

RLJ Lodging Trust  
Form 10-Q  
November 07, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35169

RLJ LODGING TRUST  
(Exact Name of Registrant as Specified in Its Charter)

Maryland  
(State or Other Jurisdiction of Incorporation or  
Organization)

27-4706509  
(I.R.S. Employer Identification No.)

3 Bethesda Metro Center, Suite 1000  
Bethesda, Maryland  
(Address of Principal Executive Offices)

20814  
(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.  Yes  No  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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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 | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |

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

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

As of October 31, 2013, 122,687,139 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,<br>2013<br>(unaudited) | December 31,<br>2012 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| Assets                                                                                                                                                                                                      |                                      |                      |
| Investment in hotel and other properties, net                                                                                                                                                               | \$3,212,289                          | \$3,073,483          |
| Investment in loans                                                                                                                                                                                         | 7,592                                | 12,426               |
| Cash and cash equivalents                                                                                                                                                                                   | 343,526                              | 115,861              |
| Restricted cash reserves                                                                                                                                                                                    | 53,802                               | 64,787               |
| Hotel and other receivables, net of allowance of \$233 and \$194, respectively                                                                                                                              | 32,629                               | 22,738               |
| Deferred financing costs, net                                                                                                                                                                               | 12,283                               | 11,131               |
| Deferred income tax asset                                                                                                                                                                                   | 2,488                                | 2,206                |
| Purchase deposits                                                                                                                                                                                           | 7,996                                | 9,910                |
| Prepaid expense and other assets                                                                                                                                                                            | 33,050                               | 33,843               |
| Total assets                                                                                                                                                                                                | \$3,705,655                          | \$3,346,385          |
| Liabilities and Equity                                                                                                                                                                                      |                                      |                      |
| Borrowings under revolving credit facility                                                                                                                                                                  | \$—                                  | \$16,000             |
| Mortgage loans                                                                                                                                                                                              | 561,256                              | 997,651              |
| Term loans                                                                                                                                                                                                  | 850,000                              | 400,000              |
| Accounts payable and accrued expense                                                                                                                                                                        | 108,201                              | 87,575               |
| Deferred income tax liability                                                                                                                                                                               | 4,030                                | 4,064                |
| Advance deposits and deferred revenue                                                                                                                                                                       | 12,542                               | 8,508                |
| Accrued interest                                                                                                                                                                                            | 2,514                                | 2,284                |
| Distributions payable                                                                                                                                                                                       | 26,308                               | 22,392               |
| Total liabilities                                                                                                                                                                                           | 1,564,851                            | 1,538,474            |
| Commitments and Contingencies (Note 11)                                                                                                                                                                     |                                      |                      |
| 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, 2013 and December 31, 2012, respectively.                      | —                                    | —                    |
| Common shares of beneficial interest, \$0.01 par value, 450,000,000 shares authorized; 122,687,633 and 106,565,516 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively. | 1,227                                | 1,066                |
| Additional paid-in-capital                                                                                                                                                                                  | 2,175,749                            | 1,841,449            |
| Accumulated other comprehensive loss                                                                                                                                                                        | (11,429                              | ) —                  |
| Distributions in excess of net earnings                                                                                                                                                                     | (43,291                              | ) (52,681 )          |
| Total shareholders' equity                                                                                                                                                                                  | 2,122,256                            | 1,789,834            |
| Noncontrolling interest                                                                                                                                                                                     |                                      |                      |
| Noncontrolling interest in joint venture                                                                                                                                                                    | 7,087                                | 6,766                |

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|                                                  |             |             |
|--------------------------------------------------|-------------|-------------|
| Noncontrolling interest in Operating Partnership | 11,461      | 11,311      |
| Total noncontrolling interest                    | 18,548      | 18,077      |
| Total equity                                     | 2,140,804   | 1,807,911   |
| Total liabilities and equity                     | \$3,705,655 | \$3,346,385 |

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

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## RLJ Lodging Trust

## Combined Consolidated Statements of Operations and Comprehensive Income

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

(unaudited)

|                                                                                         | For the three months ended<br>September 30, |           | For the nine months ended<br>September 30, |           |
|-----------------------------------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                                                                                         | 2013                                        | 2012      | 2013                                       | 2012      |
| Revenue                                                                                 |                                             |           |                                            |           |
| Operating revenue                                                                       |                                             |           |                                            |           |
| Room revenue                                                                            | \$221,597                                   | \$196,642 | \$635,975                                  | \$548,539 |
| Food and beverage revenue                                                               | 22,907                                      | 21,345    | 71,206                                     | 63,231    |
| Other operating department revenue                                                      | 7,891                                       | 6,263     | 21,450                                     | 17,360    |
| Total revenue                                                                           | 252,395                                     | 224,250   | 728,631                                    | 629,130   |
| Expense                                                                                 |                                             |           |                                            |           |
| Operating expense                                                                       |                                             |           |                                            |           |
| Room expense                                                                            | 49,497                                      | 43,299    | 139,858                                    | 120,755   |
| Food and beverage expense                                                               | 16,629                                      | 15,135    | 50,406                                     | 45,045    |
| Management fee expense                                                                  | 8,783                                       | 7,877     | 25,554                                     | 21,760    |
| Other operating expense                                                                 | 74,631                                      | 67,098    | 214,330                                    | 190,091   |
| Total property operating expense                                                        | 149,540                                     | 133,409   | 430,148                                    | 377,651   |
| Depreciation and amortization                                                           | 31,575                                      | 30,737    | 94,819                                     | 95,681    |
| Impairment loss                                                                         | —                                           | 896       | —                                          | 896       |
| Property tax, insurance and other                                                       | 16,651                                      | 14,175    | 47,929                                     | 39,180    |
| General and administrative                                                              | 8,969                                       | 8,101     | 26,861                                     | 22,809    |
| Transaction and pursuit costs                                                           | 478                                         | 326       | 2,822                                      | 3,140     |
| Total operating expense                                                                 | 207,213                                     | 187,644   | 602,579                                    | 539,357   |
| Operating income                                                                        | 45,182                                      | 36,606    | 126,052                                    | 89,773    |
| Other income                                                                            | 164                                         | 68        | 334                                        | 258       |
| Interest income                                                                         | 241                                         | 416       | 777                                        | 1,253     |
| Interest expense                                                                        | (16,511)                                    | (20,723)  | (50,171)                                   | (61,029)  |
| Loss on disposal                                                                        | —                                           | —         | —                                          | (634)     |
| Gain on foreclosure                                                                     | 4,831                                       | —         | 4,831                                      | —         |
| Income from continuing operations before income tax expense                             | 33,907                                      | 16,367    | 81,823                                     | 29,621    |
| Income tax expense                                                                      | (181)                                       | (339)     | (752)                                      | (1,214)   |
| Income from continuing operations                                                       | 33,726                                      | 16,028    | 81,071                                     | 28,407    |
| Income (loss) from discontinued operations                                              | 3,202                                       | (727)     | 5,426                                      | (1,008)   |
| Net income                                                                              | 36,928                                      | 15,301    | 86,497                                     | 27,399    |
| Net (income) loss attributable to non-controlling interests                             |                                             |           |                                            |           |
| Noncontrolling interest in consolidated joint venture                                   | (166)                                       | 44        | (321)                                      | 452       |
| Noncontrolling interest in common units of Operating Partnership                        | (293)                                       | (149)     | (700)                                      | (283)     |
| Net income attributable to common shareholders                                          | \$36,469                                    | \$15,196  | \$85,476                                   | \$27,568  |
| Basic per common share data:                                                            |                                             |           |                                            |           |
| Net income per share attributable to common shareholders before discontinued operations | \$0.27                                      | \$0.15    | \$0.68                                     | \$0.27    |

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|                                                          |             |             |             |             |   |
|----------------------------------------------------------|-------------|-------------|-------------|-------------|---|
| Discontinued operations                                  | 0.03        | (0.01       | ) 0.05      | (0.01       | ) |
| Net income per share attributable to common shareholders | \$0.30      | \$0.14      | \$0.73      | \$0.26      |   |
| Weighted-average number of common shares                 | 121,594,219 | 105,453,978 | 116,697,417 | 105,392,071 |   |

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## Diluted per common share data:

|                                                                                         |             |             |             |             |
|-----------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
| Net income per share attributable to common shareholders before discontinued operations | \$0.27      | \$0.15      | \$0.67      | \$0.27      |
| Discontinued operations                                                                 | 0.03        | (0.01 )     | 0.05        | (0.01 )     |
| Net income per share attributable to common shareholders                                | \$0.30      | \$0.14      | \$0.72      | \$0.26      |
| Weighted-average number of common shares                                                | 122,750,121 | 105,509,104 | 117,797,670 | 105,446,211 |

## Amounts attributable to the Company's common shareholders:

|                                            |          |          |          |          |
|--------------------------------------------|----------|----------|----------|----------|
| Income from continuing operations          | \$33,290 | \$15,917 | \$80,089 | \$28,568 |
| Income (loss) from discontinued operations | 3,179    | (721 )   | 5,387    | (1,000 ) |
| Net income                                 | \$36,469 | \$15,196 | \$85,476 | \$27,568 |

## Comprehensive income

|                                                     |           |          |           |          |
|-----------------------------------------------------|-----------|----------|-----------|----------|
| Net income attributable to the Company              | \$36,469  | \$15,196 | \$85,476  | \$27,568 |
| Unrealized (loss) gain on interest rate derivatives | (15,956 ) | 389      | (11,429 ) | 764      |
| Comprehensive income attributable to the Company    | \$20,513  | \$15,585 | \$74,047  | \$28,332 |

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



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RLJ Lodging Trust  
 Combined Consolidated Statements of Changes in Equity  
 (Amounts in thousands, except share data)  
 (unaudited)

|                                                                                                           | Shareholders' Equity<br>Common Stock |           |                            |                                                 |                                      | Noncontrolling Interests |                            |                                 |              | Total Equity |
|-----------------------------------------------------------------------------------------------------------|--------------------------------------|-----------|----------------------------|-------------------------------------------------|--------------------------------------|--------------------------|----------------------------|---------------------------------|--------------|--------------|
|                                                                                                           | Shares                               | Par Value | Additional Paid-in Capital | Distributions Paid-in in excess of net earnings | Accumulated Other Comprehensive Loss | Operating Partnership    | Consolidated Joint Venture | Total Non-controlling Interests |              |              |
| Balance at December 31, 2012                                                                              | 106,565,516                          | \$ 1,066  | \$ 1,841,449               | \$(52,681)                                      | \$—                                  | \$ 11,311                | \$ 6,766                   | \$ 18,077                       | \$ 1,807,911 |              |
| Net income                                                                                                | —                                    | —         | —                          | 85,476                                          | —                                    | 700                      | 321                        | 1,021                           | 86,497       |              |
| Unrealized loss on interest-rate derivative                                                               | —                                    | —         | —                          | —                                               | (11,429)                             | —                        | —                          | —                               | (11,429)     |              |
| Proceeds from sale of common stock, net                                                                   | 15,870,000                           | 159       | 327,386                    | —                                               | —                                    | —                        | —                          | —                               | 327,545      |              |
| Issuance of restricted stock                                                                              | 377,830                              | 3         | (3)                        | —                                               | —                                    | —                        | —                          | —                               | —            |              |
| Amortization of share based compensation                                                                  | —                                    | —         | 9,691                      | —                                               | —                                    | —                        | —                          | —                               | 9,691        |              |
| Share grants to trustees                                                                                  | 4,202                                | —         | 96                         | —                                               | —                                    | —                        | —                          | —                               | 96           |              |
| Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock | (125,698)                            | (1)       | (2,870)                    | —                                               | —                                    | —                        | —                          | —                               | (2,871)      |              |
| Forfeiture of restricted stock                                                                            | (4,217)                              | —         | —                          | —                                               | —                                    | —                        | —                          | —                               | —            |              |
| Distributions on common shares and units                                                                  | —                                    | —         | —                          | (76,086)                                        | —                                    | (550)                    | —                          | (550)                           | (76,636)     |              |
|                                                                                                           | 122,687,633                          | \$ 1,227  | \$ 2,175,749               | \$(43,291)                                      | \$(11,429)                           | \$ 11,461                | \$ 7,087                   | \$ 18,548                       | \$ 2,140,804 |              |

Balance at  
September 30,  
2013

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

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|                                                                                                           | Shareholders' Equity |           |                            |                                                 | Noncontrolling Interests             |                       |                            |                                 |              | Total Equity |
|-----------------------------------------------------------------------------------------------------------|----------------------|-----------|----------------------------|-------------------------------------------------|--------------------------------------|-----------------------|----------------------------|---------------------------------|--------------|--------------|
|                                                                                                           | Common Stock         |           |                            |                                                 |                                      |                       |                            |                                 |              |              |
|                                                                                                           | Shares               | Par Value | Additional Paid-in Capital | Distributions Paid-in in excess of net earnings | Accumulated Other Comprehensive Loss | Operating Partnership | Consolidated Joint Venture | Total Non-controlling Interests |              |              |
| Balance at December 31, 2011                                                                              | 106,279,049          | \$ 1,063  | \$ 1,835,011               | \$(18,960)                                      | \$(1,782)                            | \$ 11,486             | \$ 7,170                   | \$ 18,656                       | \$ 1,833,988 |              |
| Net income (loss)                                                                                         | —                    | —         | —                          | 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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## RLJ Lodging Trust

## Combined Consolidated Statements of Cash Flows

(Amounts in thousands)

(unaudited)

|                                                                                    | For the nine months ended<br>September 30, |            |
|------------------------------------------------------------------------------------|--------------------------------------------|------------|
|                                                                                    | 2013                                       | 2012       |
| Cash flows from operating activities:                                              |                                            |            |
| Net income                                                                         | \$86,497                                   | \$27,399   |
| Adjustments to reconcile net income to cash flow provided by operating activities: |                                            |            |
| Gain on extinguishment of indebtedness                                             | (5,702                                     | ) —        |
| Gain on foreclosure                                                                | (4,831                                     | ) —        |
| Depreciation and amortization                                                      | 94,940                                     | 95,962     |
| Amortization of deferred financing costs                                           | 3,487                                      | 3,167      |
| Amortization of deferred management fees                                           | 882                                        | 750        |
| Impairment loss                                                                    | —                                          | 896        |
| Loss on disposal                                                                   | —                                          | 634        |
| Share grants to trustees                                                           | 96                                         | 120        |
| Amortization of share based compensation                                           | 9,691                                      | 5,763      |
| Deferred income taxes                                                              | (316                                       | ) (346     |
| Changes in assets and liabilities:                                                 |                                            |            |
| Hotel and other receivables, net                                                   | (9,183                                     | ) (9,172   |
| Prepaid expense and other assets                                                   | (273                                       | ) (436     |
| Accounts payable and accrued expense                                               | 5,978                                      | (6,721     |
| Advance deposits and deferred revenue                                              | 3,721                                      | 5,376      |
| Accrued interest                                                                   | 230                                        | 282        |
| Net cash flow provided by operating activities                                     | 185,217                                    | 123,674    |
| Cash flows from investing activities:                                              |                                            |            |
| Acquisition of hotel and other properties, net of cash acquired                    | (184,165                                   | ) (182,690 |
| Purchase deposits                                                                  | 1,914                                      | —          |
| Proceeds from principal payments on investment in loans                            | 103                                        | 153        |
| Improvements and additions to hotel and other properties                           | (41,717                                    | ) (98,236  |
| Additions to property and equipment                                                | (137                                       | ) (257     |
| Releases from restricted cash reserves, net                                        | 10,985                                     | 19,013     |
| Net cash flow used in investing activities                                         | (213,017                                   | ) (262,017 |
| Cash flows from financing activities:                                              |                                            |            |
| Borrowings under revolving credit facility                                         | 205,500                                    | 85,000     |
| Repayments under revolving credit facility                                         | (221,500                                   | ) —        |
| Borrowings on term loans                                                           | 450,000                                    | —          |
| Proceeds from mortgage loans                                                       | 150,000                                    | 85,000     |
| Payment of mortgage principal                                                      | (575,850                                   | ) (94,768  |
| Repurchase of common shares                                                        | (2,871                                     | ) (1,695   |
| Distributions on common shares                                                     | (72,170                                    | ) (51,132  |
| Distributions on Operating Partnership units                                       | (550                                       | ) (428     |
| Payment of deferred financing costs                                                | (4,639                                     | ) (1,763   |
| Proceeds from issuance of common shares                                            | 327,545                                    | —          |
| Net cash flow provided by financing activities                                     | 255,465                                    | 20,214     |
| Net change in cash and cash equivalents                                            | 227,665                                    | (118,129   |
| Cash and cash equivalents, beginning of period                                     | 115,861                                    | 310,231    |

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|                                          |           |           |
|------------------------------------------|-----------|-----------|
| Cash and cash equivalents, end of period | \$343,526 | \$192,102 |
|------------------------------------------|-----------|-----------|

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

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RLJ Lodging Trust  
Notes to the Combined Consolidated Financial Statements  
(unaudited)

1. Organization

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

Substantially all of the Company’s assets are held by, and all of its operations are conducted through, RLJ Lodging Trust, L.P. (the “Operating Partnership”). The Company is the sole general partner of the Operating Partnership. As of September 30, 2013, there were 123,581,633 units of limited partnership interest in the Operating Partnership (“OP units”) outstanding and the Company owned, through a combination of direct and indirect interests, 99.3% of the outstanding OP units.

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

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

Reporting Periods

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As of September 30, 2013, the Company owned five hotels that were managed by affiliates of Marriott International (“Marriott”). Beginning January 1, 2013, the Company’s hotels managed by Marriott were accounted for on a calendar year basis. Prior to January 1, 2013, the Company’s hotels managed by Marriott were accounted for on a fiscal year comprised of 52 or 53 weeks ending on the Friday closest to December 31. The Company’s results for the three and nine months ended September 30, 2012 include the results of operations for the Company’s Marriott-managed hotels for the 36-week period ended September 7, 2012.

### Reclassifications

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

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### 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 expenses. The allowances are calculated as a percentage of aged accounts receivable. Cash received prior to guest arrival is recorded as an advance from the guest and recognized as revenue at the time of occupancy.

Incentive payments received pursuant to entry into management agreements are deferred and amortized into income over the life of the respective agreements. In May 2012, the Company received an incentive payment of \$4.0 million related to purchasing a hotel and entering into a franchise agreement, which is being recognized over the remaining term of the franchise agreement. As of September 30, 2013, there was approximately \$3.8 million remaining to be recognized.

### Investment in Hotel and Other Properties

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

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

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



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

The use of projected future cash flows is based on assumptions that are consistent with a market participant's future expectations for the travel industry and economy in general and the Company's expected use of the underlying properties. The assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic

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and operating conditions that occur subsequent to a current impairment analysis and the Company's ultimate use of the property could impact these assumptions and result in future impairment charges of the properties.

## Franchise Agreements

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

## Earnings Per Share

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

## Share-based Compensation

From time to time, the Company may issue share-based awards under the 2011 Equity Incentive Plan (the "2011 Plan"), as compensation to officers, employees and non-employee trustees (see Note 12). 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. The Company recognizes, for time-based awards, 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. The Company recognizes, for performance-based awards, 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.

## 3. Acquisition of Hotel and Other Properties

During the nine months ended September 30, 2013, the Company acquired the following properties:

| Property                       | Location     | Acquisition Date | Management Company     | Rooms | Purchase Price<br>(in millions) | %<br>Interest |
|--------------------------------|--------------|------------------|------------------------|-------|---------------------------------|---------------|
| Courtyard Houston Downtown     | Houston, TX  | March 19, 2013   | White Lodging Services | 191   | \$34.3                          | 100 %         |
| Residence Inn Houston Downtown | Houston, TX  | March 19, 2013   | White Lodging Services | 171   | 29.4                            | 100 %         |
| Humble Tower Apartments (1)    | Houston, TX  | March 19, 2013   | The Sterling Group     | 82    | 15.6                            | 100 %         |
| Courtyard Waikiki Beach        | Honolulu, HI | June 17, 2013    | Highgate Hotels        | 399   | 75.3                            | 100 %         |
|                                |              | June 21, 2013    | n/a                    | 150   | 29.4                            | 100 %         |

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|                                               |                      |                |     |       |         |     |   |  |  |
|-----------------------------------------------|----------------------|----------------|-----|-------|---------|-----|---|--|--|
| Vantaggio Suites Cosmo<br>(2)                 | San Francisco,<br>CA |                |     |       |         |     |   |  |  |
| Residence Inn Atlanta<br>Midtown/Historic (3) | Atlanta, GA          | August 6, 2013 | n/a | 78    | 4.7     | 100 | % |  |  |
|                                               |                      |                |     | 1,071 | \$188.7 |     |   |  |  |

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

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

3. The Company was the successful bidder at a foreclosure sale of the property collateralizing a non-performing loan (see Note 6).

The property was operating at the time of the acquisition and was subsequently closed for a major renovation, which is expected to be complete in the third quarter of 2014.

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During the nine months ended September 30, 2012, the Company acquired the following properties:

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

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

|                                   | For the three months ended September 30, |           |
|-----------------------------------|------------------------------------------|-----------|
|                                   | 2013                                     | 2012      |
| Land and land improvements        | \$24,132                                 | \$40,711  |
| Buildings and improvements        | 169,070                                  | 135,727   |
| Furniture, fixtures and equipment | 3,151                                    | 6,220     |
| Lease intangibles                 | 342                                      | —         |
| Management agreement intangibles  | (3,695)                                  | ) —       |
|                                   | 193,000                                  | 182,658   |
| Bargain purchase gain             | (4,269)                                  | ) —       |
| Total Purchase Price              | \$188,731                                | \$182,658 |

The allocation of the purchase price for the Courtyard Waikiki Beach is preliminary due to certain market information not yet being available. See Note 15 for detail of other assets acquired and liabilities assumed in conjunction with the Company's acquisitions.

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

|                   | 2013 acquisitions                                   |                                                    |
|-------------------|-----------------------------------------------------|----------------------------------------------------|
|                   | For the three months<br>ended September 30,<br>2013 | For the nine months<br>ended September 30,<br>2013 |
| Revenue           | \$11,179                                            | \$17,741                                           |
| Net income        | \$2,056                                             | \$1,488                                            |
|                   | 2012 acquisitions                                   |                                                    |
|                   | For the three months<br>ended September 30,<br>2012 | For the nine months<br>ended September 30,<br>2012 |
| Revenue           | \$11,279                                            | \$14,301                                           |
| Net income (loss) | \$2,005                                             | \$(408)                                            |

The following unaudited condensed pro forma financial information presents the results of operations as if the 2013 acquisitions had taken place on January 1, 2012 and the 2012 acquisitions had taken place on January 1, 2011. The

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

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|                                                                    | For the three months ended |             | For the nine months ended |             |
|--------------------------------------------------------------------|----------------------------|-------------|---------------------------|-------------|
|                                                                    | September 30,              |             | September 30,             |             |
|                                                                    | 2013                       | 2012        | 2013                      | 2012        |
| Revenue                                                            | \$252,679                  | \$238,788   | \$745,618                 | \$687,496   |
| Net income                                                         | \$33,607                   | \$20,228    | \$85,906                  | \$42,137    |
| Net income per share attributable to common shareholders - basic   | \$0.28                     | \$0.19      | \$0.74                    | \$0.40      |
| Net income per share attributable to common shareholders - diluted | \$0.27                     | \$0.19      | \$0.73                    | \$0.40      |
| Weighted average number of shares outstanding - basic              | 121,594,219                | 105,453,978 | 116,697,417               | 105,392,071 |
| Weighted average number of shares outstanding - diluted            | 122,750,121                | 105,509,104 | 117,797,670               | 105,446,211 |

## 4. Discontinued Operations

In November 2011, the Company elected to cease the subsidization of debt service on the mortgage loan secured by the SpringHill Suites Southfield, Michigan. In January 2012, the Company received notice of an event of default for failure to make the required monthly payments. Under the terms of the mortgage loan, the lender received the monthly net cash from operations from the hotel. In December 2012, the Company entered into a deed in lieu of foreclosure agreement with the lender, providing for a consensual transfer of the property to the lender or its designee. On May 30, 2013, the Company transferred title to the hotel to the lenders pursuant to the deed in lieu of foreclosure arrangement. The Company removed the hotel's net assets and liabilities in its combined consolidated balance sheet in May 2013 and recorded a gain on extinguishment of indebtedness of approximately \$2.4 million to discontinued operations at that time.

In November 2011, the Company elected to cease the subsidization of debt service on the mortgage loan secured by the Courtyard Goshen, Indiana. In December 2011, the Company received notice of an event of default for failure to make the required monthly payments. In May 2012, a receiver took control of the property for the benefit of the lender of the mortgage loan. On August 28, 2013, the property was sold at a foreclosure auction and was purchased by an affiliate of the lender. The Company removed the hotel's net assets and liabilities in its combined consolidated balance sheet in August 2013 and recorded a gain on extinguishment of indebtedness of approximately \$3.3 million to discontinued operations at that time.

In February 2013, the Goshen lender filed suit against the Company claiming amounts due from the Company in its capacity as a guarantor of certain borrower obligations and has continued to pursue this claim following the sale of the property. The Company disputes that any amounts are owed to the lender under the guaranty and is defending itself against this claim.

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

|                         | For the three months ended |       | For the nine months ended |         |
|-------------------------|----------------------------|-------|---------------------------|---------|
|                         | September 30,              |       | September 30,             |         |
|                         | 2013                       | 2012  | 2013                      | 2012    |
| Operating revenue       | \$398                      | \$967 | \$1,978                   | \$2,537 |
| Operating expense       | (442)                      | (797) | (1,882)                   | (2,399) |
| Operating (loss) income | (44)                       | 170   | 96                        | 138     |
| Interest expense        | (31)                       | (897) | (372)                     | (1,146) |

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|                                                       |         |        |           |          |   |
|-------------------------------------------------------|---------|--------|-----------|----------|---|
| Loss from discontinued operations before gain on sale | (75     | ) (727 | ) (276    | ) (1,008 | ) |
| Gain on extinguishment of indebtedness                | 3,277   | —      | 5,702     | —        |   |
| Net income (loss) from discontinued operations        | \$3,202 | \$(727 | ) \$5,426 | \$(1,008 | ) |

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## 5. Investment in Hotel and Other Properties

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

|                                               | September 30, 2013 | December 31, 2012 |
|-----------------------------------------------|--------------------|-------------------|
| Land and land improvements                    | \$587,348          | \$563,524         |
| Buildings and improvements                    | 2,834,524          | 2,655,086         |
| Furniture, fixtures and equipment             | 465,070            | 438,807           |
| Intangibles                                   | 2,199              | 1,857             |
|                                               | 3,889,141          | 3,659,274         |
| Accumulated depreciation and amortization     | (676,852           | ) (585,791        |
| Investment in hotel and other properties, net | \$3,212,289        | \$3,073,483       |

For the three and nine months ended September 30, 2013, depreciation and amortization expense related to investment in hotel and other properties was approximately \$31.5 million and \$94.5 million (excluding discontinued operations), respectively. For the three and nine months ended September 30, 2012, depreciation and amortization expense related to investment in hotel and other properties was approximately \$30.7 million and \$95.4 million (excluding discontinued operations), respectively.

## Impairment

The Company determined that there was no impairment of any assets for the three and nine months ended September 30, 2013.

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.

## 6. Investment in Loans

On November 3, 2009, the Company purchased a mortgage loan collateralized by the Residence Inn Atlanta Midtown/Historic for a total purchase price of \$5.0 million. The acquired loan was of deteriorated credit quality at the date of the Company's acquisition of the loan, and therefore the amounts paid for the loan reflected the Company's determination that it was probable the Company would be unable to collect all amounts due pursuant to the loan's contractual terms. The borrower defaulted on the loan in February 2013. On August 6, 2013, the Company was a successful bidder at a foreclosure sale of the property collateralizing the non-performing loan for a purchase price of \$4.7 million, which was equal to the Company's basis in the mortgage loan. The Company recorded a gain of \$4.3 million related to the property acquired and a gain of \$0.5 million related to other assets acquired and liabilities assumed for a total gain on foreclosure of \$4.8 million.

## 7. Debt

## Revolving Credit Facility and Term Loans



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The Company entered into a credit agreement on November 20, 2012 that provides for (i) an unsecured revolving credit facility of up to \$300.0 million with a scheduled maturity date of November 20, 2016 with a one-year extension option (the “Revolver”), and (ii) an unsecured term loan of \$275.0 million with a scheduled maturity date of November 20, 2017 (the “2012 Five-Year Term Loan”). The credit agreement amends and restates in its entirety the Company’s prior unsecured revolving credit facility, which was originally entered into as of June 20, 2011. In addition, on November 20, 2012 the Company also entered into an unsecured term loan of \$125.0 million with a scheduled maturity date of November 20, 2019 (the “Seven-Year Term Loan”). On August 27, 2013, the Company amended the Seven-Year Term Loan to increase the borrowings on the Seven-Year Term Loan to \$225.0 million.

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The Company also entered into an unsecured \$350.0 million term loan on August 27, 2013 with a scheduled maturity date of August 27, 2018 (the "2013 Five-Year Term Loan", and collectively with the 2012 Five-Year Term Loan and the Seven-Year Term Loan, the "Term Loans").

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

The Company incurred \$8.0 million in fees related to the Revolver and Term Loans that were deferred and are being amortized over their respective terms.

Borrowings under the Revolver and Term Loans bear interest at variable rates equal to the London InterBank Offered Rate ("LIBOR") plus an applicable margin. The margin ranges from 1.65% to 3.00%, depending on the Company's leverage ratio, as calculated under the terms of each facility. The Company incurs an unused facility fee on the Revolver of between 0.25% and 0.35%, based on the amount by which the maximum borrowing amount exceeds the total principal balance of outstanding borrowings. The unused facility fee for the three and nine months ended September 30, 2013 was \$0.3 million and \$0.8 million, respectively.

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

As of and for the three and nine months ended September 30, 2013, details of the Revolver and Term Loans are as follows (in thousands):

|                              | Outstanding borrowings at September 30, 2013 | Interest rate at September 30, 2013 (1) | Interest expense for the three months ended September 30, 2013 | Interest expense for the nine months ended September 30, 2013 |
|------------------------------|----------------------------------------------|-----------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------|
| Revolver (2)                 | \$—                                          | n/a                                     | \$268                                                          | \$885                                                         |
| 2012 Five-Year Term Loan     | 275,000                                      | 1.88%                                   | 1,329                                                          | 4,137                                                         |
| Seven-Year Term Loan (3)     | 225,000                                      | 4.04%                                   | 1,073                                                          | 2,596                                                         |
| 2013 Five-Year Term Loan (4) | 350,000                                      | 3.25%                                   | 914                                                            | 914                                                           |
| Total                        | \$850,000                                    |                                         | \$3,584                                                        | \$8,532                                                       |

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

2. Includes the unused facility fee of \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2013, respectively.

3. Includes interest expense related to an interest rate hedge of \$0.2 million for both the three and nine months ended September 30, 2013.

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Includes interest expense related to an interest rate hedge of \$0.3 million for both the three and nine months ended September 30, 2013.

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Prior Credit Facility

The Company entered into an unsecured revolving credit facility on June 20, 2011, that provided for maximum borrowings of up to \$300.0 million. The credit facility required that a group of no less than 15 of the Company's hotel properties remain unencumbered by outstanding indebtedness. The credit facility contained certain financial covenants relating to the Company's maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default existed, the Company was not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of September 30, 2012, the Company was in compliance with all financial covenants. On November 20, 2012, the unsecured revolving credit facility agreement was amended and restated in its entirety with the Revolver and 2012 Five-Year Term Loan as discussed above.

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

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

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## Mortgage Loans

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

| Lender                       | Number of assets encumbered | Interest rate at September 30, 2013 (1) | Maturity Date | Principal balance at, |                   |
|------------------------------|-----------------------------|-----------------------------------------|---------------|-----------------------|-------------------|
|                              |                             |                                         |               | September 30, 2013    | December 31, 2012 |
| Wells Fargo                  | 1                           | 4.60%                                   | (2) Oct 2014  | (3) \$68,500          | \$68,500          |
| Wells Fargo                  | 1                           | 3.78%                                   | (2) Oct 2014  | (3) 17,500            | 17,500            |
| Wells Fargo                  | 1                           | 3.78%                                   | (2) Oct 2014  | (3) 21,000            | 21,000            |
| Wells Fargo                  | 1                           | 3.78%                                   | (2) Oct 2014  | (3) 11,000            | 11,000            |
| Wells Fargo                  | 1                           | 3.78%                                   | (2) Oct 2014  | (3) 24,000            | 24,000            |
| Capmark Financial Group      | 1                           | 6.12%                                   | April 2015    | 4,102                 | 4,202             |
| Capmark Financial Group      | 1                           | 5.55%                                   | May 2015      | 11,013                | 11,298            |
| Capmark Financial Group      | 1                           | 5.55%                                   | June 2015     | 4,777                 | 4,901             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 2,497                 | 2,561             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 4,098                 | 4,203             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 9,552                 | 9,798             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 8,526                 | 8,745             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 7,644                 | 7,839             |
| Barclay's Bank               | 1                           | 5.60%                                   | June 2015     | 5,301                 | 5,434             |
| Barclay's Bank               | 1                           | 5.60%                                   | June 2015     | 8,212                 | 8,422             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 5,006                 | 5,134             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 33,189                | 34,042            |
| Barclay's Bank               | 1                           | 5.60%                                   | June 2015     | 6,305                 | 6,466             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 5,617                 | 5,762             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 6,455                 | 6,621             |
| Barclay's Bank               | 1                           | 5.60%                                   | June 2015     | 8,226                 | 8,437             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 6,450                 | 6,614             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 7,099                 | 7,280             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 6,455                 | 6,621             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 7,368                 | 7,558             |
| Barclay's Bank               | 1                           | 5.55%                                   | June 2015     | 9,247                 | 9,484             |
| Capmark Financial Group      | 1                           | 5.50%                                   | July 2015     | 6,506                 | 6,673             |
| Barclay's Bank               | 1                           | 5.44%                                   | Sept 2015     | 10,611                | 10,883            |
| PNC Bank (4)                 | 7                           | 2.53%                                   | (2) May 2016  | (5) 85,000            | 85,000            |
| Wells Fargo (6)              | 2                           | 4.19%                                   | (2) Sept 2016 | (7) 82,000            | —                 |
| Wells Fargo                  | 1                           | 4.19%                                   | (2) Sept 2016 | (7) 33,000            | —                 |
| Wells Fargo                  | 1                           | 4.19%                                   | (2) Sept 2016 | (7) 35,000            | —                 |
| Merrill Lynch                |                             |                                         | July 2016     | (8) —                 | 9,180             |
| Merrill Lynch                |                             |                                         | July 2016     | (8) —                 | 7,684             |
| Merrill Lynch                |                             |                                         | July 2016     | (8) —                 | 9,194             |
| Wachovia Securities          |                             |                                         | July 2016     | (8) —                 | 487,296           |
| Wachovia Securities          |                             |                                         | July 2016     | (8) —                 | 6,582             |
| Wells Fargo / Morgan Stanley |                             |                                         | July 2016     | (8) —                 | 34,823            |
|                              |                             |                                         | July 2016     | (8) —                 | 6,753             |

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|                              |    |           |           |           |
|------------------------------|----|-----------|-----------|-----------|
| Wells Fargo / Morgan Stanley |    |           |           |           |
| Wells Fargo / Morgan Stanley |    | July 2016 | (8) —     | 9,616     |
| Merrill Lynch                |    | July 2016 | (9) —     | 5,531     |
| VFC Partners 20 LLC          |    | Sept 2016 | (10) —    | 5,014     |
|                              | 39 |           | \$561,256 | \$997,651 |

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1. Interest rate at September 30, 2013 gives effect to interest rate hedges and LIBOR floors, as applicable.
2. Requires payments of interest only until the commencement of the extension period(s).
3. Maturity date may be extended for up to two additional one-year terms at the Company's option.
4. The seven hotels encumbered by the PNC Bank loan are cross-collateralized.
5. Maturity date may be extended for one one-year term at the Company's option.
6. The two hotels encumbered by the Wells Fargo loan are cross-collateralized.
7. Maturity date may be extended for four one-year terms at the Company's option.
8. The loans were paid off in August 2013 in conjunction with the amendment to the Company's Seven-Year Term Loan and entering into the 2013 Five-Year Term Loan.
9. Loan was extinguished in August 2013 in conjunction with the foreclosure of the collateral.
10. Loan was extinguished in May 2013 in conjunction with the transfer of title pursuant to a deed in lieu of foreclosure arrangement.

Some mortgage agreements are subject to customary financial covenants. The Company was in compliance with these covenants at September 30, 2013 and December 31, 2012.

## 8. Derivatives and Hedging

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

At September 30, 2013, the fair value of interest rate swap assets of \$2.8 million was included in prepaid expenses and other assets in the accompanying combined consolidated balance sheets. At September 30, 2013 and December 31, 2012, the aggregate fair value of interest rate swap liabilities of \$14.2 million and \$0.5 million, respectively, was included in accounts payable and accrued expenses in the accompanying combined consolidated balance sheets.

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

| Hedge type            | Notional value at  |                   | Hedge interest rate | Maturity   | Fair value at      |                   |
|-----------------------|--------------------|-------------------|---------------------|------------|--------------------|-------------------|
|                       | September 30, 2013 | December 31, 2012 |                     |            | September 30, 2013 | December 31, 2012 |
| Swap-cash flow (1)    | \$40,000           | \$40,000          | 1.00%               | 10/6/2013  | \$(31)             | \$(265)           |
| Swap-cash flow (1)    | 31,000             | 31,000            | 1.00%               | 10/6/2013  | (24)               | (205)             |
| Interest rate cap (1) | —                  | 60,000            | 1.00%               | 6/29/2013  | —                  | —                 |
| Swap-cash flow (2)    | 275,000            | —                 | 1.12%               | 11/20/2017 | 2,765              | —                 |
| Swap-cash flow (2)    | 175,000            | —                 | 1.56%               | 3/6/2018   | (2,792)            | —                 |
| Swap-cash flow (2)    | 175,000            | —                 | 1.64%               | 3/6/2018   | (3,362)            | —                 |
| Swap-cash flow (2)    | 16,500             | —                 | 1.83%               | 9/15/2018  | (354)              | —                 |
| Swap-cash flow (2)    | 16,500             | —                 | 1.75%               | 9/15/2018  | (294)              | —                 |
| Swap-cash flow (2)    | 40,500             | —                 | 1.83%               | 9/15/2018  | (869)              | —                 |
| Swap-cash flow (2)    | 41,500             | —                 | 1.75%               | 9/15/2018  | (740)              | —                 |
| Swap-cash flow (2)    | 18,000             | —                 | 1.83%               | 9/15/2018  | (386)              | —                 |

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|                    |             |           |       |           |           |            |
|--------------------|-------------|-----------|-------|-----------|-----------|------------|
| Swap-cash flow (2) | 17,000      | —         | 1.75% | 9/15/2018 | (303      | ) —        |
| Swap-cash flow (2) | 125,000     | —         | 2.02% | 3/6/2019  | (3,054    | ) —        |
| Swap-cash flow (2) | 100,000     | —         | 1.94% | 3/6/2019  | (2,040    | ) —        |
|                    | \$1,071,000 | \$131,000 |       |           | \$(11,484 | ) \$(470 ) |

1. Not designated as a cash flow hedge

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2. Designated as a cash flow hedge

As of September 30, 2013 and December 31, 2012, there was approximately \$11.4 million and zero, respectively, in unrealized losses included in accumulated other comprehensive income related to interest rate hedges that are effective in offsetting the variable cash flows. There was no ineffectiveness recorded on designated hedges during the three and nine month periods ended September 30, 2013 and 2012.

9. Fair Value

Fair Value Measurement

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

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

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

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

Fair Value of Financial Instruments

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

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

Investment in collateralized loans - Fair value is determined by obtaining a third-party appraisal or discounting the future contractual cash flows to the present value using a current market interest rate. The market rate is determined by giving consideration to one or both of the following criteria, as appropriate: (1) interest rates for loans of comparable quality and maturity, and (2) the value of the underlying collateral. The fair values of the Company's investment in collateralized loans are generally classified within Level 3 of the valuation hierarchy. The fair value at September 30, 2013 and December 31, 2012 was \$13.1 million and \$23.0 million, respectively.

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

- Fixed rate mortgage notes payable - The fair value estimated at September 30, 2013 and December 31, 2012 of \$178.9 million and \$745.3 million, respectively, is calculated based on the net present value of payments over the term of the loans using estimated market rates for similar mortgage loans with similar terms and loan to value ratios, which is a Level 3 input. As a result, the Company determined that its fixed rate mortgage notes payable in their entirety are classified in Level 3 of the fair value hierarchy. The carrying value of fixed rate mortgage notes payable at September 30, 2013 and December 31, 2012 was \$184.3 million and \$770.7 million, respectively.

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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, 2013 (in thousands):

|                              | Fair Value at September 30, 2013 |             |         | Total       |
|------------------------------|----------------------------------|-------------|---------|-------------|
|                              | Level 1                          | Level 2     | Level 3 |             |
| Interest rate swap asset     | \$—                              | \$2,765     | \$—     | \$2,765     |
| Interest rate swap liability | \$—                              | \$(14,249 ) | \$—     | \$(14,249 ) |
| Total                        | \$—                              | \$(11,484 ) | \$—     | \$(11,484 ) |

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

## 10. Income Taxes

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

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

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

## 11. Commitments and Contingencies

## Ground Leases

In conjunction with the acquisition of the Courtyard Waikiki Beach, the Company entered into a ground lease with a term extending to 2112. The annual ground rent is \$3.5 million through 2016, after which the annual rent shall increase by the increase, if any, in the Consumer Price Index ("CPI") from the immediately preceding calendar year. The increase is limited to 5.0% per annum for the first 10 years in which the annual rent is subject to increase, and

6.0% per annum during the seven subsequent years in which the annual rent is subject to increase. Thereafter, there is no cap on the increase in the CPI. For the three and nine months ended September 30, 2013, respectively, \$0.9 million and \$1.0 million of ground rent was incurred. There was no ground rent expense in 2012 as this property was acquired in 2013.

#### Restricted Cash Reserves

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of FF&E) as determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents. The management agreements, franchise agreements and/or mortgage loan documents require the

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Company to reserve restricted cash ranging from 1.0% to 5.0% of the individual hotel's revenues and maintain the reserves in restricted cash reserve escrows. Any unexpended amounts will remain the property of the Company upon termination of the management agreements, franchise agreements or mortgage loan documents. Additionally, some loan agreements require the Company to reserve restricted cash for the periodic payment of real estate taxes and insurance. As of September 30, 2013 and December 31, 2012, approximately \$53.8 million and \$64.8 million, respectively, was available in restricted cash reserves for future capital expenditures, real estate taxes and insurance.

## Litigation

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

## 12. 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.

## Share Awards

From time to time, the Company may award non-vested restricted 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.

The Company may also award unrestricted shares under the 2011 Plan as compensation to non-employee trustees that would otherwise be paid in cash for their services. The shares issued to trustees are unrestricted and include no vesting conditions. The Company recognizes compensation expense for the unrestricted shares issued in lieu of cash compensation on the date of issuance based upon the fair market value of the shares on that date.

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

|                           | 2013      | Weighted Average<br>Grant Date Fair<br>Value |
|---------------------------|-----------|----------------------------------------------|
| Unvested at January 1,    | 1,013,673 | \$17.80                                      |
| Granted (1)               | 382,032   | 21.31                                        |
| Vested (1)                | (338,777  | ) 18.15                                      |
| Forfeited                 | (4,217    | ) 19.82                                      |
| Unvested at September 30, | 1,052,711 | \$18.96                                      |

<sup>1</sup> Includes 4,202 unrestricted shares issued in lieu of cash compensation to non-employee trustees at a weighted average grant date fair value of \$22.89.

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For the three and nine months ended September 30, 2013, the Company recognized approximately \$2.2 million and \$6.3 million, respectively, of share-based compensation expense related to restricted share awards. For the three and nine months ended September 30, 2012, the Company recognized approximately \$1.7 million and \$5.0 million, respectively, of share-based compensation expense related to restricted share awards. As of September 30, 2013, there was \$19.0 million of total unrecognized compensation costs related to non-vested share awards and these costs were expected to be primarily recognized over a weighted-average period of 2.43 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, 2013 was approximately \$7.6 million.

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Performance Units

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

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

For the three and nine months ended September 30, 2013, the Company recognized \$1.1 million and \$3.4 million, respectively, of share-based compensation expense related to performance unit awards. For both the three and nine months ended September 30, 2012, the Company recognized \$0.8 million of share-based compensation expense related to the performance units. As of September 30, 2013, there was \$10.1 million of total unrecognized compensation cost related to the performance units and these costs are expected to be recognized over a weighted-average period of 2.32 years.

As of September 30, 2013, there were 3,078,247 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.

13. Earnings per Common Share

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

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

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

The limited partners’ outstanding limited partnership units in the Operating Partnership (which may be redeemed for common shares of beneficial interest under certain circumstances) have been excluded from the diluted earnings per share calculation as there was no effect on the amounts for the three and nine months ended September 30, 2013 and 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<br>September 30, |             | For the nine months ended<br>September 30, |             |
|-------------------------------------------------------------------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                                                                             | 2013                                        | 2012        | 2013                                       | 2012        |
| Numerator:                                                                                                  |                                             |             |                                            |             |
| Net income attributable to common shareholders before discontinued operations                               | \$33,290                                    | \$15,917    | \$80,089                                   | \$28,568    |
| Add: Income (loss) from discontinued operations                                                             | 3,179                                       | (721)       | 5,387                                      | (1,000)     |
| Net income attributable to common shareholders                                                              | 36,469                                      | 15,196      | 85,476                                     | 27,568      |
| Less: Dividends paid on unvested restricted shares                                                          | (216)                                       | (183)       | (712)                                      | (594)       |
| Less: Undistributed earnings attributable to unvested restricted shares                                     | (97)                                        | —           | (86)                                       | —           |
| Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares | \$36,156                                    | \$15,013    | \$84,678                                   | \$26,974    |
| Denominator:                                                                                                |                                             |             |                                            |             |
| Weighted-average number of common shares - basic                                                            | 121,594,219                                 | 105,453,978 | 116,697,417                                | 105,392,071 |
| Unvested restricted shares                                                                                  | 249,029                                     | 55,126      | 212,672                                    | 54,140      |
| Unvested performance units                                                                                  | 906,873                                     | —           | 887,581                                    | —           |
| Weighted-average number of common shares - diluted                                                          | 122,750,121                                 | 105,509,104 | 117,797,670                                | 105,446,211 |
| Net income per share attributable to common shareholders before discontinued operations - basic             |                                             |             |                                            |             |
|                                                                                                             | \$0.27                                      | \$0.15      | \$0.68                                     | \$0.27      |
| Discontinued operations                                                                                     | 0.03                                        | (0.01)      | 0.05                                       | (0.01)      |
| Net income per share attributable to common shareholders - basic                                            | \$0.30                                      | \$0.14      | \$0.73                                     | \$0.26      |
| Net income per share attributable to common shareholders before discontinued operations - diluted           |                                             |             |                                            |             |
|                                                                                                             | \$0.27                                      | \$0.15      | \$0.67                                     | \$0.27      |
| Discontinued operations                                                                                     | 0.03                                        | (0.01)      | 0.05                                       | (0.01)      |
| Net income per share attributable to common shareholders - diluted                                          | \$0.30                                      | \$0.14      | \$0.72                                     | \$0.26      |

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## 14. Related Party Transactions

RLJ Companies, LLC and its affiliates, a related party, periodically provide or receive services or pay or collect certain amounts to or from the Company. At September 30, 2013 and December 31, 2012, there was approximately \$63,000 and \$45,000, respectively, due from RLJ Companies, LLC which was included in other assets.

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

|                                                                           | For the nine months ended<br>September 30, |           |
|---------------------------------------------------------------------------|--------------------------------------------|-----------|
|                                                                           | 2013                                       | 2012      |
| Interest paid                                                             | \$46,826                                   | \$58,726  |
| Income taxes paid                                                         | \$1,350                                    | \$1,250   |
| Supplemental investing and financing transactions:                        |                                            |           |
| In conjunction with the acquisitions, the Company recorded the following: |                                            |           |
| Purchase of real estate                                                   | \$196,695                                  | \$182,658 |
| Accounts receivable                                                       | 708                                        | 71        |
| Other assets                                                              | 902                                        | 556       |
| Advance deposits                                                          | (313)                                      | (163)     |
| Accounts payable and accrued expenses                                     | (4,265)                                    | (432)     |
| Receipt of assets in full satisfaction                                    | (4,731)                                    | —         |
| Gain on foreclosure                                                       | (4,831)                                    | —         |
| Acquisition of hotel and other properties                                 | \$184,165                                  | \$182,690 |
| In conjunction with the dispositions, the Company recorded the following: |                                            |           |
| Sale of real estate                                                       | \$(5,056)                                  | \$—       |
| Other assets                                                              | (909)                                      | —         |
| Other liabilities                                                         | 1,122                                      | —         |
| Gain on extinguishment of indebtedness                                    | (5,702)                                    | —         |
| Forgiveness of indebtedness                                               | 10,545                                     | —         |
| Disposition of hotel properties                                           | \$—                                        | \$—       |
| Supplemental non-cash transactions:                                       |                                            |           |
| Change in fair market value of designated interest rate swaps             | \$(11,429)                                 | \$764     |
| Accrued capital expenditures                                              | \$76                                       | \$461     |
| Distributions payable                                                     | \$26,308                                   | \$17,902  |

## 16. Subsequent Events

On October 8, 2013, the Company purchased the 106-room SpringHill Suites Portland Hillsboro located in Hillsboro, Oregon for a purchase price of \$24.0 million. As a result of this acquisition, the Company owned 150 properties, comprised of 148 hotels with approximately 22,400 rooms and two planned hotel conversions, located in 23 states and the District of Columbia.

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On October 15, 2013, the Company paid a dividend of \$0.205 per common share to shareholders of record at September 30, 2013.

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

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

Statement Regarding Forward-Looking Information

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

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

Overview

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

Our strategy is to acquire primarily premium-branded, focused-service and compact full-service hotels. Focused-service hotels typically generate most of their revenue from room rentals, have limited food and beverage outlets and meeting space and require fewer employees than traditional full-service hotels. We believe premium-branded, focused-service and compact full-service hotels have the potential to generate attractive returns relative to other types of hotels due to their ability to achieve Revenue per Available Room, or RevPAR, levels at or

close to those achieved by traditional full-service hotels while achieving higher profit margins due to their more efficient operating model and less volatile cash flows.

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

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

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

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

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

### Recent Significant Activities

Our recent significant activities reflect our commitment to maximizing shareholder value through selective acquisitions in urban and dense suburban markets with high barriers to entry, value-add renovations and conservative balance sheet management. During the three months ended September 30, 2013, the following significant activities took place:

Acquired the Residence Inn Atlanta Midtown/Historic through the foreclosure of a mortgage loan collateralized by the property. The property is currently closed for operations and will be undergoing a comprehensive renovation and is expected to reopen in the third quarter of 2014;

Disposed of the Courtyard Goshen through a foreclosure sale. In conjunction with this transaction, we recorded a \$3.3 million gain on extinguishment of indebtedness which is included in discontinued operations in our Statement of Operations;

Refinanced approximately \$565.0 million in debt, which decreased our weighted average cost of debt by almost 100 basis points. As a result of this refinancing, we expect to realize significant interest expense savings in future periods;

Completed \$150.0 million of financing secured by four hotels. A significant portion of this amount was used to repay borrowings on our revolving credit facility which was used to temporarily finance a portion of the \$565.0 million debt refinancing. After these two debt transactions, our total number of unencumbered assets is now 110; and

Declared a cash dividend of \$0.205 per share for the quarter.

### 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 dense suburban markets of major metropolitan areas. Accordingly, business travelers represent the majority of the transient demand at our hotels. As a result, macroeconomic factors impacting business travel have a greater effect on our business than factors impacting leisure travel.

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

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### Our Revenues and Expenses

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

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

### Key Indicators of Financial Performance

We use a variety of operating and other information to evaluate the operating performance of our business. These key indicators include financial information that is prepared in accordance with GAAP as well as other financial measures that are non-GAAP measures. In addition, we use other information that may not be financial in nature, including industry standard statistical information and comparative data. We use this information to measure the operating performance of our individual hotels, groups of hotels and/or business as a whole. We also use these metrics to evaluate the hotels in our portfolio and potential acquisitions to determine each hotel's contribution to the cash flow and its potential to provide attractive long-term total returns. These key indicators include:

#### Occupancy

#### Average Daily Rate (ADR)

#### RevPAR

Occupancy, ADR and RevPAR are measures commonly used within the lodging industry to evaluate operating performance. RevPAR is an important statistic for monitoring operating performance at the individual hotel level and across our entire business. We evaluate individual hotel RevPAR performance on an absolute basis, comparing the results to our budget and RevPAR for prior periods, as well as on a regional and company-wide basis. ADR and RevPAR include only room revenue.

We also use FFO, Adjusted FFO, EBITDA and Adjusted EBITDA as non-GAAP measures of the operating performance of our business. See "Non-GAAP Financial Measures."

### Critical Accounting Policies

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



Investment in Hotel and Other Properties

Our acquisitions generally consist of land, land improvements, buildings, building improvements, furniture, fixtures and equipment (“FF&E”), and inventory. We may also acquire intangibles related to in-place leases, management agreements

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and franchise agreements when properties are acquired. We allocate the purchase price among the assets acquired and liabilities assumed based on their respective fair values.

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

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

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

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

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## Results of Operations

At September 30, 2013, we owned 149 properties. All properties owned at September 30, 2013 have been included in our results of continuing operations for the three and nine months ended September 30, 2013 and 2012. There were two hotels disposed of during the periods presented, which are included in discontinued operations for the three and nine months ended September 30, 2013 and 2012. Based on when a property is acquired or closed for renovation, operating results for certain properties are not comparable for the three and nine months ended September 30, 2013 and 2012. The properties listed in the table below are hereafter referred to as non-comparable properties:

| Property                                             | Location          | Acquisition Date  | Non-comparable property for the                |                                               |
|------------------------------------------------------|-------------------|-------------------|------------------------------------------------|-----------------------------------------------|
|                                                      |                   |                   | three months ended September 30, 2013 and 2012 | nine months ended September 30, 2013 and 2012 |
| Hotel Indigo New Orleans Garden District (1)         | New Orleans, LA   | October 26, 2010  | x                                              | x                                             |
| Residence Inn Bethesda Hotel Downtown                | Bethesda, MD      | May 29, 2012      |                                                | x                                             |
| Courtyard New York / Manhattan Upper East Side       | New York, NY      | May 30, 2012      |                                                | x                                             |
| Hilton Garden Inn San Francisco / Oakland Bay Bridge | Emeryville, CA    | June 11, 2012     |                                                | x                                             |
| Embassy Suites Boston/Waltham                        | Waltham, MA       | November 13, 2012 | x                                              | x                                             |
| Courtyard Houston Downtown                           | Houston, TX       | March 19, 2013    | x                                              | x                                             |
| Residence Inn Houston Downtown                       | Houston, TX       | March 19, 2013    | x                                              | x                                             |
| Humble Tower Apartments (2)                          | Houston, TX       | March 19, 2013    | x                                              | x                                             |
| Courtyard Waikiki Beach                              | Honolulu, HI      | June 17, 2013     | x                                              | x                                             |
| Vantaggio Suites Cosmo (3)                           | San Francisco, CA | June 21, 2013     | x                                              | x                                             |
| Residence Inn Atlanta Midtown/Historic               | Atlanta, GA       | August 6, 2013    | x                                              | x                                             |

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

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

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

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

|                                                                  | For the three months ended |           | \$ change | % change |    |
|------------------------------------------------------------------|----------------------------|-----------|-----------|----------|----|
|                                                                  | September 30,<br>2013      | 2012      |           |          |    |
| (amounts in thousands)                                           |                            |           |           |          |    |
| Revenue                                                          |                            |           |           |          |    |
| Operating revenue                                                |                            |           |           |          |    |
| Room revenue                                                     | \$221,597                  | \$196,642 | \$24,955  | 12.7     | %  |
| Food and beverage revenue                                        | 22,907                     | 21,345    | 1,562     | 7.3      | %  |
| Other operating department revenue                               | 7,891                      | 6,263     | 1,628     | 26.0     | %  |
| Total revenue                                                    | 252,395                    | 224,250   | 28,145    | 12.6     | %  |
| Expense                                                          |                            |           |           |          |    |
| Operating expense                                                |                            |           |           |          |    |
| Room expense                                                     | 49,497                     | 43,299    | 6,198     | 14.3     | %  |
| Food and beverage expense                                        | 16,629                     | 15,135    | 1,494     | 9.9      | %  |
| Management fee expense                                           | 8,783                      | 7,877     | 906       | 11.5     | %  |
| Other operating expense                                          | 74,631                     | 67,098    | 7,533     | 11.2     | %  |
| Total property operating expense                                 | 149,540                    | 133,409   | 16,131    | 12.1     | %  |
| Depreciation and amortization                                    | 31,575                     | 30,737    | 838       | 2.7      | %  |
| Impairment loss                                                  | —                          | 896       | (896)     | (100.0)  | )% |
| Property tax, insurance and other                                | 16,651                     | 14,175    | 2,476     | 17.5     | %  |
| General and administrative                                       | 8,969                      | 8,101     | 868       | 10.7     | %  |
| Transaction and pursuit costs                                    | 478                        | 326       | 152       | 46.6     | %  |
| Total operating expense                                          | 207,213                    | 187,644   | 19,569    | 10.4     | %  |
| Operating income                                                 | 45,182                     | 36,606    | 8,576     | 23.4     | %  |
| Other income                                                     | 164                        | 68        | 96        | 141.2    | %  |
| Interest income                                                  | 241                        | 416       | (175)     | (42.1)   | )% |
| Interest expense                                                 | (16,511)                   | (20,723)  | 4,212     | (20.3)   | )% |
| Gain on foreclosure                                              | 4,831                      | —         | 4,831     | —        |    |
| Income from continuing operations before income taxes            | 33,907                     | 16,367    | 17,540    | 107.2    | %  |
| Income tax expense                                               | (181)                      | (339)     | 158       | (46.6)   | )% |
| Income from continuing operations                                | 33,726                     | 16,028    | 17,698    | 110.4    | %  |
| Income (loss) from discontinued operations                       | 3,202                      | (727)     | 3,929     | (540.4)  | )% |
| Net income                                                       | 36,928                     | 15,301    | 21,627    | 141.3    | %  |
| Net (income) loss attributable to non-controlling interests      |                            |           |           |          |    |
| Noncontrolling interest in joint venture                         | (166)                      | 44        | (210)     | (477.3)  | )% |
| Noncontrolling interest in common units of Operating Partnership | (293)                      | (149)     | (144)     | 96.6     | %  |
| Net income attributable to common shareholders                   | \$36,469                   | \$15,196  | \$21,273  | 140.0    | %  |

## Revenue

Total revenue increased \$28.1 million, or 12.6%, to \$252.4 million for the three months ended September 30, 2013 from \$224.3 million for the three months ended September 30, 2012. The increase was a result of \$16.5 million in revenue attributable to non-comparable properties and a 5.1% 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, 2013 and 2012, respectively:

|                                         | For the three months ended September 30, |           | % Change |   |
|-----------------------------------------|------------------------------------------|-----------|----------|---|
|                                         | 2013                                     | 2012      |          |   |
| Number of properties (at end of period) | 149                                      | 142       | 4.9      | % |
| Occupancy %                             | 78.1                                     | % 76.7    | % 1.9    | % |
| ADR                                     | \$ 138.61                                | \$ 132.87 | 4.3      | % |
| RevPAR                                  | \$ 108.29                                | \$ 101.91 | 6.3      | % |

Portfolio RevPAR increased to \$108.29 from \$101.91, a 6.3% increase. RevPAR, excluding non-comparable properties, increased 5.1% and was driven by a 1.8% increase in occupancy and a 3.3% increase in ADR.

#### 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 12.7%, to \$221.6 million for the three months ended September 30, 2013 from \$196.6 million for the three months ended September 30, 2012. This increase was a result of \$14.3 million of room revenue from non-comparable properties and an 5.1% increase in RevPAR at the comparable properties.

#### Food and Beverage Revenue

Food and beverage revenue increased \$1.6 million, or 7.3%, to \$22.9 million for the three months ended September 30, 2013 from \$21.3 million for the three months ended September 30, 2012. The increase includes \$0.9 million in food and beverage revenue arising from non-comparable properties. Food and beverage revenue for the remainder of the portfolio increased \$0.7 million.

#### Other Operating Department Revenue

Other operating department revenue, which includes revenue derived from ancillary sources such as telephone charges and parking fees, increased \$1.6 million, or 26.0%, to \$7.9 million for the three months ended September 30, 2013 from \$6.3 million for the three months ended September 30, 2012. This increase was primarily due to \$1.3 million of other operating department revenue from non-comparable properties.

#### Hotel Operating Expense

Hotel operating expense increased \$16.1 million, or 12.1%, to \$149.5 million for the three months ended September 30, 2013 from \$133.4 million for the three months ended September 30, 2012. This increase includes \$9.8 million in hotel operating expense attributable to non-comparable properties. The remaining increase was primarily attributable to higher room expense, food and beverage expense, other operating department costs, and management and franchise fees at the comparable properties. Room expense, food and beverage expense, and other operating department costs fluctuate based on various factors, including changes in occupancy, labor costs, utilities and insurance costs. 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 \$0.8 million, or 2.7%, to \$31.6 million for the three months ended September 30, 2013 from \$30.7 million for the three months ended September 30, 2012. The increase is the result of a

\$2.1 million increase in depreciation and amortization expense arising from non-comparable properties, partially offset by FF&E at hotels being fully depreciated during the periods.

Property Tax, Insurance and Other

Property tax, insurance and other expense increased \$2.5 million, or 17.5%, to \$16.7 million for the three months ended September 30, 2013 from \$14.2 million for the three months ended September 30, 2012. The increase includes \$1.7 million in property tax, insurance and other expense attributable to non-comparable properties. The remaining increase of \$0.8 million is the net impact of increasing property tax assessments offset by favorable resolution of property tax appeals at comparable properties.

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## General and Administrative

General and administrative expense increased \$0.9 million, or 10.7%, to \$9.0 million for the three months ended September 30, 2013 from \$8.1 million for the three months ended September 30, 2012. The increase in general and administrative expense is primarily attributable to an increase in amortization of restricted share awards of \$0.8 million.

## Interest Expense

The components of our interest expense for the three months ended September 30, 2013 and 2012 are as follows (in thousands):

|                                          | For the three months ended September 30, |          |
|------------------------------------------|------------------------------------------|----------|
|                                          | 2013                                     | 2012     |
| Mortgage indebtedness                    | \$11,029                                 | \$18,803 |
| Revolving credit facility and term loans | 3,584                                    | 815      |
| Amortization of deferred financing fees  | 1,898                                    | 1,105    |
| Total interest expense                   | \$16,511                                 | \$20,723 |

Interest expense decreased \$4.2 million, or 20.3%, to \$16.5 million for the three months ended September 30, 2013 from \$20.7 million for the three months ended September 30, 2012. The decrease in interest expense was the result of a decrease of \$7.4 million of interest expense due to decreases in principal balances as the result of mortgage amortization as well as \$244.5 million of mortgage principal balances that were paid down and a decrease in amortization of deferred financing fees of \$0.3 million. Partially offsetting this was an increase in interest incurred on the revolving credit facility and term loans of \$2.2 million and accelerated amortization of deferred financing fees related to the paydown of mortgage indebtedness of \$1.0 million.

## Income Taxes

As part of our structure, we own taxable REIT subsidiaries that are subject to federal and state income taxes. The effective tax rates were 26.92% and 69.84% for the three months ended September 30, 2013 and 2012, respectively. The decrease in rate is primarily a result of a reduction in state taxes paid at our Operating Partnership.

## Income from Discontinued Operations

Income from discontinued operations increased \$3.9 million to \$3.2 million for the three months ended September 30, 2013 from a loss of \$0.7 million for the three months ended September 30, 2012. Income from discontinued operations for the three months ended September 30, 2013 includes a \$3.3 million gain on extinguishment of indebtedness from the Courtyard Goshen, Indiana.



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Comparison of the nine months ended September 30, 2013 to the nine months ended September 30, 2012

|                                                                  | For the nine months ended<br>September 30, |           | \$ change | % change |    |
|------------------------------------------------------------------|--------------------------------------------|-----------|-----------|----------|----|
|                                                                  | 2013                                       | 2012      |           |          |    |
|                                                                  | (amounts in thousands)                     |           |           |          |    |
| Revenue                                                          |                                            |           |           |          |    |
| Hotel operating revenue                                          |                                            |           |           |          |    |
| Room revenue                                                     | \$635,975                                  | \$548,539 | \$87,436  | 15.9     | %  |
| Food and beverage revenue                                        | 71,206                                     | 63,231    | 7,975     | 12.6     | %  |
| Other operating department revenue                               | 21,450                                     | 17,360    | 4,090     | 23.6     | %  |
| Total revenue                                                    | 728,631                                    | 629,130   | 99,501    | 15.8     | %  |
| Expense                                                          |                                            |           |           |          |    |
| Hotel operating expense                                          |                                            |           |           |          |    |
| Room                                                             | 139,858                                    | 120,755   | 19,103    | 15.8     | %  |
| Food and beverage                                                | 50,406                                     | 45,045    | 5,361     | 11.9     | %  |
| Management fees                                                  | 25,554                                     | 21,760    | 3,794     | 17.4     | %  |
| Other hotel expenses                                             | 214,330                                    | 190,091   | 24,239    | 12.8     | %  |
| Total hotel operating expense                                    | 430,148                                    | 377,651   | 52,497    | 13.9     | %  |
| Depreciation and amortization                                    | 94,819                                     | 95,681    | (862)     | (0.9)    | )% |
| Impairment loss                                                  | —                                          | 896       | (896)     | (100.0)  | )% |
| Property tax, insurance and other                                | 47,929                                     | 39,180    | 8,749     | 22.3     | %  |
| General and administrative                                       | 26,861                                     | 22,809    | 4,052     | 17.8     | %  |
| Transaction and pursuit costs                                    | 2,822                                      | 3,140     | (318)     | (10.1)   | )% |
| Total operating expense                                          | 602,579                                    | 539,357   | 63,222    | 11.7     | %  |
| Operating income                                                 | 126,052                                    | 89,773    | 36,279    | 40.4     | %  |
| Other income                                                     | 334                                        | 258       | 76        | 29.5     | %  |
| Interest income                                                  | 777                                        | 1,253     | (476)     | (38.0)   | )% |
| Interest expense                                                 | (50,171)                                   | (61,029)  | 10,858    | (17.8)   | )% |
| Loss on disposal                                                 | —                                          | (634)     | 634       | (100.0)  | )% |
| Gain on foreclosure                                              | 4,831                                      | —         | 4,831     | —        |    |
| Income from continuing operations before income taxes            | 81,823                                     | 29,621    | 52,202    | 176.2    | %  |
| Income tax expense                                               | (752)                                      | (1,214)   | 462       | (38.1)   | )% |
| Income from continuing operations                                | 81,071                                     | 28,407    | 52,664    | 185.4    | %  |
| Income (loss) from discontinued operations                       | 5,426                                      | (1,008)   | 6,434     | (638.3)  | )% |
| Net income                                                       | 86,497                                     | 27,399    | 59,098    | 215.7    | %  |
| Net (income) loss attributable to non-controlling interests      |                                            |           |           |          |    |
| Noncontrolling interest in joint venture                         | (321)                                      | 452       | (773)     | (171.0)  | )% |
| Noncontrolling interest in common units of Operating Partnership | (700)                                      | (283)     | (417)     | 147.3    | %  |
| Net income attributable to common shareholders                   | \$85,476                                   | \$27,568  | \$57,908  | 210.1    | %  |

## Revenue

Total revenue increased \$99.5 million, or 15.8%, to \$728.6 million for the nine months ended September 30, 2013 from \$629.1 million for the nine months ended September 30, 2012. The increase was a result of \$53.3 million in revenue attributable to non-comparable properties and a 7.9% increase in RevPAR at the comparable properties.



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The following are the year-to-date key hotel operating statistics for hotels owned at September 30, 2013 and 2012, respectively:

|                                         | For the nine months ended September 30, |           | % Change |   |
|-----------------------------------------|-----------------------------------------|-----------|----------|---|
|                                         | 2013                                    | 2012      |          |   |
| Number of properties (at end of period) | 149                                     | 142       | 4.9      | % |
| Occupancy %                             | 75.9                                    | % 73.9    | % 2.7    | % |
| ADR                                     | \$ 140.38                               | \$ 131.67 | 6.6      | % |
| RevPAR                                  | \$ 106.48                               | \$ 97.26  | 9.5      | % |

Portfolio RevPAR increased to \$106.48 from \$97.26, a 9.5% increase. RevPAR, excluding non-comparable properties, increased 7.9% and was driven by a 2.4% increase in occupancy and a 5.3% increase in ADR.

## 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 \$87.4 million, or 15.9%, to \$636.0 million for the nine months ended September 30, 2013 from \$548.5 million for the nine months ended September 30, 2012. This increase was a result of \$45.9 million of room revenue from non-comparable properties and a 7.9% increase in RevPAR at the comparable properties.

## Food and Beverage Revenue

Food and beverage revenue increased \$8.0 million, or 12.6%, to \$71.2 million for the nine months ended September 30, 2013 from \$63.2 million for the nine months ended September 30, 2012. The increase includes \$4.4 million in food and beverage revenue arising from non-comparable properties. Food and beverage revenue for the remainder of the portfolio increased \$3.6 million.

## Other Operating Department Revenue

Other operating department revenue, which includes revenue derived from ancillary sources such as telephone charges and parking fees, increased \$4.1 million, or 23.6%, to \$21.5 million for the nine months ended September 30, 2013 from \$17.4 million for the nine months ended September 30, 2012. The majority of this increase was due to \$3.1 million of other operating department revenue from non-comparable properties and a \$0.7 million increase in parking revenue from comparable properties.

## Hotel Operating Expense

Hotel operating expense increased \$52.5 million, or 13.9%, to \$430.1 million for the nine months ended September 30, 2013 from \$377.7 million for the nine months ended September 30, 2012. This increase includes \$32.2 million in hotel operating expense attributable to non-comparable properties. The remaining increase was primarily attributable to higher room expense, food and beverage expense, other operating department costs, and management and franchise fees at the comparable properties. Room expense, food and beverage expense and other operating department costs fluctuate based on various factors, including changes in occupancy, labor costs, utilities and insurance costs. 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

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Depreciation and amortization expense decreased \$0.9 million, or 0.9%, to \$94.8 million for the nine months ended September 30, 2013 from \$95.7 million for the nine months ended September 30, 2012. The decrease is a result of \$3.1 million of accelerated depreciation of FF&E that underwent renovations during the nine months ended September 30, 2012 but not in 2013 and FF&E at other hotels being fully depreciated during the periods. Partially offsetting this was a \$6.8 million increase in depreciation and amortization expense arising from non-comparable properties.

### Property Tax, Insurance and Other

Property tax, insurance and other expense increased \$8.7 million, or 22.3%, to \$47.9 million for the nine months ended September 30, 2013 from \$39.2 million for the nine months ended September 30, 2012. The increase includes \$3.9 million in property tax, insurance and other expense attributable to non-comparable properties. The remaining increase of \$4.8

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million is the net impact of increasing property tax assessments offset by favorable resolution of property tax appeals at the comparable properties.

## General and Administrative

General and administrative expense increased \$4.1 million, or 17.8%, to \$26.9 million for the nine months ended September 30, 2013 from \$22.8 million for the nine months ended September 30, 2012. The increase in general and administrative expense is primarily attributable to an increase in amortization of restricted share awards of \$3.9 million.

## Interest Expense

The components of our interest expense for the nine months ended September 30, 2013 and 2012 are as follows (in thousands):

|                                          | For the nine months ended September 30, |          |
|------------------------------------------|-----------------------------------------|----------|
|                                          | 2013                                    | 2012     |
| Mortgage indebtedness                    | \$38,153                                | \$55,958 |
| Revolving credit facility and term loans | 8,531                                   | 1,904    |
| Amortization of deferred financing fees  | 3,487                                   | 3,167    |
| Total interest expense                   | \$50,171                                | \$61,029 |

Interest expense decreased \$10.9 million, or 17.8%, to \$50.2 million for the nine months ended September 30, 2013 from \$61.0 million for the nine months ended September 30, 2012. The decrease in interest expense was the result of a decrease of \$16.4 million of interest expense due to decreases in principal balances as the result of mortgage amortization as well as \$575.5 million of mortgage principal balances that were paid down, a decrease in amortization of deferred financing fees of \$0.7 million and the expiration of unfavorable interest rate hedges resulting in a decrease in hedge related interest expense of \$0.9 million. Partially offsetting this was an increase in interest incurred on the revolving credit facility and term loans of \$6.1 million and accelerated amortization of deferred financing fees related to the paydown of mortgage indebtedness of \$1.0 million.

## Income Taxes

As part of our structure, we own taxable REIT subsidiaries that are subject to federal and state income taxes. The effective tax rates were 87.22% and 6.74% for the nine months ended September 30, 2013 and 2012, respectively. The increase in rate is primarily due to an increase in book income recorded at our taxable REIT subsidiary. Our tax expense decreased \$0.5 million to \$0.8 million for the nine months ended September 30, 2013 from \$1.2 million for the nine months ended September 30, 2012, primarily as a result of a reduction in state taxes paid at our Operating Partnership.

## Income from Discontinued Operations

Income from discontinued operations increased \$6.4 million to \$5.4 million for the nine months ended September 30, 2013 from a loss of \$1.0 million for the nine months ended September 30, 2012. Income from discontinued operations for the nine months ended September 30, 2013 includes a \$5.7 million gain on extinguishment of indebtedness from the SpringHill Suites Southfield, Michigan and Courtyard Goshen, Indiana.

## Non-GAAP Financial Measures

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

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## 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, impairment, 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 and 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, and certain other expenses that we consider outside the normal course of business. We believe that Adjusted FFO provides useful supplemental information to investors regarding our ongoing operating performance that, when considered with net income and FFO, is beneficial to an investor's understanding of our operating performance.

The following is a reconciliation of our GAAP net income to FFO and Adjusted FFO for the three and nine months ended September 30, 2013 and 2012 (in thousands):

|                                                    | For the three months ended<br>September 30, |          | For the nine months ended<br>September 30, |           |
|----------------------------------------------------|---------------------------------------------|----------|--------------------------------------------|-----------|
|                                                    | 2013                                        | 2012     | 2013                                       | 2012      |
| Net income                                         | \$36,928                                    | \$15,301 | \$86,497                                   | \$27,399  |
| Depreciation and amortization                      | 31,575                                      | 30,737   | 94,819                                     | 95,681    |
| Loss on disposal                                   | —                                           | —        | —                                          | 634       |
| Gain on extinguishment of indebtedness (1)         | (3,277)                                     | ) —      | (5,702)                                    | ) —       |
| Impairment loss                                    | —                                           | 896      | —                                          | 896       |
| Noncontrolling interest in joint venture           | (166)                                       | ) 44     | (321)                                      | ) 452     |
| Adjustments related to discontinued operations (2) | 11                                          | 74       | 120                                        | 281       |
| Adjustments related to joint venture (3)           | (121)                                       | ) (119)  | ) (363)                                    | ) (330)   |
| FFO attributable to common shareholders            | 64,950                                      | 46,933   | 175,050                                    | 125,013   |
| Gain on foreclosure                                | (4,831)                                     | ) —      | (4,831)                                    | ) —       |
| Transaction and pursuit costs                      | 478                                         | 326      | 2,822                                      | 3,140     |
| Amortization of share based compensation           | 3,344                                       | 2,550    | 9,691                                      | 5,763     |
| Loan related costs (4)(5)                          | 1,046                                       | 669      | 1,046                                      | 669       |
| Other expenses (6)                                 | 133                                         | 125      | 157                                        | 302       |
| Adjusted FFO                                       | \$65,120                                    | \$50,603 | \$183,935                                  | \$134,887 |

<sup>1</sup> Represents the gain on extinguishment of indebtedness from the SpringHill Suites Southfield, Michigan and Courtyard Goshen, Indiana. The gain is included in discontinued operations.

<sup>2</sup> Includes depreciation and amortization expense from discontinued operations.

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3. Includes depreciation and amortization expense allocated to the noncontrolling interest in joint venture.
4. Represents accelerated amortization of deferred financing fees related to the paydown of mortgage indebtedness for the three and nine months ended September 30, 2013, respectively.
5. Represents default interest and penalties incurred in connection with the SpringHill Suites Southfield, Michigan mortgage loan for the three and nine months ended September 30, 2012, respectively.
6. Represents accelerated deferred management fee expense related to the Courtyard Goshen, Indiana and the SpringHill Suites Southfield, Michigan and legal expenses outside the normal course of operations.



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## 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 sales 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 discontinued operations, hotel transaction and pursuit costs, the amortization of share-based compensation and certain other expenses that we consider outside the normal course of business. We believe that Adjusted EBITDA provides useful supplemental information to investors regarding our ongoing operating performance that, when considered with net income and EBITDA, is beneficial to an investor's understanding of our operating performance.

The following is a reconciliation of our GAAP net income to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2013 and 2012 (in thousands):

|                                                    | For the three months ended<br>September 30, |          | For the nine months ended<br>September 30, |           |
|----------------------------------------------------|---------------------------------------------|----------|--------------------------------------------|-----------|
|                                                    | 2013                                        | 2012     | 2013                                       | 2012      |
| Net income                                         | \$36,928                                    | \$15,301 | \$86,497                                   | \$27,399  |
| Depreciation and amortization                      | 31,575                                      | 30,737   | 94,819                                     | 95,681    |
| Interest expense, net (1)                          | 16,501                                      | 20,715   | 50,149                                     | 60,999    |
| Income tax expense                                 | 181                                         | 339      | 752                                        | 1,214     |
| Noncontrolling interest in joint venture           | (166)                                       | ) 44     | (321)                                      | ) 452     |
| Adjustments related to discontinued operations (2) | 42                                          | 949      | 492                                        | 1,405     |
| Adjustments related to joint venture (3)           | (121)                                       | ) (295)  | ) (363)                                    | ) (854)   |
| EBITDA                                             | 84,940                                      | 67,790   | 232,025                                    | 186,296   |
| Gain on foreclosure                                | (4,831)                                     | ) —      | (4,831)                                    | ) —       |
| Transaction and pursuit costs                      | 478                                         | 326      | 2,822                                      | 3,140     |
| Gain on extinguishment of indebtedness (4)         | (3,277)                                     | ) —      | (5,702)                                    | ) —       |
| Impairment loss                                    | —                                           | 896      | —                                          | 896       |
| Loss on disposal                                   | —                                           | —        | —                                          | 634       |
| Amortization of share based compensation           | 3,344                                       | 2,550    | 9,691                                      | 5,763     |
| Other expenses (5)                                 | 133                                         | 125      | 157                                        | 302       |
| Adjusted EBITDA                                    | \$80,787                                    | \$71,687 | \$234,162                                  | \$197,031 |

Excludes amounts attributable to investment in loans of \$0.2 million and \$0.8 million for the three and nine months ended September 30, 2013, respectively and \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2012, respectively.

2. Includes depreciation, amortization and interest expense from discontinued operations.

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

4. Represents the gain on extinguishment of indebtedness from the SpringHill Suites Southfield, Michigan and Courtyard Goshen, Indiana. The gain is included in Discontinued Operations.

5.

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Represents accelerated deferred management fee expense related to the Courtyard Goshen, Indiana and the SpringHill Suites Southfield, Michigan and legal expenses outside the normal course of operations.

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### 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 properties, including:

- recurring maintenance and capital expenditures necessary to maintain our properties in accordance with brand standards;

- interest expense and scheduled principal payments on outstanding indebtedness;

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

- capital expenditures to improve our properties, including capital expenditures required by our franchisors in connection with our formation transactions and recent property acquisitions.

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 unsecured revolving credit facility and proceeds from our recent underwritten public offering of common shares. On March 25, 2013, the Company completed an offering of 15,870,000 common shares generating gross proceeds of approximately \$342.8 million and proceeds, net of underwriter' discounts and other offering costs, of approximately \$327.5 million.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional properties and redevelopments, renovations, expansions and other capital expenditures that need to be made periodically with respect to our properties and scheduled debt payments. We expect to meet our long-term liquidity requirements through various sources of capital, including our unsecured revolving credit facility and future equity (including OP units) or debt offerings, existing working capital, net cash provided by operations, long-term hotel mortgage indebtedness and other secured and unsecured borrowings. However, there are a number of factors that may have a material adverse effect on our ability to access these capital sources, including the current state of overall equity and credit markets, our degree of leverage, the value of our unencumbered assets 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 properties will require periodic capital expenditures and renovation to remain competitive. In addition, acquisitions, redevelopments or expansions of properties 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 gain, to qualify and maintain our qualification as a REIT, and we are subject to tax on any retained income and gain. As a result, our ability to fund capital expenditures, acquisitions or property 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 and Term Loans

We entered into a credit agreement on November 20, 2012 that provides for (i) an unsecured revolving credit facility of up to \$300.0 million with a scheduled maturity date of November 20, 2016 with a one-year extension option (the "Revolver"), and (ii) an unsecured term loan of \$275.0 million with a scheduled maturity date of November 20, 2017

(the "2012 Five-Year Term Loan"). The credit agreement amends and restates in its entirety our prior unsecured revolving credit facility, which was originally entered into as of June 20, 2011. In addition, on November 20, 2012 we also entered into an unsecured term loan of \$125.0 million with a scheduled maturity date of November 20, 2019 (the "Seven-Year Term Loan"). On August 27, 2013, the Company amended the Seven-Year Term Loan to increase the borrowings on the Seven-Year Term Loan to \$225.0 million.

We also entered into an unsecured \$350.0 million term loan on August 27, 2013 with a scheduled maturity date of August 27, 2018 (the "2013 Five-Year Term Loan", and collectively with the 2012 Five-Year Term Loan and the Seven-Year Term Loan, the "Term Loans").

The credit agreements for these loans require that a group of no less than 20 of our hotel properties remain unencumbered by outstanding indebtedness. The credit agreements contain certain financial covenants relating to our

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maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default exists we are not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of September 30, 2013, we were in compliance with all financial covenants.

We incurred \$8.0 million in fees related to the Revolver and Term Loans that were deferred and are being amortized over their respective terms.

Borrowings under the Revolver and Term Loans bear interest at variable rates equal to the London InterBank Offered Rate (“LIBOR”) plus an applicable margin. The margin ranges from 1.65% to 3.00%, depending on our leverage ratio, as calculated under the terms of each facility. We incur an unused facility fee on the Revolver of between 0.25% and 0.35%, based on the amount by which the maximum borrowing amount exceeds the total principal balance of outstanding borrowings. The unused facility fee for the three and nine months ended September 30, 2013 was \$254 and \$761, respectively.

Under the terms of the credit agreement for the Revolver, one or more standby letters of credit, up to a maximum aggregate outstanding balance of \$30.0 million, may be issued on our behalf by the lenders holding the unsecured revolving credit facility. We 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 unsecured revolving credit facility by a corresponding amount. No standby letters of credit were outstanding at September 30, 2013. We 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, 2013.

As of and for the three and nine months ended September 30, 2013, details of the Revolver and Term Loans are as follows (in thousands):

|                              | Outstanding borrowings at September 30, 2013 | Interest rate at September 30, 2013 (1) | Interest expense for the three months ended September 30, 2013 | Interest expense for the nine months ended September 30, 2013 |
|------------------------------|----------------------------------------------|-----------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------|
| Revolver (2)                 | \$—                                          | n/a                                     | \$268                                                          | \$885                                                         |
| 2012 Five-Year Term Loan     | 275,000                                      | 1.88%                                   | 1,329                                                          | 4,137                                                         |
| Seven-Year Term Loan (3)     | 225,000                                      | 4.04%                                   | 1,073                                                          | 2,596                                                         |
| 2013 Five-Year Term Loan (4) | 350,000                                      | 3.25%                                   | 914                                                            | 914                                                           |
| Total                        | \$850,000                                    |                                         | \$3,584                                                        | \$8,532                                                       |

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

2. Includes the unused facility fee of \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2013, respectively.

3. Includes interest expense related to an interest rate hedge of \$0.2 million for both the three and nine months ended September 30, 2013.

4. Includes interest expense related to an interest rate hedge of \$0.3 million for both the three and nine months ended September 30, 2013.

We incurred interest expense on the prior 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, we incurred an unused commitment fee of approximately \$0.2 million and \$0.7 million, respectively.

Sources and Uses of Cash

As of September 30, 2013, we had \$343.5 million of cash and cash equivalents compared to \$115.9 million at December 31, 2012.

Cash flows from Operating Activities

Net cash flow provided by operating activities totaled \$185.2 million for the nine months ended September 30, 2013. Net income of \$86.5 million included significant non-cash expenses, including \$94.9 million of depreciation and amortization,

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\$3.5 million of amortization of deferred financing costs, \$0.9 million of amortization of deferred management fees, and \$9.7 million of amortization of share based compensation, partially offset by \$5.7 million of gain on extinguishment of indebtedness, a \$4.8 million gain on foreclosure and \$0.3 million of deferred income taxes. In addition, changes in operating assets and liabilities due to the timing of cash receipts and payments from our properties resulted in net cash inflow of \$0.5 million.

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 was partially offset by significant non-cash expenses, including \$96.0 million of depreciation and amortization, \$3.2 million of amortization of deferred financing costs, \$0.8 million of amortization of deferred management fees, \$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.

### Cash flows from Investing Activities

Net cash flow used in investing activities totaled \$213.0 million for the nine months ended September 30, 2013 primarily due to \$184.2 million used for the purchase of five properties, \$41.7 million in routine capital improvements and additions to hotels and other properties. This was offset by the net releases from \$11.0 million of restricted cash reserves and the application of \$1.9 million of purchase deposits.

Net cash flow used in investing activities totaled \$262.0 million for the nine months ended September 30, 2012 primarily due to \$182.7 million used for the purchase of three hotels, \$11.3 million for a major redevelopment project, \$87.0 million in routine capital improvements and additions to hotels and other properties, \$0.3 million of additions to property and equipment, offset by the net release from restricted cash reserves of \$19.0 million.

### Cash flows from Financing Activities

Net cash flow provided by financing activities totaled \$255.5 million for the nine months ended September 30, 2013 primarily due to \$327.5 million provided from the issuance and sale of common shares, \$450.0 million in borrowings on the Term Loans, \$205.5 million in borrowings on the Revolver and \$150.0 million of proceeds from mortgage loans. This was offset by \$221.5 million of repayments on the Revolver, \$575.9 million in payments of mortgage principal, \$2.9 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 and \$72.7 million of distributions on common shares and OP units.

Net cash flow provided by financing activities totaled \$20.2 million for the nine months ended September 30, 2012 primarily due to \$85.0 million of borrowings under the prior 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.

### Capital Expenditures and Reserve Funds

We maintain each of our properties 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 FF&E reserves, which are funded by a portion of each property's gross revenues. Routine capital expenditures are administered by the property management companies. However, we have approval rights over the capital expenditures as part of the annual budget process for each of our properties.

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 Revolver and/or other sources of available liquidity.



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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, 2013, approximately \$48.2 million was held in FF&E reserve accounts for future capital expenditures.

### Off-Balance Sheet Arrangements

As of September 30, 2013, we had no off-balance sheet arrangements.

### Inflation

We rely entirely on the performance of the properties 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 TRSs, which in turn, could inhibit the ability of our TRSs 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. Demand is generally lower in the winter months for hotels located in non-resort markets 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, 2013, we had approximately \$1.2 billion of total variable debt outstanding (or 86.9% of total indebtedness) with a weighted average interest rate of 3.26% per annum. If market rates of interest on our variable rate debt outstanding as of September 30, 2013 were to increase by 1.00%, or 100 basis points, interest expense would decrease future earnings and cash flows by approximately \$5.1 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, 2013, the following table presents principal repayments and related weighted average interest rates by contractual maturity dates (in thousands):

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|                                    | 2014      | 2015      | 2016      | 2017      | 2018      | Thereafter | Total       |   |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|------------|-------------|---|
| Fixed rate debt                    | \$—       | \$184,256 | \$—       | \$—       | \$—       | \$—        | \$184,256   |   |
| Weighted average interest rate     | —         | 5.56      | % —       | —         | —         | —          | 5.56        | % |
| Variable rate debt                 | \$142,000 | \$—       | \$235,000 | \$275,000 | \$350,000 | \$225,000  | \$1,227,000 |   |
| Weighted average interest rate (1) | 4.18      | % —       | 3.59      | % 1.88    | % 3.25    | % 4.04     | % 3.26      | % |
| Total                              | \$142,000 | \$184,256 | \$235,000 | \$275,000 | \$350,000 | \$225,000  | \$1,411,256 |   |

1. The weighted average interest rate gives effect to interest rate hedges and LIBOR floors, as applicable.

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The foregoing table reflects indebtedness outstanding as of September 30, 2013 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, 2013, the estimated fair value of our fixed rate debt was \$178.9 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 Securities Exchange Act of 1934, as amended (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, 2013.

#### 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, 2013 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](http://www.sec.gov). There have been no material changes to the risk factors previously disclosed in the Annual Report.

### 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, 2013 that were not registered under the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

During the nine months ended September 30, 2013, 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, 2013:

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| Period                                       | Total number of shares purchased |     | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|----------------------------------------------|----------------------------------|-----|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| January 1, 2013 through January 31, 2013     | —                                |     | —                            | N/A                                                                              | N/A                                                                            |
| February 1, 2013 through February 28, 2013   | 24,545                           | (1) | \$21.00                      | —                                                                                | N/A                                                                            |
| March 1, 2013 through March 31, 2013         | 9,794                            | (1) | \$21.63                      | —                                                                                | N/A                                                                            |
| April 1, 2013 through April 30, 2013         | —                                |     | —                            | N/A                                                                              | N/A                                                                            |
| May 1, 2013 through May 31, 2013             | 33,948                           | (1) | \$23.55                      | —                                                                                | N/A                                                                            |
| June 1, 2013 through June 30, 2013           | 10,341                           | (1) | \$23.18                      | —                                                                                | N/A                                                                            |
| July 1, 2013 through July 31, 2013           | —                                |     | —                            | N/A                                                                              | N/A                                                                            |
| August 1, 2013 through August 31, 2013       | 36,556                           | (1) | \$23.63                      | —                                                                                | N/A                                                                            |
| September 1, 2013 through September 30, 2013 | 10,514                           | (1) | \$23.02                      | —                                                                                | N/A                                                                            |
| Total                                        | 125,698                          |     |                              |                                                                                  |                                                                                |

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 issued<sup>1</sup> under our 2011 Plan. With respect to these common shares, the price paid per common 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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1            | Articles of Amendment and Restatement of Declaration of Trust of RLJ Lodging Trust (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registrant's Registration Statement on Form S-11 (File. No. 333-172011) filed on May 5, 2011)                                                                                                                                                                                                                                                                                                                                                                                                 |
| 3.2            | Amended and Restated Bylaws of RLJ Lodging Trust (incorporated by reference to Exhibit 3.2 to Amendment No. 4 to the Registrant's Registration Statement on Form S-11 (File. No. 333-172011) filed on May 5, 2011)                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 10.1           | Amended and Restated Employment Agreement dated as of August 2, 2013 by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P. and Leslie D. Hale (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 8, 2013)                                                                                                                                                                                                                                                                                                                                                                                   |
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| 10.3           | First Amendment to Term Loan Agreement, dated as of August 27, 2013, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)                                                                                                                                                                                                                                             |
| 10.4           | Additional Lender Supplement, dated as of August 27, 2013, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)                                                                                                                                                                                                                                                                                                             |
| 10.5           | Guaranty, dated as of November 20, 2012, by RLJ Lodging Trust and certain subsidiaries of RLJ Lodging Trust party thereto (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)                                                                                                                                                                                                                                                                                                                                                                                                      |
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| 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                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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|         |                                                                                                                                                                       |                                           |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| 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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SIGNATURES

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

RLJ LODGING TRUST

Dated: November 7, 2013

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

Dated: November 7, 2013

/s/ LESLIE D. HALE  
Leslie D. Hale  
Executive Vice President, Chief Financial Officer and  
Treasurer  
(Principal Financial Officer)

Dated: November 7, 2013

/s/ CHRISTOPHER A. GORMSEN  
Christopher A. Gormsen  
Chief Accounting Officer  
(Principal Accounting Officer)



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Exhibit Index

| Exhibit Number | Description of Exhibit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                           |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
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