011	Interstate Hotels and Resorts	176		20.3 million	100%
				1,841	$	204.6 million	

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

	September 30, 2012	September 30, 2011
Land and land improvements	$ 40,711	$ 29,131
Buildings and improvements	135,727	155,995
Furniture, fixtures and equipment	6,220	21,900
Deferred tax liabilities assumed		(2,438)
Total Purchase Price	**$ 182,658**	**$ 204,588**

There were no contingent consideration arrangements associated with these acquisitions nor was any goodwill recognized. See Note 14 for detail of non-cash prorations assumed at acquisition dates.

For the hotels acquired during the nine months ended September 30, 2012 and 2011, respectively, total revenues and net income (loss) from the date of acquisition through September 30, 2012 and 2011, respectively, are included in the accompanying combined consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011, respectively, as follows (in thousands):

	2012 acquisitions			
	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Revenue	$ 11,279	$	$ 14,301	$
Net income (loss)	$ 2,005	$	$ (408)	$

	2011 acquisitions			
	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Revenue	$ 23,069	$ 17,615	$ 66,392	$ 51,189
Net income	$ 3,125	$ 803	$ 7,451	$ 738

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The unaudited 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 2012 and 2011 acquisitions had taken place on the latter of January 1, 2011 or the opening date of the hotel, 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):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenue	$ 225,217	$ 208,535	$ 647,816	$ 603,102
Net income (loss)	$ 15,324	$ 10,262	$ 32,161	$ (3,045)
Net income (loss) per share attributable to common shareholders - basic	$ 0.15	$ 0.10	$ 0.31	$ (0.03)
Net income (loss) per share attributable to common shareholders - diluted	$ 0.15	$ 0.10	$ 0.30	$ (0.03)
Weighted average number of shares outstanding - basic	105,453,978	105,228,305	105,392,071	89,316,830
Weighted average number of shares outstanding - diluted	105,509,104	105,228,305	105,446,211	89,316,830

4. Discontinued Operations

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. In connection with the transfer, 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 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 nine months ended September 30, 2011
Net revenues	$ 3,537	$ 16,917
Operating expenses	4,006	18,107
Operating loss	(469)	(1,190)
Interest expense	(77)	(488)
Net loss from discontinued operations, before gain on sale	$ (546)	$ (1,678)
Gain on extinguishment of indebtedness	23,516	23,516
Net income from discontinued operations	$ 22,970	$ 21,838

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5. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2012 and December 31, 2011 consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Land and land improvements	$ 557,040	$ 515,957
Buildings and improvements	2,582,459	2,392,669
Furniture, fixtures and equipment	418,341	375,561
Intangibles	1,857	1,857
	3,559,697	3,286,044
Accumulated depreciation and amortization	(555,079)	(465,587)
Investment in hotel properties, net	**$ 3,004,618**	**$ 2,820,457**

For the three and nine months ended September 30, 2012, depreciation and amortization expense related to investment in hotel properties was approximately $30.8 million and $95.7 million, respectively. 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.

Impairment

During the quarter ended September 30, 2012, the Company recorded an impairment loss of $0.9 million related to the Fairfield Inn Memphis. The Company evaluated the recoverability of the hotel s carrying value given deteriorating operating results for the period ending September 30, 2012. Based on an analysis of estimated undiscounted net cash flow, the Company concluded that the carrying value of the hotel was not recoverable. The Company estimated the fair value of the hotel using a discounted cash flow analysis. In the analysis, the Company estimated the future net cash flows from the hotel, the expected useful life and holding period, and applicable capitalization and discount rates.

The Company determined that there was no impairment for the three or nine months ended September 30, 2011.

6. Debt

Credit Facility

The Company entered into an unsecured revolving credit facility on June 20, 2011 that provides for maximum borrowings of up to $300.0 million. The credit facility requires that a group of no less than 15 of the Company s hotel properties remain unencumbered by outstanding

indebtedness. The credit facility contains certain financial covenants relating to the Company s maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default exists, 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. As of September 30, 2012, 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 fees related to the credit facility which are being deferred and amortized over the term of the credit facility. The computed amortization approximates the amount that would be computed using the effective interest rate method.

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, 2012. 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, 2012.

The Company incurred interest expense on the credit facility for the three and nine months ended September 30, 2012 of approximately $0.6 million and $1.2 million, respectively. For the three and nine months ended September 30, 2012, the Company incurred an unused commitment fee of approximately $0.2 million and $0.7 million, respectively. There were $85.0 million of borrowings outstanding at September 30, 2012.

The Company did not incur any interest expense on the credit facility for the three and 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.

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%. The credit facility matured on January 31, 2011.

Fund III incurred no interest expense related to the credit facility 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.

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Mortgage Loans

As of September 30, 2012 and December 31, 2011, the Company was subject to the following mortgage loans (in thousands):

Lender	Number of Assets Encumbered	Interest rate at September 30, 2012 (1)	Maturity Date	Principal balance at, September 30, 2012	Principal balance at, December 31, 2011
Keybank			April 2012 (2)	$	$ 48,000
State Street Bank			April 2012 (2)		37,000
Wells Fargo	1	4.21%(3)	June 2013 (4)	60,000	60,000
Wells Fargo	1	5.50%(3)	Oct 2013 (4)	40,000	40,000
Wells Fargo	1	5.50%(3)	Oct 2013 (4)	31,000	31,000
Wells Fargo (5)	1	4.90%(6)	Dec 2013 (4)	150,000	150,000
Blackstone (5)		10.75%(6)	Dec 2013 (4)	50,000	50,000
Wells Fargo	1	3.81%(3)	Oct 2014 (4)	68,500	68,500
Wells Fargo	1	3.81%(3)	Oct 2014 (4)	17,500	17,500
Wells Fargo	1	3.81%(3)	Oct 2014 (4)	21,000	21,000
Wells Fargo	1	3.81%(3)	Oct 2014 (4)	11,000	11,000
Wells Fargo	1	3.81%(3)	Oct 2014 (4)	24,000	24,000
Capmark Financial Group	1	6.12%	April 2015	4,234	4,327
Capmark Financial Group	1	5.55%	May 2015	11,388	11,656
VFC Partners 20 LLC	1	5.50%	June 2015	5,014	5,014
Capmark Financial Group	1	5.55%	June 2015	4,940	5,057
Barclay s Bank	1	5.55%	June 2015	2,581	2,642
Barclay s Bank	1	5.55%	June 2015	4,237	4,336
Barclay s Bank	1	5.55%	June 2015	9,876	10,107
Barclay s Bank	1	5.55%	June 2015	8,814	9,020
Barclay s Bank	1	5.55%	June 2015	7,901	8,084
Barclay s Bank	1	5.60%	June 2015	5,478	5,603
Barclay s Bank	1	5.60%	June 2015	8,512	8,707
Barclay s Bank	1	5.55%	June 2015	5,175	5,296
Barclay s Bank	1	5.55%	June 2015	34,313	35,115
Barclay s Bank	1	5.60%	June 2015	6,517	6,669
Barclay s Bank	1	5.55%	June 2015	5,807	5,943
Barclay s Bank	1	5.55%	June 2015	6,674	6,830
Barclay s Bank	1	5.60%	June 2015	8,504	8,701
Barclay s Bank	1	5.55%	June 2015	6,666	6,821
Barclay s Bank	1	5.55%	June 2015	7,338	7,508
Barclay s Bank	1	5.55%	June 2015	6,674	6,830
Barclay s Bank	1	5.55%	June 2015	7,618	7,796
Barclay s Bank	1	5.55%	June 2015	9,560	9,783
Capmark Financial Group	1	5.50%	July 2015	6,726	6,883
Barclay s Bank	1	5.44%	Sept 2015	10,969	11,223
PNC Bank (7)	7	2.56%(3)	May 2016 (8)	85,000	
Merrill Lynch	1	6.29%	July 2016	9,208	9,294
Merrill Lynch	1	6.29%	July 2016	5,552	5,552
Merrill Lynch	1	6.29%	July 2016	7,708	7,780
Merrill Lynch	1	6.29%	July 2016	9,224	9,307
Wachovia Securities (9)	43	6.29%	July 2016	488,807	493,358
Wachovia Securities	1	6.29%	July 2016	6,602	6,664
Wells Fargo / Morgan Stanley	2	6.29%	July 2016	34,931	35,256

Wells Fargo / Morgan Stanley	1	6.29%	July 2016		6,774		6,837
Wells Fargo / Morgan Stanley	1	6.29%	July 2016		9,645		9,736
	92			**$**	**1,331,967**	**$**	**1,341,735**

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(1) Interest rate at September 30, 2012 gives effect to interest rate swaps and LIBOR floors, where applicable.

(2) The Keybank and State Street Bank loans were paid off with borrowings on the $300.0 million Credit Facility at maturity on April 9, 2012.

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

(4) 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).

(5) The Wells Fargo and Blackstone loans are a senior and a mezzanine loan, respectively.

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

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

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

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

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Some mortgage agreements are subject to customary financial covenants. The Company was in compliance with these covenants at September 30, 2012 and December 31, 2011.

In November 2011, the Company elected to cease the subsidization of debt service on the mortgage loan secured by the SpringHill Suites Southfield, Michigan. The loan matures in June 2015. In January 2012, the Company received notice of an event of default for failure to make the required monthly payment on its mortgage loan secured by the SpringHill Suites Southfield. The Company is working with the lender to transfer the asset in an orderly manner. As of September 30, 2012, the principal balance outstanding was $5.0 million for the SpringHill Suites Southfield loan.

In November 2011, the Company elected to cease the subsidization of debt service on the mortgage loan secured by the Courtyard Goshen, Indiana. The loan matures in July 2016. In December 2011, the Company received notice of an event of default for failure to make the required monthly payment on its mortgage loan secured by the Courtyard Goshen. In May 2012, an Order Appointing Receiver (the Order) was entered in the Elkhart County, Indiana, Superior Court No. 1. In June 2012, the receiver, pursuant to the Order, took control of the property for the benefit of the lender of the mortgage loan. As of September 30, 2012, the principal balance outstanding was $5.6 million for the Courtyard Goshen loan.

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 had an original maturity date of September 30, 2011, with two six-month extension options, and bore interest at LIBOR plus 4.25%, with a LIBOR floor of 1.00%. 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. The term loan was fully repaid on October 21, 2011.

7. 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 September 30, 2012 and December 31, 2011, approximately 25.3% and 25.1%, respectively, 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, 2012 and December 31, 2011, the Company had entered into the following interest rate swaps and caps, which the Company has designated as cash flow hedges (in thousands):

	Notional value at		**Hedge**		**Fair value at**	
Hedge type	**September 30, 2012**	**December 31, 2011**	**interest rate**	**Maturity**	**September 30, 2012**	**December 31, 2011**

Interest rate cap	$	$ 48,000	6.00%	4/9/2012	$	$
Interest rate cap		37,000	6.00%	4/9/2012		
Interest rate cap		60,000	5.00%	6/29/2012		
Interest rate cap	50,000	50,000	3.50%	12/23/2012		3
Swap-cash flow	150,000	150,000	1.15%	12/23/2012	(428)	(1,145)
Swap-cash flow	40,000	40,000	1.00%	10/6/2013	(341)	(369)
Swap-cash flow	31,000	31,000	1.00%	10/6/2013	(265)	(285)
Interest rate cap	60,000		1.00%	6/29/2013	2	
	$ 331,000	**$ 416,000**			**$ (1,032)**	**$ (1,796)**

As of September 30, 2012 and December 31, 2011, there was approximately $1.0 million and $1.8 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. The Company does not expect to reclassify any amount into earnings within the next 12 months. There were no ineffective hedges during either the three or nine months ended September 30, 2012 or 2011.

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8. 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 market rate is determined by giving consideration to one or both of the following criteria, as appropriate: (1) interest rates for loans of comparable quality and maturity, and (2) the value of the underlying collateral. The fair values of the Company s investment in collateralized loans are generally classified within Level 3 of the valuation hierarchy. The fair value estimated at both September 30, 2012 and December 31, 2011 was $22.6 million.

- Interest rate swaps and caps - The fair value of interest rate swaps and caps is determined as discussed in Note 7 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 and loan to value ratios, which is a Level 3 input. As a result, the Company determined that its fixed rate mortgage notes payable in their entirety are classified in Level 3 of the fair value hierarchy.

- Fixed rate mortgage notes payable - The fair value estimated at September 30, 2012 and December 31, 2011 of $748.1 million and $771.5 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 and loan to value ratios, which is a Level 3 input. As a result, the Company determined that its fixed rate mortgage notes payable in their entirety are classified in Level 3 of the fair value hierarchy. The carrying value of fixed rate mortgage notes payable at September 30, 2012 and December 31, 2011 was $774.0 million and $783.7 million, respectively.

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, 2012 (in thousands).

	Fair Value at September 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap and cap liability	$	$ (1,032)	$	$ (1,032)
Total	$	$ (1,032)	$	$ (1,032)

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, 2012, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Non-recurring Fair Value Measurements

For purposes of determining impairment charges, investments in hotel properties were valued using inputs including projected cash flows, and discount and capitalization rates. These valuations are generally classified within Level 3 of the valuation hierarchy.

9. Income Taxes

The Company elected to be taxed as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code when it filed its U.S. federal tax return for its short taxable year ended December 31, 2011. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its owners. The Company s intention is to adhere to these requirements and maintain the qualification for taxation as a REIT. As a REIT, the Company is not subject to federal corporate income tax on that portion of net income that is currently distributed to its 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, 2012 and December 31, 2011.

10. Commitments and Contingencies

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of FF&E) as determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents. The management agreements, franchise agreements and/or mortgage loan documents require the Company to reserve restricted cash ranging from 1.0% to 5.0% of the individual hotel s revenues and maintain the reserves in restricted cash reserve escrows. 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 loan agreements require the Company to reserve restricted cash for the periodic payment of real estate taxes and insurance. As of September 30, 2012 and December 31, 2011, approximately $68.3 million and $87.3 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.

11. Equity Incentive Plan

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

Non-vested Restricted Share Awards

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

A summary of the non-vested shares as of September 30, 2012 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2012	970,288	$ 17.93
Granted	436,646	17.57
Vested	(268,903)	17.86
Forfeited	(26,878)	17.80
Unvested at September 30, 2012	1,111,153	$ 17.81

For the three and nine months ended September 30, 2012, the Company recognized approximately $1.8 million and $5.0 million, respectively, of share-based compensation expense related to these restricted share awards. 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, 2012, there was $19.0 million of total unrecognized compensation costs related to non-vested share awards. As of September 30, 2012, these costs were expected to be primarily recognized over a weighted-average period of 2.9 years. The total fair value of shares vested (calculated as number of shares multiplied by vesting date share price) during the nine months ended September 30, 2012 was approximately $4.8 million.

Performance Units

The Company awarded performance units to certain employees under the 2011 Plan. The performance units vest over a four-year period, including three years of performance-based vesting (measurement period) plus an additional one year of time-based vesting. The performance units may convert into restricted shares at a range of 50% to 150% of the number of performance units granted contingent upon the Company achieving a total shareholder return over the measurement period at specified percentiles of the peer group, as defined by the award. If at the end of the measurement period the target criterion is met, 50% of the restricted shares will vest immediately. The remaining 50% will vest one year later. The award recipients

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will not be entitled to receive any dividends prior to the date of conversion. For any restricted shares issued upon conversion, the award recipient will be entitled to receive payment of an amount equal to all dividends that would have been paid if such restricted shares had been issued at the beginning of the measurement period. The fair value of the performance units is determined using a Monte Carlo simulation with the following assumptions: risk-free interest rate of 0.31%, volatility of 38.92%, and an expected term equal to the requisite service period for the awards. The Company determined compensation expense for the performance units on a straight line basis using a calculation that recognizes 50% of the grant date fair value over three years and 50% of the grant date fair value over four years.

A summary of the performance units is as follows:

	Number of Units	Weighted Average Grant Date Fair Value
Unvested at January 1, 2012		$
Granted	1,000,000	15.36
Unvested at September 30, 2012	1,000,000	$ 15.36

For the three and nine months ended September 30, 2012, the Company recognized $0.8 million of share-based compensation expense related to performance unit awards. There was no share-based compensation expense in 2011 related to the performance units as they were granted in 2012. As of September 30, 2012, there was $14.6 million of total unrecognized compensation cost related to the performance units and these costs are expected to be recognized over a weighted-average period of 3.32 years.

As of September 30, 2012, there were 3,458,126 common shares available for future grant under the 2011 Plan. Any performance units that convert into restricted shares will reduce the number of common shares available for future grant under the 2011 Plan.

12. Earnings per Common Share

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

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

For the three months and nine months ended September 30, 2012 and the three months ended September 30, 2011, no earnings representing undistributed earnings were allocated to participating shares because the Company paid dividends in excess of net income. For the nine months ended September 30, 2011, no earnings representing undistributed earnings were allocated to participating shares because the Company had a net loss for the period, excluding income from discontinued operations.

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, 2012, since the limited partners share of income would also be added back to net income attributable to common shareholders.

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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,		For the nine months ended,	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Numerator:				
Net income (loss) attributable to common shareholders before discontinued operations	$ 15,196	$ 8,349	$ 27,568	$ (9,219)
Add: Income from discontinued operations		22,970		21,838
Net income attributable to common shareholders	15,196	31,319	27,568	12,619
Less: Dividends paid on unvested restricted shares	(183)	(157)	(594)	(247)
Less: Undistributed earnings attributable to unvested restricted shares				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$ 15,013	$ 31,162	$ 26,974	$ 12,372
Denominator:				
Weighted-average number of common shares - basic	105,453,978	105,228,305	105,392,071	89,316,830
Unvested restricted shares	55,126		54,140	
Performance units				
Weighted-average number of common shares - diluted	105,509,104	105,228,305	105,446,211	89,316,830
Net income (loss) per share attributable to common shareholders - basic	$ 0.14	$ 0.08	$ 0.26	$ (0.10)
Discontinued operations		0.22		0.24
Net income per share attributable to common shareholders - basic	$ 0.14	$ 0.30	$ 0.26	$ 0.14
Net income (loss) per share attributable to common shareholders - diluted	$ 0.14	$ 0.08	$ 0.26	$ (0.10)
Discontinued operations		0.22		0.24
Net income per share attributable to common shareholders - diluted	$ 0.14	$ 0.30	$ 0.26	$ 0.14

13. Related Party Transactions

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

The Company periodically pays or collects certain amounts on behalf of or from RLJ Companies, LLC, an entity controlled by Robert L. Johnson, the Company s Executive Chairman. As of September 30, 2012 and December 31, 2011, there was $51,000 and $28,000, respectively, due from RLJ Companies, LLC which was included in prepaid and other assets.

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

	For the nine months ended September 30,			
		2012		2011
Interest paid	$	58,726	$	71,995
Income taxes paid	$	1,250	$	1,799
Supplemental investing and financing transactions:				
In conjunction with the hotel acquisitions, the Company assumed the following assets and liabilities:				
Purchase of real estate	$	182,658	$	204,588
Accounts receivable		71		457
Other assets		556		862
Advance deposits		(163)		(368)
Accounts payable and accrued expenses		(432)		(2,209)
Application of purchase deposit				(8,500)
Acquisition of hotel properties	$	182,690	$	194,830
In conjunction with the hotel disposals, the Company disposed of the following assets and liabilities:				
Sale of real estate	$		$	(31,534)
Other assets				(8,006)
Other liabilities				5,056
Gain on extinguishment of indebtedness				(23,516)
Forgiveness of indebtedness				58,000
Disposition of hotel properties	$		$	
Supplemental non-cash transactions:				
Change in fair market value of interest rate swaps	$	764	$	1,494
Accrued capital expenditures	$	461	$	
Distributions payable	$	17,902	$	16,079

15. Subsequent Events

On October 15, 2012, the Company paid a dividend of $0.165 per common share of beneficial interest to shareholders of record at September 28, 2012.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report, as well as the information contained in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 8, 2012 (the Annual Report), 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 common shares of beneficial interest (common shares), 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.

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance. Furthermore, we disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes. We caution investors not to place undue reliance on these forward-looking statements and urge you to carefully review the disclosures we make concerning risks and uncertainties in the sections entitled Risk Factors, Forward-Looking Statements, and Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report, as well as risks, uncertainties and other factors discussed in this Quarterly Report on Form 10-Q and identified in other documents filed by us with the SEC.

Overview

We are a self-advised and self-administered Maryland real estate investment trust (REIT), which invests primarily in premium-branded, focused-service and compact full-service hotels. As of September 30, 2012, we owned 144 hotels in 20 states and the District of Columbia comprising 21,342 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 multi-year lodging recovery.

Our hotels may be subject to unforeseen events beyond our control. On October 29, 2012, Hurricane Sandy made landfall in New Jersey causing damage across large portions of the Mid-Atlantic and Northeastern, United States. We are still in the early stages of assessing the financial and operational impact of the storm and are, therefore, unable to estimate its full financial and operational impact. However, based on our initial estimates, the impact to our hotels was minimal and we do not expect the impact to be significant to our overall fourth quarter 2012 results.

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We believe that attractive acquisition opportunities that meet our investment profile remain available in the market. We believe our cash on hand and expected access to capital (including availability under our 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, this group of 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 of our predecessor is based on our predecessor s 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 included elsewhere in this filing. We have set forth below those accounting policies that we believe require material subjective or complex judgments and have the most significant impact on our financial condition and results of operations. We evaluate our estimates, assumptions and judgments on an ongoing basis, based on information that is then available to us, our experience and various matters that we believe are reasonable and appropriate for consideration under the circumstances.

Investment in Hotel Properties

Hotel acquisitions consist almost exclusively of land, land improvements, buildings, building improvements, 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, 2012 consisted of favorable lease agreements and miscellaneous operating agreements, which are short-term in nature. 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 lives of 15 years for land improvements, 15 years for building improvements, 40 years for buildings 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 discontinued 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.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure requirements in U.S.GAAP and IFRSs (ASU 2011-04). ASU 2011-04 provides new guidance concerning fair value measurements and disclosure. The new guidance is the result of joint efforts by the FASB and the International Accounting Standards Board (IASB) to develop a single, converged fair value framework on how to measure fair value and the necessary disclosures concerning fair value measurements. The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. This ASU did not have a material effect on the Company s financial position, results of operations, or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 revised guidance over the manner in which entities present comprehensive income in the financial statements. This guidance removes the previous presentation options and provides that entities must report comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. This guidance does not change the items that must be reported in other comprehensive income nor does it require incremental disclosures in addition to those previously required. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This ASU did not have a material effect on the Company s financial position, results of operations, or cash flows.

In December 2011, the FASB issued ASU No. 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate-a Scope Clarification* (ASU No. 2011-10). ASU No. 2011-10 represents the consensus reached in EITF Issue No. 10-E, Derecognition of in Substance Real Estate. The objective of this ASU is to resolve the diversity in practice about whether the guidance in *FASB Accounting Standards Codification*TM (Codification) Subtopic 360-20, Property, Plant, and Equipment Real Estate Sales, of Codification Topic 360, *Property, Plant, and Equipment,* applies to a parent that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt.

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ASU 2011-10 provides that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity should apply the guidance in Codification Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary s operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt.

This guidance should be applied on a prospective basis to deconsolidation events occurring after the effective date; with prior periods not adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. The guidance is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. This ASU did not have a material effect on the Company s financial position, results of operations, or cash flows.

In December 2011, the FASB released Accounting Standards Update No. 2011-11 (ASU 2011-11), *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires companies to provide new disclosures about offsetting and related arrangements for financial instruments and derivatives. The provisions of ASU 2011-11 are effective for annual reporting periods beginning on or after January 1, 2013, and are required to be applied retrospectively. When adopted, ASU 2011-11 is not expected to materially impact our condensed consolidated financial statements.

Results of Operations

At September 30, 2012 and 2011, we owned 144 and 140 hotels, respectively (excluding one hotel reported as discontinued operations in 2011). 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. Operating results for certain hotels are not comparable for the three and nine month periods ended September 30, 2012 and 2011. The hotels listed in the table below are hereafter referred to as non-comparable hotels.

			Noncomparable hotel for the	
Hotel	**Location**	**Acquisition Date**	**three months ended September 30, 2012/2011**	**nine months ended September 30, 2012/2011**
Fairfield Inn & Suites Washington DC / Downtown (1)	Washington DC	June 1, 2010		x
Hampton Inn Houston-Near the Galleria	Houston, TX	March 14, 2011		x
Courtyard Charleston Historic District	Charleston, SC	October 27, 2011	x	x
Residence Inn Bethesda Hotel Downtown	Bethesda, MD	May 29, 2012	x	x
Courtyard New York / Manhattan Upper East Side	New York, NY	May 30, 2012	x	x
Hilton Garden Inn San Francisco / Oakland Bay	Emeryville, CA	June 11, 2012	x	x

Bridge

(1) Property was closed for renovation until March 29, 2011.

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Comparison of the three months ended September 30, 2012 to the three months ended September 30, 2011

Net income from continuing operations for the three months ended September 30, 2012 was $15.3 million compared to net income from continuing operations of $8.7 million for the three months ended September 30, 2011, representing an increase of $6.6 million. This improved performance was primarily due to a $28.0 million, or 14.2%, increase in total revenue (including $13.7 million arising from hotel acquisitions), partially offset by a $21.5 million, or 12.9%, increase in total operating expenses. The increase in total operating expenses was primarily attributable to $11.1 million from hotel acquisitions.

	For the three months ended September 30, 2012	2011	$ change	% change
Revenue				
Hotel operating revenue				
Room revenue	$ 197,584	$ 172,589	$ 24,995	14.5%
Food and beverage revenue	21,359	19,497	1,862	9.6%
Other operating department revenue	6,274	5,165	1,109	21.5%
Total revenue	**225,217**	**197,251**	**27,966**	14.2%
Expense				
Hotel operating expense				
Room	43,545	39,012	4,533	11.6%
Food and beverage	15,159	13,479	1,680	12.5%
Management fees	7,913	6,755	1,158	17.1%
Other hotel expenses	67,506	59,559	7,947	13.3%
Total hotel operating expense	134,123	118,805	15,318	12.9%
Depreciation and amortization	30,811	29,026	1,785	6.1%
Impairment loss	896		896	
Property tax, insurance and other	14,234	12,463	1,771	14.2%
General and administrative	8,073	6,329	1,744	27.6%
Transaction and pursuit costs	326	282	44	15.6%
IPO Costs		89	(89)	(100.0)%
Total operating expense	188,463	166,994	21,469	12.9%
Operating income	36,754	30,257	6,497	21.5%
Other income	68	518	(450)	(86.9)%
Interest income	438	424	14	3.3%
Interest expense	(21,620)	(21,664)	44	(0.2)%
Income from continuing operations before income taxes	15,640	9,535	6,105	64.0%
Income tax expense	(339)	(858)	519	(60.5)%
Income from continuing operations	15,301	8,677	6,624	76.3%
Income from discontinued operations		22,970	(22,970)	(100.0)%
Net income	15,301	31,647	(16,346)	(51.7)%
Net (income) loss attributable to non-controlling interests				
Noncontrolling interest in joint venture	44	(22)	66	(300.0)%
	(149)	(306)	157	(51.3)%

Noncontrolling interest in common units of Operating Partnership							
Net income attributable to common shareholders	**$**	**15,196**	**$**	**31,319**	**$**	**(16,123)**	(51.5)%

Revenue

Total revenue increased $28.0 million, or 14.2%, to $225.2 million for the three months ended September 30, 2012 from $197.3 million for the three months ended September 30, 2011. The increase was a result of $13.7 million in revenue attributable to non-comparable hotels and a 7.4% increase in RevPAR at the comparable properties.

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The following are the quarter-to-date key hotel operating statistics for hotels owned at September 30, 2012 and 2011, respectively:

	For the three months ended September 30,		
	2012	2011	% Change
Number of hotels (at end of period)	144	140	2.9%
Occupancy %	76.7%	75.2%	1.9%
ADR	$ 132.43	$ 122.75	7.9%
RevPAR	$ 101.55	$ 92.37	9.9%

Portfolio RevPAR increased to $101.55 from $92.37, a 9.9% increase. RevPAR, excluding non-comparable hotels, increased 7.4% and was driven by a 6.2% increase in ADR and a 1.1% increase in occupancy.

Room Revenue

Our portfolio consists primarily of focused-service and compact full-service hotels that generate the majority of their revenues through room sales. Room revenue increased $25.0 million, or 14.5%, to $197.6 million for the three months ended September 30, 2012 from $172.6 million for the three months ended September 30, 2011. This increase was a result of $12.3 million of room revenue from non-comparable hotels and a 7.4% RevPAR growth in comparable properties.

Food and Beverage Revenue

Food and beverage revenue increased $1.9 million, or 9.6%, to $21.4 million for the three months ended September 30, 2012 from $19.5 million for the three months ended September 30, 2011. The increase includes $0.9 million in food and beverage revenue arising from non-comparable hotels.

Other Operating Department Revenue

Other operating department revenue, which includes revenue derived from ancillary sources, increased $1.1 million, or 21.5%, to $6.3 million for the three months ended September 30, 2012 from $5.2 million for the three months ended September 30, 2011 primarily due to a $0.9 million increase in parking revenue across the portfolio.

Hotel Operating Expense

Hotel operating expense increased $15.3 million, or 12.9%, to $134.1 million for the three months ended September 30, 2012 from $118.8 million for the three months ended September 30, 2011. This increase includes $8.2 million in hotel operating expense as a result of non-comparable hotels. The remaining increase was primarily attributable to higher room expense, other operating department costs, and management and franchise fees. Room expense and other operating department costs were driven by higher occupancy at hotels not under renovation. Management fees and franchise fees, which are computed as a percentage of gross revenue and room revenue, respectively, increased as a result of higher revenues.

Depreciation and Amortization

Depreciation and amortization expense increased $1.8 million, or 6.1%, to $30.8 million for the three months ended September 30, 2012 from $29.0 million for the three months ended September 30, 2011. The increase reflects a $0.5 million increase in depreciation on building and furniture, fixtures and equipment for capital expenditures made during the three months ended September 30, 2012 and a $1.6 million increase in depreciation and amortization expense arising from non-comparable hotels. The offsetting decrease is a result of furniture, fixtures and equipment being fully depreciated during the periods.

Impairment Loss

Impairment loss increased $0.9 million to $0.9 million for the three months ended September 30, 2012 from zero for the three months ended September 30, 2011, related to an impairment charge on the Fairfield Inn Memphis.

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Property Tax, Ground Rent and Insurance

Property tax, ground rent and insurance expense increased $1.8 million, or 14.2%, to $14.2 million for the three months ended September 30, 2012 from $12.5 million for the three months ended September 30, 2011. The increase includes $1.0 million in property tax, ground rent and insurance expense arising from non-comparable hotels. Property tax, ground rent and insurance expense for the remainder of the portfolio increased $0.9 million.

General and Administrative

General and administrative expense increased $1.7 million, or 27.6%, to $8.1 million for the three months ended September 30, 2012 from $6.3 million for the three months ended September 30, 2011. The increase in general and administrative expense is primarily attributable to an increase in amortization of restricted share awards of $1.2 million, professional fees of $0.3 million and salary and wage expenses of $0.1 million.

Interest Expense

Interest expense decreased less than $0.1 million, to $21.6 million for the three months ended September 30, 2012 from $21.7 million for the three months ended September 30, 2011. The decrease in interest expense was the result of $1.9 million of interest expense related to the term loan which was incurred during the three months ended September 30, 2011 but not in 2012, the expiration of unfavorable interest rate hedges resulting in a decrease in hedge related interest expense of $0.7 million and a $0.4 million decrease in mortgage interest expense due to decreases in principal balances as the result of mortgage amortization. The offsetting increase was primarily due to an increase of $2.3 million of mortgage interest due to mortgage indebtedness that was incurred in the fourth quarter of 2011, $0.7 million of default interest related to the SpringHill Suites Southfield loan, a $0.1 million increase of unused fee incurred on the $300.0 million credit facility and $0.6 million of interest incurred on borrowings on the credit facility.

Income Taxes

As part of the structure, the Company owns TRSs that are subject to federal and state income taxes; as such the Company calculates an effective rate for each quarter. The effective tax rates were 69.84% and 18.53% for the three months ended September 30, 2012 and September 30, 2011, respectively. The increase in rate is primarily due to taxes that are revenue based, regardless of income at the TRSs. The Company s tax expense decreased $0.5 million to $0.3 million for the three months ended September 30, 2012 from $0.9 million for the three months ended September 30, 2011, primarily as a result of changes in various state tax laws.

Income from Discontinued Operations

Net income from discontinued operations decreased $23.0 million to zero for the three months ended September 30, 2012 from $23.0 million for the three months ended September 30, 2011. The decrease in net loss from discontinued operations arose from the transfer of title to the New York LaGuardia Airport Marriott pursuant to a deed in lieu of foreclosure arrangement on August 5, 2011.

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Comparison of the nine months ended September 30, 2012 to the nine months ended September 30, 2011

Net income from continuing operations for the nine months ended September 30, 2012 was $27.4 million compared to a net loss from continuing operations of $8.9 million for the nine months ended September 30, 2011, representing an increase of $36.3 million. This improved performance was primarily due to a $62.0 million, or 10.9%, increase in total revenue (including $26.8 million arising from hotel acquisitions) and a $13.2 million, or 17.6%, decrease in interest expense, partially offset by a $38.1 million, or 7.6%, increase in total operating expenses.

	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011	$ change	% change
	(amounts in thousands)			
Revenue				
Hotel operating revenue				
Room revenue	$ 551,005	$ 495,217	$ 55,788	11.3%
Food and beverage revenue	63,267	59,664	3,603	6.0%
Other operating department revenue	17,395	14,810	2,585	17.5%
Total revenue	**631,667**	**569,691**	**61,976**	10.9%
Expense				
Hotel operating expense				
Room	121,442	110,753	10,689	9.7%
Food and beverage	45,107	41,767	3,340	8.0%
Management fees	21,855	19,519	2,336	12.0%
Other hotel expenses	191,220	172,744	18,476	10.7%
Total hotel operating expense	379,624	344,783	34,841	10.1%
Depreciation and amortization	95,962	91,479	4,483	4.9%
Impairment loss	896		896	
Property tax, insurance and other	39,342	35,951	3,391	9.4%
General and administrative	22,814	17,504	5,310	30.3%
Transaction and pursuit costs	3,140	3,614	(474)	(13.1)%
IPO Costs		10,333	(10,333)	(100.0)%
Total operating expense	541,778	503,664	38,114	7.6%
Operating income	89,889	66,027	23,862	36.1%
Other income	258	742	(484)	(65.2)%
Interest income	1,275	1,264	11	0.9%
Interest expense	(62,175)	(75,415)	13,240	(17.6)%
Loss on disposal	(634)		(634)	
Income (loss) from continuing operations before income taxes	28,613	(7,382)	35,995	487.6%
Income tax expense	(1,214)	(1,546)	332	(21.5)%
Income (loss) from continuing operations	27,399	(8,928)	36,327	(406.9)%
Income from discontinued operations		21,838	(21,838)	(100.0)%
Net income	27,399	12,910	14,489	112.2%
Net (income) loss attributable to non-controlling interests				
Noncontrolling interest in joint venture	452	55	397	721.8%
	(283)	(285)	2	0.7%

Noncontrolling interest in common units of Operating Partnership							
Net income attributable to the Company		27,568		12,680		14,888	117.4%
Distributions to preferred unitholders				(61)		61	(100.0)%
Net income attributable to common shareholders	**$**	**27,568**	**$**	**12,619**	**$**	**14,949**	118.5%

Revenue

Total revenue increased $62.0 million, or 10.9%, to $631.7 million for the nine months ended September 30, 2012 from $569.7 million for the nine months ended September 30, 2011. The increase was a result of $26.8 million in revenue

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attributable to non-comparable hotels and a 5.7% increase in RevPAR at the comparable properties.

The following are the year-to-date key hotel operating statistics for hotels owned at September 30, 2012 and 2011, respectively:

	For the nine months ended September 30,		
	2012	2011	% Change
Number of hotels (at end of period)	144	140	2.9%
Occupancy %	73.8%	73.2%	0.9%
ADR	$ 131.22	$ 123.28	6.4%
RevPAR	$ 96.87	$ 90.24	7.4%

Portfolio RevPAR increased to $96.87 from $90.24, a 7.4% increase. RevPAR, excluding non-comparable hotels, increased 5.7% and was driven by a 5.2% increase in ADR and a 0.4% increase in occupancy. RevPAR at non-comparable hotels increased 37.2%, driven by an ADR increase of 14.0% and an occupancy increase of 20.4%.

Room Revenue

Our portfolio consists primarily of focused-service and compact full-service hotels that generate the majority of their revenues through room sales. Room revenue increased $55.8 million, or 11.3%, to $551.0 million for the nine months ended September 30, 2012 from $495.2 million for the nine months ended September 30, 2011. This increase was a result of $24.1 million of room revenue from non-comparable hotels and a 5.7% RevPAR growth in comparable properties.

Food and Beverage Revenue

Food and beverage revenue increased $3.6 million, or 6.0%, to $63.3 million for the nine months ended September 30, 2012 from $59.7 million for the nine months ended September 30, 2011. The increase includes $1.5 million in food and beverage revenue arising from non-comparable hotels.

Other Operating Department Revenue

Other operating department revenue, which includes revenue derived from ancillary sources, increased $2.6 million, or 17.5%, to $17.4 million for the nine months ended September 30, 2012 from $14.8 million for the nine months ended September 30, 2011. The increase is primarily due to $1.2 million of other operating department revenue at non-comparable hotels and a $1.1 million increase in parking revenue at comparable hotels.

Hotel Operating Expense

Hotel operating expense increased $34.8 million, or 10.1%, to $379.6 million for the nine months ended September 30, 2012 from $344.8 million for the nine months ended September 30, 2011. This increase includes $13.4 million in hotel operating expense as a result of non-comparable hotels. The remaining increase was primarily attributable to higher room expense, other operating department costs, and management and franchise fees. Room expense and other operating department costs were driven by higher occupancy at hotels not under renovation. Management fees and franchise fees, which are computed as a percentage of gross revenue and room revenue, respectively, increased as a result of higher revenues.

Depreciation and Amortization

Depreciation and amortization expense increased $4.5 million, or 4.9%, to $96.0 million for the nine months ended September 30, 2012 from $91.5 million for the nine months ended September 30, 2011. The increase reflects $3.1 million of accelerated depreciation of furniture, fixtures and equipment at certain hotels that underwent renovations during the period and $5.4 million increase in depreciation on building and furniture, fixtures and equipment for capital expenditures made during the nine months ended September 30, 2012, which includes a $2.9 million increase in depreciation and amortization expense arising from non-comparable hotels. The offsetting decrease is a result of furniture, fixtures and equipment being fully depreciated during the periods.

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Impairment Loss

Impairment loss increased $0.9 million to $0.9 million for the nine months ended September 30, 2012 from zero for the nine months ended September 30, 2011, related to an impairment charge on the Fairfield Inn Memphis.

Property Tax, Ground Rent and Insurance

Property tax, ground rent and insurance expense increased $3.4 million, or 9.4%, to $39.3 million for the nine months ended September 30, 2012 from $36.0 million for the nine months ended September 30, 2011. The increase includes $2.0 million in property tax, ground rent and insurance expense arising from non-comparable hotels. Property tax, ground rent and insurance expense for the remainder of the portfolio increased $1.4 million.

General and Administrative

General and administrative expense increased $5.3 million, or 30.3%, to $22.8 million for the nine months ended September 30, 2012 from $17.5 million for the nine months ended September 30, 2011. The increase in general and administrative expense is attributable to an increase in amortization of restricted share awards of $3.8 million, professional fees of $1.0 million, salaries and wages of $0.5 million and public company expenses of $0.5 million. This is partially offset by a decrease of $0.9 million in management advisory fees.

Transaction and Pursuit Costs

Transaction and pursuit costs decreased $0.5 million to $3.1 million for the nine months ended September 30, 2012 from $3.6 million for the nine months ended September 30, 2011. There were three acquisitions during the nine months ended September 30, 2012 compared to nine acquisitions during the nine months ended September 30, 2011.

IPO Costs

Non-recurring IPO and related formation transaction costs totaled $10.3 million for the nine months ended September 30, 2011. Such costs primarily arose as a result of the transfer and assumption of indebtedness and other contractual obligations of our predecessor in conjunction with the IPO and our formation transactions. There were no such costs for the nine months ended September 30, 2012.

Interest Expense

Interest expense decreased $13.2 million, or 17.6%, to $62.2 million for the nine months ended September 30, 2012 from $75.4 million for the nine months ended September 30, 2011. The decrease in interest expense was the result of a $3.0 million decrease in mortgage interest expense due to approximately $472.6 million of mortgage principal balances that were paid down with proceeds from our IPO, $2.9 million of expense related to the payoff of variable rate indebtedness, $5.1 million of interest expense related to the term loan which was incurred during the nine months ended September 30, 2011 but not in 2012, the expiration of unfavorable interest rate hedges resulting in a decrease in hedge related interest expense of $2.2 million and a decrease in deferred financing fee expense of $1.6 million. The offsetting increase was primarily due to a $0.4 million increase of unused fee incurred on the $300.0 million credit facility and $1.2 million of interest incurred on borrowings on the credit facility.

Loss on Disposal

Loss on disposal increased $0.6 million to $0.6 million for the nine months ended September 30, 2012 from zero for the nine months ended September 30, 2011. The increase was the result of the disposal of furniture, fixtures and equipment at the Hotel Indigo Garden District, in New Orleans, Louisiana, that was purchased at acquisition.

Income Taxes

As part of the structure, the Company owns TRSs that are subject to federal and state income taxes; as such the Company calculates an effective rate for each quarter. The effective tax rates were 6.74% and 6.61% for the nine months ended September 30, 2012 and 2011, respectively. The increase in rate is primarily due to state taxes at the Operating

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Partnership. The Company s tax expense decreased $0.3 million to $1.2 million for the nine months ended September 30, 2012 from $1.5 million for the nine months ended September 30, 2011, primarily as a result of changes in various state tax laws.

Income from Discontinued Operations

Net income from discontinued operations decreased $21.8 million to zero for the nine months ended September 30, 2012 from $21.8 million for the nine months ended September 30, 2011. The decrease in net income from discontinued operations arose from the transfer of title to the New York LaGuardia Airport Marriott pursuant to a deed in lieu of foreclosure arrangement on August 5, 2011.

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 other companies that do not define such terms exactly as the Company.

Funds From Operations

We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or 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. We believe it is meaningful for the investor to understand FFO attributable to all common shares 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, legal expenses that we consider outside the normal course of business, loan default penalties and fees 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 to FFO and Adjusted FFO for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income (1)	$ 15,301	$ 31,647	$ 27,399	$ 12,910
Depreciation and amortization	30,811	29,026	95,962	91,479
Depreciation and amortization, discontinued operations		669		2,602
Distributions to preferred unitholders				(61)
Loss on disposal			634	
Gain on extinguishment of indebtedness		(23,515)		(23,515)
Impairment loss	896		896	
Noncontrolling interest in joint venture	44	(22)	452	55
Adjustments related to joint venture (2)	(119)	(77)	(330)	(222)
FFO attributable to common shareholders	**46,933**	**37,728**	**125,013**	**83,248**
Transaction and pursuit costs	326	282	3,140	3,614
IPO Costs (3)		89		10,333
Amortization of share based compensation	2,550	1,322	5,763	1,962
Loan related costs (4)(5)	669		669	4,303
Other expenses (6)(7)	125		302	1,362
Adjusted FFO	**$ 50,603**	**$ 39,421**	**$ 134,887**	**$ 104,822**

(1) Includes net income from discontinued operations.

(2) Includes depreciation and amortization expense allocated to the noncontrolling interest in joint venture.

(3) Includes expenses related to the transfer and assumption of indebtedness and other contractual obligations of our predecessor in connection with the IPO and our formation transactions.

(4) Includes $0.7 million for both the three and nine months ended September 30, 2012, respectively, of default interest and penalties incurred in connection with Springhill Suites Southfield, Michigan mortgage loan.

(5) 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.

(6) Includes $0.1 million and $0.3 million for the three and nine months ended September 30, 2012, respectively, of legal expenses outside the normal course of operations.

(7) Includes zero and $1.4 million for the three and nine months ended September 30, 2011, respectively, of certain compensation obligations of our predecessor not continued.

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 present EBITDA attributable to common shareholders, which includes our OP units, because our OP units are redeemable for common shares. We believe it is meaningful for the investor to understand EBITDA attributable to all common shares and OP units.

We further adjust EBITDA for certain additional items such as hotel transaction and pursuit costs, the amortization of share based compensation, disposal of assets, legal expenses that we consider outside the normal course of business 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.

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The following is a reconciliation of our GAAP net income to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Net income (1)	$ 15,301	$ 31,647	$ 27,399	$ 12,910
Depreciation and amortization	30,811	29,026	95,962	91,479
Depreciation and amortization, discontinued operations		669		2,602
Distributions to preferred unitholders				(61)
Interest expense, net (2)	21,590	21,651	62,123	75,371
Interest expense, net, discontinued operations		77		488
Income tax expense	339	858	1,214	1,546
Noncontrolling interest in joint venture	44	(22)	452	55
Adjustments related to joint venture (3)	(295)	(253)	(854)	(746)
EBITDA	**67,790**	**83,653**	**186,296**	**183,644**
Transaction and pursuit costs	326	282	3,140	3,614
IPO costs (4)		89		10,333
Gain on extinguishment of indebtedness		(23,515)		(23,515)
Impairment loss	896		896	
Loss on disposal			634	
Amortization of share based compensation	2,550	1,322	5,763	1,962
Other expenses (5)(6)	125		302	1,362
Adjusted EBITDA	**$ 71,687**	**$ 61,831**	**$ 197,031**	**$ 177,400**

(1) Includes net income from discontinued operations.

(2) Excludes amounts attributable to investment in loans of $0.4 million and $1.2 million for the three and nine months ended September 30, 2012 and 2011, respectively.

(3) Includes depreciation, amortization and interest expense allocated to the noncontrolling interest in joint venture.

(4) Includes expenses related to the transfer and assumption of indebtedness and other contractual obligations of our predecessor in connection with the IPO and our formation transactions.

(5) Includes $0.1 million and $0.3 million for the three and nine months ended September 30, 2012, respectively, of legal expenses outside the normal course of operations.

(6) Includes zero and $1.4 million for the three and nine months ended September 30, 2011, respectively, of certain compensation obligations of our predecessor not continued.

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, including our revolving credit facility (see Revolving Credit Facility);

- distributions necessary to qualify for taxation as a REIT; and

- capital expenditures to improve our hotels, including repositioning efforts and capital expenditures required by

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our franchisors in connection with our formation transactions.

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 revolving 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 revolving credit facility, 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 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.

Revolving Credit Facility

We 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 our hotel properties remain unencumbered by 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. We were in compliance with all such covenants at September 30, 2012. If an event of default exists, under the terms of the credit facility, we are 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.

The Company incurred interest expense on the credit facility for the three and nine months ended September 30, 2012 of approximately $0.6 million and $1.2 million, respectively. For the three and nine months ended September 30, 2012, the Company incurred an unused commitment fee of approximately $0.2 million and $0.7 million, respectively. There are $85.0 million of borrowings outstanding under the revolving credit

facility as of the date of this Quarterly Report on Form 10-Q.

Sources and Uses of Cash

As of September 30, 2012, we had $192.1 million of cash and cash equivalents compared to $310.2 million at December 31, 2011.

Cash flows from Operating Activities

Net cash flow provided by operating activities totaled $123.7 million for the nine months ended September 30, 2012. Net income of $27.4 million included significant non-cash expenses, including $96.0 million of depreciation, $3.2 million of amortization of deferred financing costs, $0.8 million of amortization of deferred management fees, $0.9 million

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impairment loss, $0.6 million loss on disposal and $5.8 million of amortization of share based compensation. In addition, changes in operating assets and liabilities due to the timing of cash receipts and payments from our hotels resulted in net cash outflow of $11.0 million.

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 included significant 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 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.

Cash flows from Investing Activities

Net cash flow used in investing activities totaled $262.0 million for nine months ended September 30, 2012 primarily due to $182.7 million used for the purchase of three hotels, $98.2 million in improvements and additions to hotels, $0.3 million of additions to property and equipment, offset by the net release of restricted cash reserves of $19.0 million.

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.

Cash flows from Financing Activities

Net cash flow provided by financing activities totaled $20.2 million for nine months ended September 30, 2012 primarily due to $85.0 million of borrowings under the credit facility and $85.0 million of proceeds from mortgage loans. This was offset by $94.8 million of mortgage loan repayments, $1.7 million paid to repurchase common shares to satisfy employee statutory minimum federal and state tax obligations of certain employees in connection with the vesting of restricted common shares issued to such employees under our 2011 Plan, $51.6 million of distributions on common shares and OP units and $1.8 million paid for deferred financing fees.

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, $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, $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 common shares acquired to satisfy the statutory minimum federal and state tax obligations of certain employees in connection with the vesting of restricted common shares issued to such employees under our 2011 Plan.

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 are paid out of furniture, fixture and equipment (FF&E) reserves, which are funded by a portion of each hotel s gross revenues. Routine capital expenditures are administered by the hotel management companies. However, we 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, upon acquisition of a hotel we often 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 credit facility and/or other sources of available liquidity.

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Our 2012 capital plan to upgrade and/or reposition 45 hotels for approximately $95.0 million is entering its final phase.

During the third quarter, approximately $2.3 million of additional upgrades were initiated at three hotels. Year-to-date, we have initiated approximately $65 million of upgrades across 25 hotels. Once the remaining 20 assets are initiated in the fourth quarter, our comprehensive two-year capital program will be substantially complete.

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 1.0% and 5.0% of the respective hotel s total gross revenue. As of September 30, 2012, approximately $43.2 million was held in FF&E reserve accounts for future capital expenditures.

Off-Balance Sheet Arrangements

As of September 30, 2012, 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, 2012, we had approximately $558.0 million of total variable debt outstanding (or 41.9% of total indebtedness) with a weighted average interest rate of 4.79% per annum. If market rates of interest on our variable rate debt outstanding as of September 30, 2012 were to increase by 1.00%, or 100 basis points, interest expense would decrease future earnings and cash flows by approximately $2.8 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 enter into derivative or interest rate transactions for speculative purposes.

The following table provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations outstanding as of September 30, 2012, the following table presents principal repayments and related weighted average interest rates by contractual maturity dates (in thousands):

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	2012	2013	2014	2015	2016	Thereafter	Total
Fixed rate debt	$	$	$	$ 195,516	$ 578,451	$	$ 773,967
Weighted average interest rate				5.56%	6.29%		6.11%
Variable rate debt	$	$ 331,000	$ 142,000	$	$ 85,000	$	$ 558,000
Weighted average interest rate		5.79%	3.81%		2.56%		4.79%
Total	**$**	**$ 331,000**	**$ 142,000**	**$ 195,516**	**$ 663,451**	**$**	**$ 1,331,967**

The foregoing table reflects indebtedness outstanding as of September 30, 2012 and does not consider indebtedness, if any, incurred or repaid after that date. 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, 2012, the estimated fair value of our fixed rate debt was $748.1 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

In accordance with Rule 13a-15(b) of the Exchange Act, the Company s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the Company s disclosure controls and procedures , as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of September 30, 2012.

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, 2012 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The nature of the operations of the hotels exposes our 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 litigation nor, to the Company s knowledge, is any 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 Annual Report 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 Annual Report.

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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, 2012 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.

The proceeds to us of 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, 2012 the net proceeds from the overallotment were used for general corporate purposes.

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.

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Issuer Purchases of Equity Securities

During the nine months ended September 30, 2012, certain of our employees surrendered common shares owned by them to satisfy their statutory minimum federal and state tax obligations of certain employees in connection with the vesting of restricted common shares issued to such employees under our 2011 Plan.

The following table summarizes all of these repurchases during the nine months ended September 30, 2012.

Period	Total number of shares purchased		Average price paid per share	Total number of shares purchased as part of publibly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
January 1, 2012 through January 31, 2012				N/A	N/A
February 1, 2012 through February 29, 2012	24,128(1)	$	18.15		N/A
March 1, 2012 through March 31, 2012	536(1)	$	17.44		N/A
April 1, 2012 through April 30, 2012				N/A	N/A
May 1, 2012 through May 31, 2012	25,264(1)	$	18.44		N/A
June 1, 2012 through June 30, 2012	9,537(1)	$	17.29		N/A
July 1, 2012 through July 31, 2012				N/A	N/A
August 1, 2012 through August 31, 2012	25,368(1)	$	17.60		N/A
September 1, 2012 through September 30, 2012	10,085(1)	$	17.90		N/A
Total during nine months ended September 30, 2012	94,918				

(1) The number of shares purchased represents 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 these shares, 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.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other information.

None.

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Item 6. Exhibits.

The following exhibits are filed as part of this report:

Exhibit Index

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
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

* Filed herewith

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SIGNATURE

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 8, 2012

/s/ THOMAS J. BALTIMORE, JR.
Thomas J. Baltimore, Jr.
President, Chief Executive Officer and Trustee

Dated: November 8, 2012

/s/ LESLIE D. HALE
Leslie D. Hale
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

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