RLJ Lodging Trust
Form 10-Q
May 11, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission File Number 001-35169

RLJ LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

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

(301) 280-7777

(Registrant s Telephone Number, Including Area Code)

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

* The registrant became subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, on May 10, 2011.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes oNo

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

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

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

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

As of May 7, 2012, 106,693,177 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)

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Investment in hotel properties, net	$ 2,829,497	$ 2,820,457
Investment in loans	12,545	12,633
Cash and cash equivalents	261,065	310,231
Restricted cash reserves	86,307	87,288
Hotel receivables, net of allowance of $141 and $150, respectively	26,530	20,081
Deferred financing costs, net	8,662	9,639
Deferred income tax asset	1,369	1,369
Prepaid expense and other assets	24,963	28,320
Total assets	**$ 3,250,938**	**$ 3,290,018**
Liabilities and Equity		
Mortgage loans	$ 1,338,484	$ 1,341,735
Interest rate swap liability	1,802	1,796
Accounts payable and accrued expense	69,898	86,213
Deferred income tax liability	3,303	3,314
Advance deposits and deferred revenue	7,044	4,781
Accrued interest	2,286	2,115
Distributions payable	17,744	16,076
Total liabilities	**1,440,561**	**1,456,030**
Commitments and Contingencies (Note 8)		
Equity		
Shareholders equity:		
Preferred shares of beneficial interest, $0.01 par value, 50,000,000 shares authorized; zero shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively.		
Common shares of beneficial interest, $0.01 par value, 450,000,000 shares authorized; 106,646,242 and 106,279,049 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively.	1,067	1,063
Additional paid-in-capital	1,836,067	1,835,011
Accumulated other comprehensive loss	(1,788)	(1,782)
Distributions in excess of net earnings	(43,069)	(18,960)
Total shareholders equity	1,792,277	1,815,332
Noncontrolling interest		
Noncontrolling interest in joint venture	6,800	7,170

Noncontrolling interest in Operating Partnership	11,300	11,486
Total noncontrolling interest	18,100	18,656
Total equity	**1,810,377**	**1,833,988**
Total liabilities and equity	**$ 3,250,938**	**$ 3,290,018**

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

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RLJ Lodging Trust

Combined Consolidated Statements of Operations and Comprehensive Loss

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

(unaudited)

	For the three months ended March 31, 2012	2011
Revenue		
Hotel operating revenue		
Room revenue	$ 158,579	$ 144,725
Food and beverage revenue	19,505	18,913
Other operating department revenue	5,109	4,531
Total revenue	**183,193**	**168,169**
Expense		
Hotel operating expense		
Room	36,930	33,608
Food and beverage	14,440	13,419
Management fees	6,304	5,779
Other hotel expenses	58,558	54,287
Total hotel operating expense	116,232	107,093
Depreciation and amortization	33,697	31,751
Property tax, insurance and other	12,634	11,420
General and administrative	7,260	5,010
Transaction and pursuit costs	19	2,698
Total operating expense	169,842	157,972
Operating income	13,351	10,197
Other income	84	155
Interest income	419	483
Interest expense	(20,181)	(25,858)
Loss from continuing operations before income taxes	(6,327)	(15,023)
Income tax expense	(594)	(281)
Loss from continuing operations	(6,921)	(15,304)
Loss from discontinued operations		(972)
Net loss	(6,921)	(16,276)
Net loss attributable to non-controlling interests		
Noncontrolling interest in joint venture	370	160
Noncontrolling interest in common units of Operating Partnership	38	
Net loss attributable to the Company	(6,513)	(16,116)
Distributions to preferred unitholders		(16)
Net loss attributable to common shareholders	$ (6,513)	$ (16,132)

Basic and diluted per common share data:				
Net loss per share attributable to common shareholders - basic and diluted	$	(0.06)		
Weighted-average number of common shares - basic and diluted		105,332,812		
Comprehensive loss				
Net loss attributable to the Company	$	(6,513)	$	(16,116)
Unrealized (loss) gain on interest rate derivatives		(6)		1,196
Comprehensive loss attributable to the Company	$	(6,519)	$	(14,920)

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

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RLJ Lodging Trust

Combined Consolidated Statement of Changes in Equity

(Amounts in thousands, except share data)

(unaudited)

	Shareholders Equity					Noncontrolling Interests			
	Common Stock				Accumulated Other				
	Shares	Par Value	Additional Paid-in-Capital	Distributions in excess of net earnings	Comprehensive Loss	Operating Partnership	Consolidated Joint Venture	Total Noncontrolling Interests	Total Equity
Balance at December 31, 2011	**106,279,049**	**$ 1,063**	**$ 1,835,011**	**$ (18,960)**	**$ (1,782)**	**$ 11,486**	**$ 7,170**	**$ 18,656**	**$ 1,833,988**
Net loss				(6,513)		(38)	(370)	(408)	(6,921)
Unrealized loss on interest rate derivative					(6)				(6)
Issuance of restricted stock	389,711	4	(4)						
Amortization of share based compensation			1,459						1,459
Share grants to trustees	2,146		40						40
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(24,664)		(439)						(439)
Distributions on common shares and units				(17,596)		(148)		(148)	(17,744)
Balance at March 31, 2012	**106,646,242**	**$ 1,067**	**$ 1,836,067**	**$ (43,069)**	**$ (1,788)**	**$ 11,300**	**$ 6,800**	**$ 18,100**	**$ 1,810,377**

	Partners Capital										
	Fund II		Fund III						Accumulated Other		
	General Partner	Limited Partners	General Partner	Limited Partners	Members Class A	Capital Class B	Preferred Units Fund II	Fund III	Comprehensive Loss	Consolidated Joint Venture	Total Equity
Balance at December 31, 2010	**$ (13,409)**	**$ 433,013**	**$ (23,328)**	**$ 811,918**	**$ 6,592**	**$ 4,751**	**$ 189**	**$ 190**	**$ (3,806)**	**$ 7,623**	**$ 1,223,733**
Net loss	(7)	(9,758)	(3)	(6,182)	(125)	(41)				(160)	(16,276)
Unrealized gain on interest rate derivatives									1,196		1,196
Partners contributions	1,712	2,161	2,099	112,777							118,749
Partners distributions	(2,161)	(2,161)	(2,494)								(6,816)
Members distributions					(600)	(200)					(800)
Distributions to preferred unitholders		(8)		(8)							(16)
Balance at March 31, 2011	**$ (13,865)**	**$ 423,247**	**$ (23,726)**	**$ 918,505**	**$ 5,867**	**$ 4,510**	**$ 189**	**$ 190**	**$ (2,610)**	**$ 7,463**	**$ 1,319,770**

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 three months ended March 31, 2012	2011
Cash flows from operating activities:		
Net loss	$ (6,921)	$ (16,276)
Adjustments to reconcile net loss to cash flow provided by operating activities:		
Depreciation and amortization	33,697	32,701
Amortization of deferred financing costs	1,000	1,202
Amortization of deferred management fees	250	250
Share grants to trustees	40	
Amortization of share based compensation	1,459	
Deferred income tax liability	(11)	
Changes in assets and liabilities:		
Hotel receivables, net	(6,449)	(4,625)
Prepaid expense and other assets	3,058	(8,210)
Accounts payable and accrued expense	(18,090)	7,237
Advance deposits and deferred revenue	2,263	2,197
Accrued interest	171	851
Preferred distributions payable		86
Net cash flow provided by operating activities	10,467	15,413
Cash flows from investing activities:		
Acquisition of hotel properties, net of cash acquired		(194,830)
Proceeds from principal payments on investment in loans	88	60
Improvements and additions to hotel properties	(40,866)	(7,848)
Additions to property and equipment	(47)	(6)
Advances from related parties		350
Repayments to related parties		(286)
Funding of restricted cash reserves, net	981	(1,400)
Net cash flow used in investing activities	(39,844)	(203,960)
Cash flows from financing activities:		
Proceeds from term loan		140,000
Payment of mortgage principal	(3,251)	(5,753)
Payment of members distributions		(800)
Proceeds from partners contributions		118,749
Payment of partners distributions		(6,816)
Repurchase of common stock	(439)	
Distributions on common shares	(15,942)	
Distributions on OP units	(134)	
Payment of deferred financing costs	(23)	(660)
Net cash flow (used in) provided by financing activities	(19,789)	244,720
Net change in cash and cash equivalents	(49,166)	56,173
Cash and cash equivalents, beginning of period	310,231	267,454
Cash and cash equivalents, end of period	**$ 261,065**	**$ 323,627**

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

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RLJ Lodging Trust
Notes to the Combined Consolidated Financial Statements

(unaudited)

1. Organization

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

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

Due to the timing of the IPO and the formation transactions, the Company s results of operations for the three months ended March 31, 2011 reflect the financial condition and results of operations of the RLJ Predecessor. The financial condition as of December 31, 2011 and March 31, 2012 and results of operations for the three months ended March 31, 2012 reflect solely the Company.

Substantially all of the Company s assets are held by, and all of its operations are conducted through, the Operating Partnership. The Company is the sole general partner of the Operating Partnership. As of March 31, 2012, there were 107,540,242 OP units outstanding and the Company owned, through a combination of direct and indirect interests, 99.2% of the outstanding OP units.

As of March 31, 2012, the Company owned interests in 141 hotels with 20,646 rooms located in 20 states and the District of Columbia, interests in land parcels located adjacent to certain hotels and an interest in two mortgage loans secured by hotels. The Company, through wholly-owned subsidiaries, owned a 100% interest in all of its assets, with the exception of the Doubletree Metropolitan Hotel New York City, in which the Company, through wholly-owned subsidiaries, owned a 95% interest in a joint venture, DBT Met Hotel Venture, LP, which was formed to engage in hotel operations related to the Doubletree Metropolitan hotel. An independent hotel operator manages each hotel.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited interim combined consolidated financial statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and in conformity with the rules and regulations of the SEC applicable to interim financial information.

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

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

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

Reporting Periods

As of March 31, 2012, the Company owned four hotels that are managed by affiliates of Marriott International (Marriott). The Company s hotels managed by Marriott are accounted for on a fiscal year comprised of 52 or 53 weeks ending on the Friday closest to December 31. The Company s results for the three months ended March 31, 2012 and 2011 include the results of operations for the Company s Marriott-managed hotels for the 12 week period ending March 23, 2012 and March 25, 2011, respectively.

Use of Estimates

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

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, owners equity or cash flows.

Investment in Hotel Properties

Hotel acquisitions consist almost exclusively of land, land improvements, buildings, building improvements, furniture, fixtures and equipment and inventory. The Company records the purchase price among these asset classes based on their respective fair values. When the Company acquires properties, they are acquired for use. Generally, the Company does not acquire any significant in-place leases or other intangible assets (e.g., management agreements, franchise agreements or trademarks) when hotels are acquired. The only intangible assets acquired through March 31, 2012 consisted of favorable lease agreements and miscellaneous operating agreements, which are short-term in nature. In conjunction with the acquisition of a hotel, the Company typically negotiates new franchise and management agreements with the selected brand and manager.

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

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

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

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

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

Franchise Agreements

As of March 31, 2012, 137 of the Company s hotel properties are operated under franchise agreements with terms ranging from 15 to 25 years. The franchise agreements for these hotels allow the properties to operate under the respective brands. Pursuant to the franchise agreements, the Company pays a royalty fee, generally between 3.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs that amount to between 1.0% and 4.3% of room revenue. Certain hotels are also charged a royalty fee of between 2.0% and 3.0% of food and beverage revenues. Franchise fees are included in other hotel expenses in the accompanying unaudited interim combined consolidated financial statements.

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period excluding the weighted average number of unvested restricted shares (participating securities as defined in Note 10). The basic earnings per share calculation includes the effect of such participating securities. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period plus other potentially dilutive securities such as stock grants or shares that would be issued in the event of conversion of OP units. No adjustment is made for shares that are anti-dilutive during a period.

Share Based Compensation

From time to time, the Company may award non-vested shares under the 2011 Equity Incentive Plan (the 2011 Plan), as compensation to officers, employees and non-employee trustees (see Note 9). The shares issued to officers and employees vest over a period of time as determined by the Board of Trustees at the date of grant. The Company recognizes compensation expense for non-vested shares on a straight-line basis over the vesting period based upon the fair market value of the shares on the date of grant, adjusted for forfeitures.

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Recent Accounting Pronouncements

Recently Adopted

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

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

Recently Issued But Not Yet Adopted

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

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

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

3. Acquisition of Hotel Properties

The Company did not acquire any hotels during the three months ended March 31, 2012. During the three months ended March 31, 2011, the Company, through wholly-owned subsidiaries, acquired the following hotels, which were funded by capital contributions:

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Hotel	Location	Acquisition Date	Management Company	Rooms	Purchase Price	% Interest
Embassy Suites Columbus	Columbus, OH	January 11, 2011	Crescent Hotels and Resorts	221	$ 9.5 million	100%
Renaissance Pittsburgh Hotel	Pittsburgh, PA	January 12, 2011	Sage Hospitality	300	47.1 million	100%
Courtyard Atlanta Buckhead	Atlanta, GA	January 18, 2011	Noble	181	27.0 million	100%
Doubletree Hotel Columbia	Columbia, MD	January 18, 2011	Urgo Hotels	152	10.5 million	100%
Denver Airport Marriott at Gateway Park	Denver, CO	January 18, 2011	Sage Hospitality	238	46.0 million	100%
Embassy Suites West Palm Beach-Central	West Palm Beach, FL	January 18, 2011	Windsor Capital Group	194	16.0 million	100%
Hilton Garden Inn Raleigh Durham-Research Triangle Park	Durham, NC	January 24, 2011	Noble Management Group	177	7.0 million	100%
Hilton Garden Inn Pittsburgh University Place	Pittsburgh, PA	January 24, 2011	Urgo Hotels	202	21.2 million	100%
Hampton Inn Houston-Near the Galleria	Houston, TX	March 14, 2011	Interstate Hotels and Resorts	176	20.3 million	100%
				1,841	$ 204.6 million	100%

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

	March 31, 2011
Land and land improvements	$ 29,131
Buildings and improvements	155,995
Furniture, fixtures and equipment	21,900
Deferred tax liabilities assumed	(2,438)
Total Purchase Price	**$ 204,588**

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

Total revenues and net loss from the hotels acquired during the three months ended March 31, 2011 of $14.0 million and $2.6 million, respectively, are included in the accompanying combined consolidated statements of operations for the three months ended March 31, 2011.

The unaudited condensed pro forma financial information excludes discontinued operations and is not necessarily indicative of what actual results of operations of the Company would have been assuming the 2011 acquisitions had taken place on the latter of January 1, 2011 or the opening date of the hotel, nor does it purport to represent the results of operations for future periods. The unaudited condensed pro forma financial information, excluding discontinued operations, is as follows (in thousands):

	For the three months ended March 31, 2011
Revenue	$ 171,735
Net loss	$ (12,743)

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4. Discontinued Operations

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

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

	For the three months ended March 31, 2011
Net revenues	$ 6,121
Operating expenses	6,887
Operating loss	(766)
Interest expense	(206)
Net loss from discontinued operations	$ (972)

5. Investment in Hotel Properties

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

	March 31, 2012	December 31, 2011
Land and land improvements	$ 516,137	$ 515,957
Buildings and improvements	2,416,943	2,392,669
Furniture, fixtures and equipment	387,562	375,561
Intangibles	1,857	1,857
	3,322,499	3,286,044
Accumulated depreciation and amortization	(493,002)	(465,587)
Investment in hotel properties, net	**$ 2,829,497**	**$ 2,820,457**

For the three months ended March 31, 2012 and 2011, depreciation and amortization expense related to investment in hotel properties was approximately $33.6 million and $31.4 million (excluding discontinued operations), respectively.

Impairment

During each of the three months ended March 31, 2012 and 2011, the Company determined there was no impairment on its investment in hotels.

6. Debt

Credit Facility

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

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to the Company s maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default exists, under the terms of the credit facility, the Company is not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of March 31, 2012, the Company was in compliance with all financial covenants.

The credit facility matures on June 20, 2014 and may be extended for an additional year at the Company s option. In addition, the Company has the option to increase the revolving loan commitment to $450.0 million, subject to certain conditions (including consent of the lenders). The Company incurred $3.0 million in fees related to the credit facility which are being deferred and amortized over the term of the credit facility. The computed amortization approximates the amount that would be computed using the effective interest method.

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

Under the terms of the credit facility, one or more standby letters of credit, up to a maximum aggregate outstanding balance of $30.0 million, may be issued on behalf of the Company by the lenders holding the credit facility. The Company will incur a fee of 0.125% of the value of each standby letter of credit that is issued on its behalf. Any outstanding standby letters of credit would reduce the available borrowings on the credit facility by a corresponding amount. No standby letters of credit were outstanding at March 31, 2012. The Company also may borrow up to a maximum aggregate outstanding balance of $40.0 million of swingline loans. Any outstanding swingline loans would reduce the available borrowings on the credit facility by a corresponding amount. No swingline loans were outstanding at March 31, 2012.

The Company did not incur any interest expense on the credit facility for the three months ended March 31, 2012. For the three months ended March 31, 2012, the Company incurred an unused commitment fee of approximately $0.3 million. There were no borrowings outstanding at March 31, 2012.

RLJ Predecessor Credit Facility

Fund III, through wholly-owned subsidiaries, maintained a credit facility that provided for maximum borrowings of up to $200.0 million. The credit facility was collateralized by Fund III s partners committed and uncalled capital and was guaranteed by Fund III. Borrowings under the credit facility bore interest at variable rates equal to the LIBOR plus a margin of 0.75%. The credit facility matured on January 31, 2011.

Fund III incurred no interest expense related to the credit facility was incurred for the three months ended March 31, 2011. Additionally, there was an unused commitment fee of 0.15% of the unused portion of the credit facility. For the three months ended March 31, 2011, Fund III incurred an unused commitment fee of approximately $12,000.

Mortgage Loans

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

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Lender	Number of Assets Encumbered	Interest rate at March 31, 2012 (1)	Maturity Date		Principal balance at, March 31, 2012	Principal balance at, December 31, 2011
Keybank (2)	6	1.48%(3)	April 2012	(4)	$ 48,000	$ 48,000
State Street Bank (2)		3.00%(3)	April 2012	(4)	37,000	37,000
Wells Fargo	1	4.24%(5)	June 2013	(6)	60,000	60,000
Wells Fargo	1	5.50%(5)	Oct 2013	(6)	40,000	40,000
Wells Fargo	1	5.50%(5)	Oct 2013	(6)	31,000	31,000
Wells Fargo (7)	1	4.90%(8)	Dec 2013	(6)	150,000	150,000
Blackstone (7)		10.75%(8)	Dec 2013	(6)	50,000	50,000
Wells Fargo	1	3.84%(5)	Oct 2014	(6)	68,500	68,500
Wells Fargo	1	3.84%(5)	Oct 2014	(6)	17,500	17,500
Wells Fargo	1	3.84%(5)	Oct 2014	(6)	21,000	21,000
Wells Fargo	1	3.84%(5)	Oct 2014	(6)	11,000	11,000
Wells Fargo	1	3.84%(5)	Oct 2014	(6)	24,000	24,000
Capmark Financial Group	1	6.12%	April 2015		4,296	4,327
Capmark Financial Group	1	5.50%	May 2015		5,014	5,014
Capmark Financial Group	1	5.55%	June 2015		11,567	11,656
Capmark Financial Group	1	5.55%	June 2015		5,018	5,057
Barclay s Bank	1	5.55%	June 2015		2,622	2,642
Barclay s Bank	1	5.55%	June 2015		4,303	4,336
Barclay s Bank	1	5.55%	June 2015		10,030	10,107
Barclay s Bank	1	5.55%	June 2015		8,952	9,020
Barclay s Bank	1	5.55%	June 2015		8,023	8,084
Barclay s Bank	1	5.60%	June 2015		5,562	5,603
Barclay s Bank	1	5.60%	June 2015		8,642	8,707
Barclay s Bank	1	5.55%	June 2015		5,256	5,296
Barclay s Bank	1	5.55%	June 2015		34,850	35,115
Barclay s Bank	1	5.60%	June 2015		6,619	6,669
Barclay s Bank	1	5.55%	June 2015		5,898	5,943
Barclay s Bank	1	5.55%	June 2015		6,778	6,830
Barclay s Bank	1	5.60%	June 2015		8,636	8,701
Barclay s Bank	1	5.55%	June 2015		6,770	6,821
Barclay s Bank	1	5.55%	June 2015		7,451	7,508
Barclay s Bank	1	5.55%	June 2015		6,778	6,830
Barclay s Bank	1	5.55%	June 2015		7,737	7,796
Barclay s Bank	1	5.55%	June 2015		9,710	9,783
Capmark Financial Group	1	5.50%	July 2015		6,831	6,883
Barclay s Bank	1	5.44%	Sept 2015		11,139	11,223
Merrill Lynch	1	6.29%	July 2016		9,265	9,294
Merrill Lynch	1	6.29%	July 2016		5,552	5,552
Merrill Lynch	1	6.29%	July 2016		7,756	7,780
Merrill Lynch	1	6.29%	July 2016		9,279	9,307
Wachovia Securities (9)	43	6.29%	July 2016		491,837	493,358
Wachovia Securities	1	6.29%	July 2016		6,643	6,664
Wells Fargo / Morgan Stanley	2	6.29%	July 2016		35,147	35,256
Wells Fargo / Morgan Stanley	1	6.29%	July 2016		6,817	6,837
Wells Fargo / Morgan Stanley	1	6.29%	July 2016		9,706	9,736
	91				**$ 1,338,484**	**$ 1,341,735**

(1) Interest rate at March 31, 2012 gives effect to interest rate swaps and LIBOR floors, where applicable.

(2) The Keybank and State Street Bank loans are comprised of a senior and a mezzanine loan, which, as of March 31, 2012 had outstanding balances of $48 million and $37 million, respectively.

(3) Requires payments of interest only.

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

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

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

(7) The Wells Fargo and Blackstone loans are a senior and a mezzanine loan, respectively, which, as of March 31, 2012, had outstanding balances of $150.0 million and $50.0 million, respectively.

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

(9) The 43 Wachovia Securities loans are cross-collateralized.

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

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In November, 2011, the Company elected to cease the subsidization of debt service on the mortgage loans secured by the Courtyard Goshen, Indiana and SpringHill Suites Southfield, Michigan. In December 2011, the Company received notice of an event of default for failure to make the required monthly payment on its mortgage loan secured by the Courtyard Goshen. In January 2012, the Company received notice of an event of default for failure to make the required monthly payment on its mortgage loan secured by the SpringHill Suites Southfield. As of March 31, 2012, the principal balances outstanding were $5.6 million and $5.0 million, for the Courtyard Goshen and SpringHill Suites Southfield, respectively. The loans mature in July 2016 and June 2015, respectively. The Company is working with the lenders to transfer the assets in an orderly manner.

Term Loan

On January 14, 2011, Fund III entered into a $140.0 million unsecured term loan. Fund III agreed to maintain an unencumbered asset pool of ten hotel properties during the term of the term loan. The term loan had an original maturity date of September 30, 2011, with two six month extension options, and bore interest at LIBOR plus 4.25%, with a LIBOR floor of 1.00%. For the three months ended March 31, 2011, the Company incurred $1.5 million of interest expense, related to the term loan.

7. Income Taxes

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

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

The Company had no accruals for tax uncertainties as of March 31, 2012 and March 31, 2011.

8. Commitments and Contingencies

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of furniture, fixtures and equipment) as determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents. The management agreements, franchise agreements and/or mortgage loan documents require the Company to reserve restricted cash ranging from 1.0% to 5.0% of the individual hotel s revenues and maintain the reserves in restricted cash reserve escrows. Amounts will be capitalized as incurred. Any unexpended amounts will remain the property of the Company upon termination of the management agreements, franchise agreements or mortgage loan documents. Additionally, some mortgage agreements require the Company to reserve restricted cash for the periodic payment of real estate taxes and insurance. As of March 31, 2012 and December 31, 2011, approximately $86.3 million and $87.3 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.

9. Equity Incentive Plan

The Company may issue equity-based awards to officers, employees, non-employee trustees and other eligible persons

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under the 2011 Plan. The 2011 Plan provides for a maximum of 5,000,000 common shares of beneficial interest to be issued in the form of share options, share appreciation rights, restricted share awards, unrestricted share awards, share units, dividend equivalent rights, long-term incentive units, other equity-based awards and cash bonus awards. In addition, the maximum number of common shares subject to awards of any combination that may be granted under the 2011 Plan during any calendar year to any one individual is limited to 1,000,000 shares. The exercise price of share options is determined by the Board of Trustees, but may not be less than 100% of the fair market value of the common shares on the date of grant. For grantees that own greater than ten percent of the total combined voting power of all classes of outstanding voting securities of the Company, the exercise price of share options may not be less than 110% of the fair market value of the common shares on the date of grant. The fair market value for all other types of share awards is determined by the closing price on the date of grant. As of March 31, 2012, there were 3,482,503 common shares available for future grant under the 2011 Plan.

Non-vested Restricted Share Awards

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

A summary of the non-vested shares as of March 31, 2012 is as follows:

	Number of Shares		Weighted Average Grant Date Fair Value
Unvested at January 1, 2012	970,288	$	17.93
Granted	389,711		17.41
Vested	(73,766)		17.93
Forfeited			
Unvested at March 31, 2012	1,286,233	$	17.77

For the three months ended March 31, 2012, the Company recognized approximately $1.5 million of share-based compensation expense related to these restricted share awards. As of March 31, 2012, there was $22.1 million of total unrecognized compensation costs related to non-vested share awards. As of March 31, 2012, these costs were expected to be primarily recognized over a weighted-average period of 3.4 years. The total fair value of shares vested (calculated as number of shares multiplied by vesting date share price) during the three months ended March 31, 2012 was approximately $1.3 million.

10. Earnings per Common Share

The limited partners outstanding limited partnership units in the Operating Partnership (which may be redeemed for common shares of beneficial interest under certain circumstances) have been excluded from the diluted earnings per share calculation as there was no effect on the amounts for the three months ended March 31, 2012, since the limited partners share of income would also be added back to net income. Any anti-dilutive shares have been excluded from the diluted earnings per share calculation. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. Accordingly, distributed and undistributed earnings attributable to unvested restricted shares (participating securities) have been excluded, as applicable, from net income or loss attributable to common shareholders utilized in the basic and diluted earnings per share calculations. Net income or loss figures are presented net of noncontrolling interests in the earnings per share calculations. The weighted average number of OP units held by the noncontrolling interest was 894,000 for the three months ended March 31, 2012.

For the three months ended March 31, 2012, diluted weighted average common shares do not include the impact of unvested compensation-related shares because the effect of these items on diluted earnings per share would be anti-dilutive. For the three months ended March 31, 2012 there were 1,286,233 anti-dilutive compensation-related shares outstanding.

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

		For the three months ended, March 31, 2012
Numerator:		
Net loss attributable to common shareholders	$	(6,513)
Less: Dividends paid on unvested restricted shares		(212)
Net loss attributable to common shareholders excluding amounts attributable to unvested restricted shares	$	(6,725)
Denominator:		
Weighted-average number of common shares - basic		105,332,812
Unvested restricted shares		
Weighted-average number of common shares - diluted		105,332,812
Net loss per share attributable to common shareholders - basic and diluted	$	(0.06)

Unvested restricted shares are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share.

11. Financial Instruments: Derivatives and Hedging

The Company employs interest rate swaps and caps to hedge against interest rate fluctuations. Unrealized gains and losses are reported in other comprehensive loss with no effect recognized in earnings as long as the characteristics of the swap and the hedged item are closely matched. The ineffective portion of all hedges is recognized in earnings in the current period. As of both March 31, 2012 and December 31, 2011, approximately 25.2% of the Company s borrowings were subject to variable rates, after taking into consideration the effect of interest rate swaps and caps.

As of March 31, 2012 and December 31, 2011, the Company has entered into the following interest rate swaps and caps, which the Company has designated as cash flow hedges (in thousands):

	Notional value at		Hedge		Fair value at	
Hedge type	**March 31, 2012**	**December 31, 2011**	**interest rate**	**Maturity**	**March 31, 2012**	**December 31, 2011**
Interest rate cap	$ 48,000	$ 48,000	6.00%	4/9/2012	$	$
Interest rate cap	37,000	37,000	6.00%	4/9/2012		
Interest rate cap	60,000	60,000	5.00%	6/29/2012		
Interest rate cap	50,000	50,000	3.50%	12/23/2012	1	3
Swap-cash flow	150,000	150,000	1.15%	12/23/2012	(1,066)	(1,145)
Swap-cash flow	40,000	40,000	1.00%	10/6/2013	(415)	(369)
Swap-cash flow	31,000	31,000	1.00%	10/6/2013	(322)	(285)
	$ 416,000	**$ 416,000**			**$ (1,802)**	**$ (1,796)**

As of both March 31, 2012 and December 31, 2011, there was approximately $1.8 million in unrealized losses included in accumulated other comprehensive loss, a component of shareholders equity, related to interest rate hedges that are effective in offsetting the variable cash flows. There were no ineffective hedges during either the three months ended March 31, 2012 or 2011.

12. Fair Value

Fair Value of Financial Instruments

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

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may have a material effect on the estimated fair value amounts. The Company used the following market assumptions and/or estimation methods:

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

- Investment in collateralized loans - Fair value is determined by discounting the future contractual cash flows to the present value using a current market interest rate. The market rate is determined by giving consideration to one or both of the following criteria, as appropriate: (1) interest rates for loans of comparable quality and maturity, and (2) the value of the underlying collateral. The fair values of the Company s investment in collateralized loans are generally classified within Level 3 of the valuation hierarchy. The fair value estimated at both March 31, 2012 and December 31, 2011 was $22.6 million.

- Interest rate swaps and caps - The fair value of interest rate swaps and caps is determined as discussed in Note 11 to these financial statements.

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

- Fixed rate mortgage notes payable - The fair value estimated at March 31, 2012 and December 31, 2011 of $768.9 million and $771.5 million, respectively (excluding loans collateralized by properties held for sale), 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.

Fair Value Measurement

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

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

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

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

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 March 31, 2012 (in thousands).

	Fair Value at March 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap and cap liability	$	$ (1,802)	$	$ (1,802)
Total	$	$ (1,802)	$	$ (1,802)

The fair values of the derivative financial instruments are determined using widely accepted valuation techniques

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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 March 31, 2012, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

13. Related Party Transactions

Upon completion of the IPO, the management fee obligation of the RLJ Predecessor ceased to exist. The Company paid monthly fees for management advisory services to the managing member of RLJ Development. Such fees amounted to $0.6 million for the three months ended March 31, 2011 and are included in general and administrative expense.

The Company periodically pays certain amounts on behalf of RLJ Companies LLC, an entity controlled by Robert L. Johnson, our Executive Chairman. As of March 31, 2012 and December 31, 2011, there was $52,000 and $33,000, respectively, due from RLJ Companies, LLC, which was included in prepaid and other assets.

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

	For the three months ended March 31,			
	2012		2011	
Interest paid	$	19,010	$	24,011
Income taxes paid	$	265	$	281
Supplemental investing and financing transactions:				
In conjunction with the hotel acquisitions, the Company assumed the following assets and liabilities:				
Purchase of real estate	$		$	204,588
Accounts receivable				457
Other assets				862
Advance deposits				(368)
Accounts payable and accrued expenses				(2,209)
Application of purchase deposit				(8,500)
Acquisition of hotel properties	$		$	194,830
Supplemental non-cash transactions:				
Change in fair market value of interest rate swaps	$	(6)	$	1,196
Accrued capital expenditures	$	1,775	$	
Distributions payable	$	17,744	$	

15. Subsequent Events

On April 5, 2012, the Company borrowed $85.0 million on its $300.0 million credit facility to fund the repayment of the Keybank and State Street Bank loans.

On April 9, 2012, the Company paid off the Keybank and State Street Bank loans which had outstanding balances of $48.0 million and $37.0 million, respectively.

On April 13, 2012, the Company paid a dividend of $0.165 per common share of beneficial interest to shareholders of record at March 30, 2012.

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On May 4, 2012, the Company granted 46,935 restricted common shares of beneficial interest to certain employees and members of the Board of Trustees.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report, as well as the information contained in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 8, 2012 (the Annual Report), which is accessible on the SEC s website at www.sec.gov.

Statement Regarding Forward-Looking Information

The following information contains forward-looking statements within the meaning Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, cash flows, earnings before interest, tax, depreciation and amortization (EBITDA), funds from operations (FFO) and plans and objectives or the current or future state of the lodging industry. These statements generally are characterized by the use of the words believe, expect, anticipate, estimate, plan, continue, intend, should, may or similar express we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, beliefs and expectations, such forward-looking statements are not predictions of future events or guarantees of future performance and our actual results could differ materially from those set forth in the forward-looking statements. Some factors that might cause such a difference include the following: the current global economic downturn, increased direct competition, changes in government regulations or accounting rules, changes in local, national and global real estate conditions, declines in the lodging industry, seasonality of the lodging industry, our ability to obtain lines of credit or permanent financing on satisfactory terms, changes in interest rates, availability of proceeds from offerings of our common shares, our ability to identify suitable investments, our ability to close on identified investments and inaccuracies of our accounting estimates. Given these uncertainties, undue reliance should not be placed on such statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

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

Overview

We are a self-advised and self-administered Maryland real estate investment trust, which invests primarily in premium-branded, focused-service and compact full-service hotels. As of March 31, 2012, we owned 141 hotels in 20 states and the District of Columbia comprising 20,646 rooms. We are one of the largest U.S. publicly-traded lodging REITs in terms of both number of hotels and number of rooms. Our hotels are concentrated in urban and dense suburban markets that we believe generally exhibit multiple demand generators and high barriers to entry.

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

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

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

Our Customers

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

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

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

Our Revenues and Expenses

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

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

Critical Accounting Policies

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

Investment in Hotel Properties

Hotel acquisitions consist almost exclusively of land, land improvements, buildings, building improvements, furniture, fixtures and equipment and inventory. We record the purchase price among these asset classes based on their respective fair values. When we acquire hotels, we acquire them for use. Generally, we do not acquire any significant in-

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place leases or other intangible assets (e.g., management agreements, franchise agreements or trademarks) when hotels are acquired. The only intangible assets acquired through March 31, 2012 consisted of favorable lease agreements and miscellaneous operating agreements, which are short-term in nature. In conjunction with the acquisition of a hotel, we typically negotiate new franchise and management agreements with the selected brand and manager.

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

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

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

Results of Operations

At March 31, 2012 and 2011, we owned 141 and 140 hotels respectively (excluding one hotel carried as discontinued operations in 2011). All hotels owned during these periods, excluding discontinued operations, have been included in our results of operations during those respective periods or since their date of acquisition. Operating results for the ten hotels acquired during 2011 and the Fairfield Inn & Suites Washington DC / Downtown, which was closed for renovations for the majority of the three months ended March 31, 2011, are not comparable for the three month periods ended March 31, 2012 and 2011. These eleven hotels are hereafter referred to as non-comparable hotels.

Comparison of the three months ended March 31, 2012 to the three months ended March 31, 2011

Net loss from continuing operations for the three months ended March 31, 2012 was $6.9 million compared to a net loss from continuing operations of $15.3 million for the three months ended March 31, 2011, representing a decrease of $8.4 million. This improved performance was primarily due to a $15.0 million, or 8.9%, increase in total revenue (including $5.3 million arising from hotel acquisitions) and a $5.7 million, or 22.0%, decrease in interest expense, partially offset by an $11.9 million, or 7.5%, increase in operating expenses.

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	For the three months ended March 31, 2012	2011	$ change	% change
Revenue				
Hotel operating revenue				
Room revenue	$ 158,579	$ 144,725	$ 13,854	9.6%
Food and beverage revenue	19,505	18,913	592	3.1%
Other operating department revenue	5,109	4,531	578	12.8%
Total revenue	**183,193**	**168,169**	**15,024**	8.9%
Expense				
Hotel operating expense				
Room	36,930	33,608	3,322	9.9%
Food and beverage	14,440	13,419	1,021	7.6%
Management fees	6,304	5,779	525	9.1%
Other hotel expenses	58,558	54,287	4,271	7.9%
Total hotel operating expense	116,232	107,093	9,139	8.5%
Depreciation and amortization	33,697	31,751	1,946	6.1%
Property tax, insurance and other	12,634	11,420	1,214	10.6%
General and administrative	7,260	5,010	2,250	44.9%
Transaction and pursuit costs	19			