RLJ Lodging Trust
Form 10-Q
August 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

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

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

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

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

As of July 28, 2015, 130,769,039 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
Consolidated Balance Sheets
(Amounts in thousands, except share and per share data)

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Investment in hotels and other properties, net	$3,508,958	$3,518,803
Cash and cash equivalents	263,881	262,458
Restricted cash reserves	59,941	63,054
Hotel and other receivables, net of allowance of $170 and $166, respectively	31,802	25,691
Deferred financing costs, net	9,483	11,421
Deferred income tax asset	7,517	7,502
Purchase deposits	7,000	—
Prepaid expense and other assets	33,757	42,115
Assets of hotel properties held for sale	—	197,335
Total assets	$3,922,339	$4,128,379
Liabilities and Equity		
Mortgage loans	$376,939	$532,747
Term loans	1,025,000	1,025,000
Accounts payable and other liabilities	117,383	129,388
Deferred income tax liability	7,542	7,879
Advance deposits and deferred revenue	10,854	9,984
Accrued interest	2,743	2,783
Distributions payable	46,154	42,114
Total liabilities	1,586,615	1,749,895
Commitments and Contingencies (Note 10)		
Equity		
Shareholders' equity:		
Preferred shares of beneficial interest, $0.01 par value, 50,000,000 shares authorized; zero shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	—	—
Common shares of beneficial interest, $0.01 par value, 450,000,000 shares authorized; 130,133,618 and 131,964,706 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	1,301	1,319
Additional paid-in-capital	2,363,965	2,419,731
Accumulated other comprehensive loss	(17,128)	(13,644)
Distributions in excess of net earnings	(29,793)	(46,415)
Total shareholders' equity	2,318,345	2,360,991
Noncontrolling interest		
Noncontrolling interest in joint venture	6,077	6,295
Noncontrolling interest in Operating Partnership	11,302	11,198

Total noncontrolling interest	17,379	17,493
Total equity	2,335,724	2,378,484
Total liabilities and equity	$3,922,339	$4,128,379

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

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RLJ Lodging Trust
Consolidated Statements of Operations and Comprehensive Income
(Amounts in thousands, except share and per share data)
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Revenue				
Operating revenue				
Room revenue	$262,240	$259,447	$494,799	$465,472
Food and beverage revenue	29,587	27,481	58,580	50,848
Other operating department revenue	9,425	8,119	18,278	15,100
Total revenue	$301,252	$295,047	$571,657	$531,420
Expense				
Operating expense				
Room expense	$55,207	$54,136	$109,293	$101,657
Food and beverage expense	20,492	18,746	41,256	35,619
Management and franchise fee expense	31,677	31,052	59,719	55,865
Other operating expense	59,228	59,837	119,809	116,213
Total property operating expense	166,604	163,771	330,077	309,354
Depreciation and amortization	37,778	35,422	74,981	68,298
Property tax, insurance and other	18,281	17,938	38,324	35,190
General and administrative	10,393	10,135	20,792	20,264
Transaction and pursuit costs	853	2,411	988	3,895
Total operating expense	233,909	229,677	465,162	437,001
Operating income	67,343	65,370	106,495	94,419
Other income	456	405	546	515
Interest income	363	962	808	1,285
Interest expense	(12,335)	(14,142)	(25,843)	(28,788)
Income from continuing operations before income tax expense	55,827	52,595	82,006	67,431
Income tax expense	(89)	(494)	(464)	(788)
Income from continuing operations	55,738	52,101	81,542	66,643
Gain (loss) on disposal of hotel properties	672	1,260	22,970	(1,297)
Net income	56,410	53,361	104,512	65,346
Net (income) loss attributable to noncontrolling interests				
Noncontrolling interest in consolidated joint venture	(46)	(79)	23	(45)
Noncontrolling interest in common units of Operating Partnership	(373)	(378)	(694)	(465)
Net income attributable to common shareholders	$55,991	$52,904	$103,841	$64,836
Basic per common share data:				
Net income per share attributable to common shareholders	$0.43	$0.42	$0.79	$0.52
Weighted-average number of common shares	130,670,629	125,260,607	130,969,957	123,510,507

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Diluted per common share data:				
Net income per share attributable to common shareholders	$0.42	$0.42	$0.78	$0.52
Weighted-average number of common shares	131,618,693	126,475,051	131,947,932	124,696,925
Amounts attributable to the Company's common shareholders				
Income from continuing operations	$55,324	$51,652	$81,028	$66,124
Gain (loss) on disposal of hotel properties	667	1,252	22,813	(1,288)
Net income attributable to common shareholders	$55,991	$52,904	$103,841	$64,836
Comprehensive income				
Net income	$56,410	$53,361	$104,512	$65,346
Unrealized gain (loss) on interest rate derivatives	5,919	(6,913)	(3,484)	(8,274)
Comprehensive income	62,329	46,448	101,028	57,072
Comprehensive (income) loss attributable to the noncontrolling interest in consolidated joint venture	(46)	(79)	23	(45)
Comprehensive income attributable to the noncontrolling interest in the Operating Partnership	(373)	(378)	(694)	(465)
Comprehensive income attributable to the Company	$61,910	$45,991	$100,357	$56,562

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

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

	Shareholders' Equity Common Stock					Noncontrolling Interests			
	Shares	Par Value	Additional Paid-in Capital	Distributions in Excess of Net Earnings	Accumulated Other Comprehensive Loss	Operating Partnership	Consolidated Joint Venture	Total Non-controlling Interest	Total Equity
Balance at December 31, 2014	131,964,706	$1,319	$2,419,731	$(46,415)	$(13,644)	$11,198	$6,295	$17,493	$2,378,484
Net income (loss)	—	—	—	103,841	—	694	(23)	671	104,512
Unrealized loss on interest rate derivative	—	—	—	—	(3,484)	—	—	—	(3,484)
Distributions to joint venture partner	—	—	—	—	—	—	(195)	(195)	(195)
Issuance of restricted stock	287,497	3	(3)	—	—	—	—	—	—
Amortization of share-based compensation	—	—	7,791	—	—	—	—	—	7,791
Share grants to trustees	2,168	—	66	—	—	—	—	—	66
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(120,249)	(1)	(3,799)	—	—	—	—	—	(3,800)
Shares acquired as part of a share repurchase program	(1,995,177)	(20)	(59,821)	—	—	—	—	—	(59,841)
	(5,327)	—	—	—	—	—	—	—	—

Forfeiture of restricted stock									
Distributions on common shares and units	—	—	—	(87,219)	—	(590)	—	(590)	(87,809)
Balance at June 30, 2015	130,133,618	$1,301	$2,363,965	$(29,793)	$(17,128)	$11,302	$6,077	$17,379	$2,335,724

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

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

	Shareholders' Equity					Noncontrolling Interests			
	Common Stock								
	Shares	Par Value	Additional Paid-in Capital	Distributions in Excess of Net Earnings	Accumulated Other Comprehensive Income	Operating Partnership	Consolidated Joint Venture	Total Non-controlling Interests	Total Equity
Balance at December 31, 2013	122,640,042	$1,226	$2,178,004	$(45,522)	$(5,941)	$11,261	$7,306	$18,567	$2,146,334
Net income	—	—	—	64,836	—	465	45	510	65,346
Proceeds from sale of common stock, net	9,200,000	92	232,722	—	—	—	—	—	232,814
Unrealized loss on interest rate derivative	—	—	—	—	(8,274)	—	—	—	(8,274)
Distributions to joint venture partner	—	—	—	—	—	—	(1,182)	(1,182)	(1,182)
Issuance of restricted stock	343,887	3	(3)	—	—	—	—	—	—
Amortization of share-based compensation	—	—	7,393	—	—	—	—	—	7,393
Share grants to trustees	2,197	—	61	—	—	—	—	—	61
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(98,204)	—	(2,599)	—	—	—	—	—	(2,599)
Forfeiture of restricted	(3,568)	—	—	—	—	—	—	—	—

stock									
Distributions on common shares and units	—	—	—	(56,537)	—	(392)	—	(392)	(56,929)
Balance at June 30, 2014	132,084,354	$1,321	$2,415,578	$(37,223)	$(14,215)	$11,334	$6,169	$17,503	$2,382,964

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

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RLJ Lodging Trust
Consolidated Statements of Cash Flows
(Amounts in thousands)
(unaudited)

	For the six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$104,512	$65,346
Adjustments to reconcile net income to cash flow provided by operating activities:		
Loss on defeasance	—	804
(Gain) loss on disposal of hotel properties	(22,970)	1,297
Depreciation and amortization	74,981	68,298
Amortization of deferred financing costs	2,056	2,261
Amortization of deferred management fees	407	482
Accretion of interest income on investment in loan	(173)	(109)
Share grants to trustees	66	61
Amortization of share-based compensation	7,791	7,393
Deferred income taxes	(352)	(781)
Changes in assets and liabilities:		
Hotel and other receivables, net	(6,111)	(11,497)
Prepaid expense and other assets	3,611	2,625
Accounts payable and other liabilities	(18,727)	(4,714)
Advance deposits and deferred revenue	870	590
Accrued interest	(40)	(15)
Net cash flow provided by operating activities	145,921	132,041
Cash flows from investing activities:		
Acquisition of hotel and other properties, net	—	(504,103)
Proceeds from the disposal of hotel properties, net	227,837	124,076
Purchase deposits	(7,000)	6,246
Improvements and additions to hotel and other properties	(64,695)	(38,581)
Additions to property and equipment	(222)	(20)
Releases from restricted cash reserves, net	3,113	1,820
Net cash flow provided by (used in) investing activities	159,033	(410,562)
Cash flows from financing activities:		
Borrowings under revolving credit facility	—	258,500
Repayments under revolving credit facility	—	(258,500)
Borrowings on term loans	—	175,000
Payment of mortgage principal	(155,808)	(25,569)
Repurchase of common shares to satisfy employee withholding requirements	(3,800)	(2,599)
Repurchase of common shares under a share repurchase program	(59,841)	—
Distributions on common shares	(83,204)	(56,469)
Distributions on Operating Partnership units	(565)	(411)
Payment of deferred financing costs	(118)	(1,579)
Distribution to noncontrolling interest	(195)	(1,182)
Proceeds from issuance of common shares	—	232,814
Net cash flow (used in) provided by financing activities	(303,531)	320,005
Net change in cash and cash equivalents	1,423	41,484
Cash and cash equivalents, beginning of period	262,458	332,248

Cash and cash equivalents, end of period	$263,881	$373,732

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

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

1. Organization

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

Substantially all of the Company's assets are held by, and all of its operations are conducted through, RLJ Lodging Trust, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. As of June 30, 2015, there were 131,027,618 units of limited partnership interest in the Operating Partnership ("OP units") outstanding and the Company owned, through a combination of direct and indirect interests, 99.3% of the outstanding OP units.

As of June 30, 2015, the Company owned 125 properties, comprised of 123 hotels with approximately 20,400 rooms and two planned hotel conversions, located in 21 states and the District of Columbia, and an interest in one mortgage loan secured by a hotel. The Company owned, through wholly-owned subsidiaries, 100% of the interests in all properties, with the exception of the DoubleTree Metropolitan Hotel-New York City, in which the Company, through wholly-owned subsidiaries, owned a 98.3% 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

The Company's Annual Report on Form 10-K for the year ended December 31, 2014 contains a discussion of significant accounting policies. There have been no significant changes to the Company's significant accounting policies since December 31, 2014.

Basis of Presentation and Principles of Consolidation

The unaudited 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 Securities and Exchange Commission ("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 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 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 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, 2014, included in the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2015. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of actual operating results for the entire year.

The consolidated financial statements include all subsidiaries controlled by the Company. For controlled subsidiaries that are not wholly-owned, the noncontrolling interests in these subsidiaries are presented separately in the consolidated financial statements. As of June 30, 2015, the Company consolidated DBT Met Hotel Venture, LP, a majority-owned partnership that has a third-party, noncontrolling 1.7% ownership interest. The third-party partnership interest is included in noncontrolling interest in joint venture on the consolidated balance sheets. Profits and losses are allocated in proportion to each party's respective ownership interest.

As of June 30, 2015, the Company consolidated the Operating Partnership, which is a majority-owned partnership that has a third-party, noncontrolling 0.7% ownership interest. The third-party partnership interest is included in noncontrolling interest in Operating Partnership on the consolidated balance sheets. Profits and losses are allocated in proportion to each party's respective ownership interest.

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Reclassifications

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and expands disclosures about revenue. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Company is currently evaluating whether this ASU will have a material impact on its financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ended December 31, 2016 and for annual periods and interim periods thereafter with early adoption permitted. The Company does not believe this ASU will have a material impact on its financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 requires reporting entities to reevaluate whether they should consolidate certain legal entities under the revised consolidation model. This standard modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs"), eliminates the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with VIEs, especially those that have fee arrangements and related party relationships. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. The Company does not believe this ASU will have a material impact on its financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The guidance is effective for fiscal years beginning after December 15, 2015 with early adoption permitted. The Company does not believe this ASU will have a material impact on its financial position, results of operations or cash flows.

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3. Investment in Hotel and Other Properties

Investment in hotel and other properties as of June 30, 2015 and December 31, 2014 consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Land and land improvements	$706,932	$706,497
Buildings and improvements	3,044,096	3,005,390
Furniture, fixtures and equipment	522,688	498,126
Intangible assets	2,507	2,507
	4,276,223	4,212,520
Accumulated depreciation and amortization	(767,265)	(693,717)
Investment in hotels and other properties, net	$3,508,958	$3,518,803

For the three and six months ended June 30, 2015, depreciation and amortization expense related to investment in hotel and other properties was approximately $37.7 million and $74.8 million, respectively. For the three and six months ended June 30, 2014, depreciation and amortization expense related to investment in hotel and other properties was approximately $35.3 million and $68.1 million, respectively.

Impairment

The Company determined that there was no impairment of any assets for either the three and six months ended June 30, 2015 or 2014.

4. Acquisition of Hotel and Other Properties

There were no acquisitions during the six months ended June 30, 2015. During the six months ended June 30, 2014, the Company acquired a 100% interest in the following properties:

Property	Location	Acquisition Date	Management Company	Rooms	Purchase Price (in thousands)
Hyatt House Charlotte Center City	Charlotte, NC	March 12, 2014	Hyatt Affiliate	163	$32,496
Hyatt House Cypress Anaheim	Cypress, CA	March 12, 2014	Hyatt Affiliate	142	14,753
Hyatt House Emeryville San Francisco Bay Area	Emeryville, CA	March 12, 2014	Hyatt Affiliate	234	39,274
Hyatt House San Diego Sorrento Mesa	San Diego, CA	March 12, 2014	Hyatt Affiliate	193	35,985
Hyatt House San Jose Silicon Valley	San Jose, CA	March 12, 2014	Hyatt Affiliate	164	44,159
Hyatt House San Ramon	San Ramon, CA	March 12, 2014	Hyatt Affiliate	142	20,833
Hyatt House Santa Clara	Santa Clara, CA	March 12, 2014	Hyatt Affiliate	150	40,570
Hyatt Market Street The Woodlands	The Woodlands, TX	March 12, 2014	Hyatt Corporation	70	25,817
Hyatt Place Fremont Silicon Valley	Fremont, CA	March 12, 2014	Hyatt Affiliate	151	23,525
Hyatt Place Madison Downtown	Madison, WI	March 12, 2014	Hyatt Affiliate	151	35,088
	Portland, OR	May 22, 2014	Sage Hospitality	256	67,000

Courtyard Portland City Center					
Embassy Suites Irvine Orange County	Irvine, CA	May 22, 2014	Sage Hospitality	293	53,000
Hilton Cabana Miami Beach	Miami, FL	June 19, 2014	Highgate Hotels	231	71,700
				2,340	$ 504,200

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The allocation of purchase price for the properties acquired during the six months ended June 30, 2014 was as follows (in thousands):

	For the six months ended June 30, 2014
Land and land improvements	$112,467
Buildings and improvements	339,889
Furniture, fixtures and equipment	51,844
Total purchase price	$504,200

For properties acquired during the six months ended June 30, 2014, total revenues and net income from the date of acquisition through June 30, 2014 are included in the accompanying consolidated statements of operations for the three and six months ended June 30, 2014 as follows (in thousands):

	2014 acquisitions	
	For the three months ended June 30, 2014	For the six months ended June 30, 2014
Revenue	$25,276	$29,807
Net income	$4,301	$3,272

The following unaudited condensed pro forma financial information presents the results of operations as if the 2014 acquisitions had taken place on January 1, 2013. The unaudited condensed pro forma financial information is not necessarily indicative of what actual results of operations of the Company would have been assuming the 2014 acquisitions had taken place on January 1, 2013 nor does it purport to represent the results of operations for future periods. The unaudited condensed pro forma financial information is as follows (in thousands, except share and per share data):

	For the three months ended June 30, 2014	For the six months ended June 30, 2014
Revenue	$305,929	$570,325
Net income attributable to common shareholders	$55,411	$73,692
Net income per share attributable to common shareholders - basic	$0.44	$0.60
Net income per share attributable to common shareholders - diluted	$0.44	$0.59
Weighted-average number of common shares - basic	125,260,607	123,510,507
Weighted-average number of common shares - diluted	126,475,051	124,696,925

5. Disposal of Hotel Properties

During the six months ended June 30, 2015, the Company sold 21 hotel properties in two transactions for a total sales price of approximately $232.7 million. In conjunction with these transactions, the Company recorded a $23.0 million gain on disposal which is included in the accompanying consolidated statement of operations.

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The following table provides a list of properties that were sold during the six months ended June 30, 2015:

Property Name	Location	Disposal Date	Rooms
Courtyard Chicago Schaumburg	Schaumburg, IL	February 23, 2015	162
Courtyard Detroit Pontiac Bloomfield	Pontiac, MI	February 23, 2015	110
Courtyard Grand Junction	Grand Junction, CO	February 23, 2015	136
Courtyard Mesquite	Mesquite, TX	February 23, 2015	101
Courtyard San Antonio Airport Northstar	San Antonio, TX	February 23, 2015	78
Courtyard Tampa Brandon	Tampa, FL	February 23, 2015	90
Fairfield Inn & Suites Merrillville	Merrillville, IN	February 23, 2015	112
Fairfield Inn & Suites San Antonio Airport	San Antonio, TX	February 23, 2015	120
Fairfield Inn & Suites Tampa Brandon	Tampa, FL	February 23, 2015	107
Hampton Inn Merrillville	Merrillville, IN	February 23, 2015	64
Holiday Inn Grand Rapids Airport	Kentwood, MI	February 23, 2015	148
Homewood Suites Tampa Brandon	Tampa, FL	February 23, 2015	126
Marriott Auburn Hills Pontiac at Centerpoint	Pontiac, MI	February 23, 2015	290
Residence Inn Austin Round Rock	Round Rock, TX	February 23, 2015	96
Residence Inn Chicago Schaumburg	Schaumburg, IL	February 23, 2015	125
Residence Inn Detroit Pontiac Auburn Hills	Pontiac, MI	February 23, 2015	114
Residence Inn Grand Junction	Grand Junction, CO	February 23, 2015	104
Residence Inn Indianapolis Carmel	Carmel, IN	February 23, 2015	120
Springhill Suites Chicago Schaumburg	Schaumburg, IL	February 23, 2015	132
Springhill Suites Indianapolis Carmel	Carmel, IN	February 23, 2015	126
Fairfield Inn and Suites Valparaiso	Valparaiso, IN	May 22, 2015	63
		Total	2,524

During the six months ended June 30, 2014, the Company sold 14 hotel properties in four separate transactions for a total sales price of approximately $128.0 million. In conjunction with these transactions, the Company recorded a $1.3 million loss on disposal, which is included in the accompanying consolidated statement of operations. Additionally, the Company defeased the mortgage indebtedness secured by three of the properties that were sold. The cost of the defeasance was approximately $0.8 million, which is included in interest expense in the accompanying consolidated statement of operations.

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The following table provides a list of properties that were sold during the six months ended June 30, 2014:

Property Name	Location	Disposal Date	Rooms
Courtyard Denver Southwest Lakewood	Lakewood, CO	February 20, 2014	90
Residence Inn Denver Southwest Lakewood	Lakewood, CO	February 20, 2014	102
Hyatt House Colorado Springs	Colorado Springs, CO	February 20, 2014	125
SpringHill Suites Gainesville	Gainesville, FL	February 20, 2014	126
Residence Inn Indianapolis Airport	Indianapolis, IN	February 20, 2014	95
Fairfield Inn & Suites Indianapolis Airport	Indianapolis, IN	February 20, 2014	86
Courtyard Grand Rapids Airport	Kentwood, MI	February 20, 2014	84
Hampton Inn Suites Las Vegas Red Rock Summerlin	Las Vegas, NV	February 20, 2014	106
Courtyard Austin University Area	Austin, TX	February 20, 2014	198
Fairfield Inn & Suites Austin University Area	Austin, TX	February 20, 2014	63
Hyatt House Dallas Richardson	Richardson, TX	February 20, 2014	130
Hilton Garden Inn St. George	St. George, UT	February 25, 2014	150
Hilton Mystic	Mystic, CT	March 26, 2014	182
Holiday Inn Austin NW Arboretum Area	Austin, TX	June 18, 2014	194
		Total	1,731

6. Debt

Credit Facilities

The Company has in place the following unsecured credit agreements:

- $300.0 million revolving credit facility with a scheduled maturity date of November 20, 2016 with a one-year extension option if certain conditions are satisfied (the "Revolver");
- $400.0 million term loan with a scheduled maturity date of August 27, 2018 (the "2013 Five-Year Term Loan");
- $400.0 million term loan with a scheduled maturity date of March 20, 2019 (which was originally scheduled to mature in 2017) (the "2012 Five-Year Term Loan");
- $225.0 million term loan with a scheduled maturity date of November 20, 2019 (the "2012 Seven-Year Term Loan"); and
- $150.0 million term loan with a scheduled maturity date of January 22, 2022 (the "2014 Seven-Year Term Loan").

The 2012 Five-Year Term Loan, the 2012 Seven-Year Term Loan, the 2013 Five-Year Term Loan and the 2014 Seven-Year Term loan are collectively the "Term Loans". The Revolver and Term Loans are subject to customary financial covenants. As of June 30, 2015, the Company was in compliance with all financial covenants.

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As of and for the three and six months ended June 30, 2015 and 2014, details of the Revolver and Term Loans are as follows (in thousands):

				Interest expense for the three months ended June 30,		six months ended June 30,	
	Outstanding Borrowings at June 30, 2015	Maturity Date	Interest Rate at June 30, 2015 (1)	2015	2014	2015	2014
Revolver (2)(3)	$—	November 2016	n/a	$265	$296	$525	$619
2013 Five-Year Term Loan (4)	400,000	August 2018	3.07%	3,108	3,102	6,145	5,953
2012 Five-Year Term Loan (5)	400,000	March 2019	2.72%	2,530	1,728	4,877	3,150
2012 Seven-Year Term Loan (6)	225,000	November 2019	4.04%	2,296	2,294	4,541	4,550
2014 Seven-Year Term Loan (7)(8)	—	January 2022	n/a	95	—	95	—
Total	$1,025,000			$8,294	$7,420	$16,183	$14,272

(1) Interest rate at June 30, 2015 gives effect to interest rate hedges, as applicable.
(2) At June 30, 2015 there was $300.0 million of borrowing capacity on the Revolver.
(3) Includes an unused facility fee of $0.3 million and $0.5 million for the three and six months ended June 30, 2015, respectively, and $0.3 million and $0.5 million for the three and six months ended June 30, 2014, respectively.
(4) Includes interest expense related to an interest rate hedge of $1.2 million and $2.5 million for the three and six months ended June 30, 2015, respectively, and $1.3 million and $2.5 million for the three and six months ended June 30, 2014, respectively.
(5) Includes interest expense related to an interest rate hedge of $0.8 million and $1.4 million for the three and six months ended June 30, 2015, respectively.
(6) Includes interest expense related to an interest rate hedge of $1.0 million and $2.0 million for the three and six months ended June 30, 2015, respectively, and $1.0 million and $2.0 million for the three and six months ended June 30, 2014, respectively.
(7) At June 30, 2015 there was $150.0 million of borrowing capacity on the 2014 Seven-Year Term Loan.
(8) Includes an unused facility fee of $0.1 million and $0.1 million for the three and six months ended June 30, 2015, respectively.

Mortgage Loans

As of June 30, 2015 and December 31, 2014, the Company was subject to the following mortgage loans (in thousands):

						Principal balance at	
Lender	Number of Assets Encumbered	Interest Rate at June 30, 2015 (1)		Maturity Date		June 30, 2015	December 31, 2014
Barclays Bank	1	5.44%		September 2015	(2)	9,939	10,140
PNC Bank (3)	5	2.54%	(4)	May 2016	(5)	74,000	74,000
Wells Fargo (6)	4	4.19%	(4)	September 2016	(7)	150,000	150,000

Wells Fargo	4	4.06%	(4)	October 2017	(7)	143,000	143,000
Capmark Financial Group				May 2015		—	10,513
Capmark Financial Group				June 2015		—	4,561
Barclays Bank				June 2015		—	26,775
Barclays Bank				June 2015		—	107,544
Capmark Financial Group				July 2015		—	6,214
	14					$376,939	$532,747

(1) Interest rate at June 30, 2015 gives effect to interest rate hedges, as applicable.
(2) The Company is currently evaluating its options for repayment.
(3) The five hotels encumbered by the PNC Bank loan are cross-collateralized.
(4) Requires payments of interest only until the commencement of the extension period(s).

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(5) Maturity date may be extended for a one-year term at the Company’s option, subject to certain lender requirements.
(6) Two of the four 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, subject to certain lender requirements.

Mortgage interest expense for the three and six months ended June 30, 2015 was $3.7 million and $8.8 million, respectively, including interest expense related to interest rate hedges of $1.2 million and $2.4 million, respectively. Mortgage interest expense for the three and six months ended June 30, 2014 was $5.8 million and $11.6 million, respectively, including interest expense related to interest rate hedges of $0.6 million and $1.2 million, respectively. Some mortgage agreements are subject to customary financial covenants. The Company was in compliance with these covenants at June 30, 2015 and December 31, 2014.

7. Derivatives and Hedging

The Company employs derivative instruments 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 loss, a component of shareholders’ equity. Unrealized gains and losses on the ineffective portion of all designated hedges are recognized in earnings in the current period. For derivative instruments not designated as hedging instruments, unrealized gains or losses are recognized in earnings in the current period. At June 30, 2015 and December 31, 2014, all derivative instruments were designated as cash flow hedges.

At June 30, 2015, the aggregate fair value of interest rate swap assets of $1.4 million was included in prepaid expense and other assets in the accompanying consolidated balance sheets. There were no interest rate swap assets at December 31, 2014. At June 30, 2015 and December 31, 2014, the aggregate fair value of interest rate swap liabilities of $18.6 million and $13.6 million, respectively, was included in accounts payable and other liabilities in the accompanying consolidated balance sheets.

As of June 30, 2015 and December 31, 2014, the Company had entered into the following derivative instruments (in thousands):

	Notional value at				Fair value at	
Hedge type	June 30, 2015	December 31, 2014	Hedge interest rate	Maturity	June 30, 2015	December 31, 2014
Swap-cash flow	$275,000	$275,000	1.12%	November 2017	$(1,683)	$(232)
Swap-cash flow	175,000	175,000	1.56%	March 2018	(2,900)	(2,182)
Swap-cash flow	175,000	175,000	1.64%	March 2018	(3,253)	(2,596)
Swap-cash flow	16,500	16,500	1.83%	September 2018	(379)	(315)
Swap-cash flow	16,500	16,500	1.75%	September 2018	(339)	(270)
Swap-cash flow	40,500	40,500	1.83%	September 2018	(929)	(772)
Swap-cash flow	41,500	41,500	1.75%	September 2018	(853)	(678)
	18,000	18,000	1.83%	September 2018	(413)	(343)

Swap-cash flow						
Swap-cash flow	17,000	17,000	1.75%	September 2018	(350)	(278)
Swap-cash flow	125,000	125,000	2.02%	March 2019	(3,561)	(3,073)
Swap-cash flow	100,000	100,000	1.94%	March 2019	(2,571)	(2,145)
Swap-cash flow	125,000	—	1.27%	March 2019	(17)	—
Swap-cash flow	143,000	143,000	1.81%	October 2020	(1,305)	(760)
Swap-cash flow	50,000	—	1.61%	June 2021	514	—
Swap-cash flow	50,000	—	1.56%	June 2021	681	—
Swap-cash flow	50,000	—	1.71%	June 2021	230	—
	$1,418,000	$1,143,000			$(17,128)	$(13,644)

As of June 30, 2015 and December 31, 2014, there was approximately $17.1 million and $13.6 million, respectively, in net unrealized losses included in accumulated other comprehensive loss 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 six month periods ended June 30, 2015 and 2014. For the three and six months ended June 30, 2015, approximately $4.2 million and $8.3

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million, respectively, of amounts included in accumulated other comprehensive loss were reclassified into interest expense. For the three and six months ended June 30, 2014, approximately $2.9 million and $5.8 million, respectively, of amounts included in accumulated other comprehensive loss were reclassified into interest expense.

8. Fair Value

Fair Value Measurement

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

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

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

- 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, restricted cash, hotel and other receivables, accounts payable and other liabilities - The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate fair value because of their short maturities.

- Variable rate mortgage notes payable and borrowings under the Revolver and Term Loans - The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate fair value, as they bear interest at market rates. The Company determined that its variable rate mortgage notes payable and borrowings under the Revolver and Term Loans are classified in Level 3 of the fair value hierarchy.

- Fixed rate mortgage notes payable - The fair value estimated at June 30, 2015 and December 31, 2014 of $10.0 million and $171.1 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. As a result, the Company determined that its fixed rate mortgage notes payable in their entirety are classified in Level 3 of the fair value hierarchy. The carrying value of fixed rate mortgage notes payable at June 30, 2015 and December 31, 2014 was $9.9 million and $165.7 million, respectively.

Recurring Fair Value Measurements

The following table presents the Company’s fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 (in thousands):

	Fair Value at June 30, 2015			
	Level 1	Level 2	Level 3	Total
Interest rate swap asset	$—	$1,425	$—	$1,425
Interest rate swap liability	$—	$(18,553)	$—	$(18,553)
Total	$—	$(17,128)	$—	$(17,128)

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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 December 31, 2014 (in thousands):

	Fair Value at December 31, 2014			
	Level 1	Level 2	Level 3	Total
Interest rate swap asset	$—	$—	$—	$—
Interest rate swap liability	$—	$(13,644)	$—	$(13,644)
Total	$—	$(13,644)	$—	$(13,644)

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 June 30, 2015, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

9. Income Taxes

The Company elected to be taxed as a 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 June 30, 2015 and December 31, 2014.

10. Commitments and Contingencies

Restricted Cash Reserves

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of FF&E) as determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents. The management agreements, franchise agreements and/or mortgage loan documents require the Company to reserve restricted cash ranging typically from 3.0% to 5.0% of the individual hotel's revenues and maintain the reserves in restricted cash reserve escrows. Any unexpended amounts will remain the property of the Company upon termination of the management agreements, franchise agreements or mortgage loan documents. Additionally, some loan agreements require the Company to reserve restricted cash for the periodic payment of real estate taxes and insurance. As of June 30, 2015 and December 31, 2014, approximately $59.9 million and $63.1 million, respectively, was available in restricted cash reserves for future capital expenditures, real estate taxes and insurance.

Litigation

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

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Data Breach

During the first quarter of 2014, one of the Company's third-party hotel managers notified the Company of a data breach that occurred over a nine-month period ending in December 2013 affecting a number of hotels it manages, including seven hotels that are owned by the Company. During the first quarter of 2015, the same third-party hotel manager notified the Company of a second data breach that occurred over a seven-month period ending in February 2015 affecting a number of hotels it manages, including six hotels owned by the Company. The third-party hotel manager is cooperating with the relevant authorities in their investigations of these criminal cyber-attacks. The Company and its third-party hotel manager are continuing to take steps to assess and further strengthen information security systems.

The Company believes that each of the credit card companies impacted may seek to impose fines, fees or assessments in connection with the breach against various parties, including the Company. The Company may also incur other costs, including legal fees and other professional services fees, related to investigating the breach. Because the investigation into each of these matters is ongoing and certain factual and legal questions remain unanswered, the Company is unable to estimate with certainty the total costs, fines, fees or assessments that may be associated with any potential claims; however, the Company currently believes that any amounts that the Company may ultimately be required to pay as a result of this incident will not be material to its financial position, results of operations or cash flows.

Management Agreements

As of June 30, 2015, 123 of the Company's hotel properties were operated pursuant to long-term agreements with initial terms ranging from 3 to 30 years. This number includes five Marriott and ten Hyatt hotels that receive the benefits of a franchise agreement pursuant to a management agreement. Each management company receives a base management fee generally between 2.5% and 3.5% of hotel revenues. Management agreements that include the benefits of a franchise agreement incur a base management fee generally between 3.0% and 7.0% of hotel revenues. The management companies are also eligible to receive an incentive management fee if hotel operating income, as defined in the management agreements, exceeds certain thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Company has received a priority return on their investment in the hotel. Management fees are included in management and franchise fee expense in the accompanying consolidated statements of operations. For the three and six months ended June 30, 2015, the Company incurred management fee expense, including amortization of deferred management fees, of approximately $12.5 million and $23.4 million, respectively. For the three and six months ended June 30, 2014, the Company incurred management fee expense, including amortization of deferred management fees, of approximately $12.0 million and $21.1 million, respectively.

Franchise Agreements

As of June 30, 2015, 108 of the Company’s hotel properties were operated under franchise agreements with initial terms ranging from 10 to 30 years. This number excludes five Marriott and ten Hyatt hotels that receive the benefits of a franchise agreement pursuant to their respective management agreements. Franchise agreements 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 between 1.0% and 3.0% of food and beverage revenues. Franchise fees are included in management and franchise fee expense in the accompanying consolidated statements of operations. For the three and six months ended June 30, 2015, the Company incurred franchise fee expense of approximately $19.2 million and $36.3 million, respectively. For the three and six months ended June 30, 2014, the Company incurred franchise fee expense of approximately $19.1 million and $34.8 million, respectively.

11. Equity

On May 1, 2015, the Company's board of trustees authorized a share repurchase program to acquire up to $200.0 million of the Company's common shares. The share repurchase program will expire on April 30, 2016. During the three months ended June 30, 2015, the Company repurchased 1,995,177 of its common shares for approximately $59.8 million. As of June 30, 2015 there is approximately $140.2 million remaining for future repurchases of common shares.

On May 22, 2014, the Company issued and sold 9,200,000 common shares of beneficial interest, $0.01 par value per share, at a price per share of $26.45, for total gross proceeds of $243.3 million. The Company received aggregate net proceeds of approximately $232.8 million.

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12. Equity Incentive Plan

On May 1, 2015, the Company's shareholders approved the 2015 Equity Incentive Plan (the "2015 Plan"), which constitutes an amendment and restatement of the 2011 Equity Incentive Plan (the "2011 Plan"), including an increase in the total number of available shares under the 2015 Plan by 2,500,000 shares and changes to certain other terms of the 2011 Plan. The Company may issue equity-based awards to officers, employees, non-employee trustees and other eligible persons under the 2015 Plan. The 2015 Plan provides for a maximum of 7,500,000 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 2015 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 time-based 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 2015 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 June 30, 2015 is as follows:

	2015		
	Number of Shares		Weighted-Average Grant Date Fair Value
Unvested at January 1,	731,459		$21.21
Granted (1)	289,665		32.19
Vested (1)	(293,693	)	20.38
Forfeited	(5,327	)	24.71
Unvested at June 30,	722,104		$25.92

(1) Includes 2,168 unrestricted shares issued in lieu of cash compensation to non-employee trustees at a weighted-average grant date fair value of $30.53.

For the three and six months ended June 30, 2015, the Company recognized approximately $2.6 million and $5.6 million, respectively, of share-based compensation expense related to restricted share awards. For the three and six months ended June 30, 2014, the Company recognized approximately $2.7 million and $5.2 million, respectively, of share-based compensation expense related to restricted share awards. As of June 30, 2015, there was $17.8 million of total unrecognized compensation costs related to non-vested share awards and these costs are expected to be primarily recognized over a weighted-average period of 2.8 years. The total fair value of shares vested (calculated as number of shares multiplied by vesting date share price) during the six months ended June 30, 2015 was approximately $9.3 million.

Performance Units

The Company awarded performance units to certain employees under the 2015 Plan. The performance units vest over a four-year period, including three years of performance-based vesting ("measurement period") plus an additional one year of time-based vesting.

As of June 30, 2015, there were 1.0 million unvested performance units with a weighted-average grant date fair value of $15.36 per performance unit.

For the three and six months ended June 30, 2015, the Company recognized $1.1 million and $2.2 million of share-based compensation expense related to the performance units, respectively. For the three and six months ended June 30, 2014, the Company recognized $1.1 million and $2.2 million of share-based compensation expense related to the performance units,

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respectively. As of June 30, 2015, there was $2.2 million of total unrecognized compensation cost related to the performance units and these costs are expected to be recognized over a weighted-average period of 0.6 years.

As of June 30, 2015, there were 4,957,142 common shares available for future grant under the 2015 Plan. Any performance units that convert into restricted shares will reduce the number of common shares available for future grant under the 2015 Plan.

13. Earnings per Common Share

Basic earnings per common share is calculated by dividing income from continuing operations attributable to common shareholders, including gain or loss on disposal of hotel properties, 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 income from continuing operations attributable to common shareholders, including gain or loss on disposal of hotel properties, 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 six months ended June 30, 2015, $0.1 million and $0.1 million represented undistributed earnings that were allocated to participating shares. For the three and six months ended June 30, 2014, $0.2 million and $0.1 million, respectively, represented undistributed earnings that were allocated to participating shares.

The limited partners' outstanding limited partnership units in the Operating Partnership (which may be redeemed for common shares of beneficial interest under certain circumstances) have been excluded from the diluted earnings per share calculation as there was no effect on the amounts for the three and six months ended June 30, 2015 and 2014, since the limited partners' share of income would also be added back to net income attributable to common shareholders.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income attributable to common shareholders	$55,991	$52,904	$103,841	$64,836
Less: Dividends paid on unvested restricted shares	(238)	(224)	(518)	(470)
Less: Undistributed earnings attributable to unvested restricted shares	(72)	(184)	(95)	(67)
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$55,681	$52,496	$103,228	$64,299
Denominator:				

Weighted-average number of common shares - basic	130,670,629	125,260,607	130,969,957	123,510,507
Unvested restricted shares	188,138	308,580	232,682	295,684
Unvested performance units	759,926	905,864	745,293	890,734
Weighted-average number of common shares - diluted	131,618,693	126,475,051	131,947,932	124,696,925
Net income attributable to common shareholders - basic	$0.43	$0.42	$0.79	$0.52
Net income attributable to common shareholders - diluted	$0.42	$0.42	$0.78	$0.52

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

	For the six months ended June 30,	
	2015	2014
Interest paid, net of capitalized interest	$23,827	$26,373
Income taxes paid	$1,384	$1,319
Supplemental investing and financing transactions:		
In conjunction with the acquisitions, the Company recorded the following:		
Purchase of real estate	$—	$504,200
Accounts receivable	—	750
Other assets	—	1,636
Advance deposits	—	(509)
Accounts payable and other liabilities	—	(1,974)
Acquisition of hotel and other properties, net	$—	$504,103
In conjunction with the disposals, the Company recorded the following:		
Disposal of hotel properties	$232,700	$128,000
Disposition costs	(8,577)	(2,846)
Operating prorations	3,714	(1,078)
Proceeds from the disposal of hotel properties, net	$227,837	$124,076
Supplemental non-cash transactions:		
Accrued capital expenditures	$1,813	$—

15. Subsequent Events

In July 2015, the Company drew down the entire $150.0 million available on the 2014 Seven-Year Term Loan. Additionally, the Company borrowed $7.0 million under a mortgage loan encumbered by a hotel property.

In July 2015, the Company sold the 80-room Residence Inn South Bend, located in South Bend, IN, for a sales price of $5.8 million.

In July 2015, the Company acquired a 100% interest in the 164-room Hyatt Place DC/Downtown/K Street in Washington, DC for a purchase price of $68.0 million.

In July 2015, the Company acquired a 100% interest in the 170-room Homewood Suites Seattle/Lynnwood in Lynnwood, WA for a purchase price of $37.9 million.

In July 2015, in connection with the end of the performance measurement period, the Company issued 838,934 restricted common shares upon conversion of an equal number of performance units, less 202,734 shares which were withheld to satisfy employee income tax withholding requirements. Half of the restricted common shares vested immediately with the remaining half vesting in July 2016.

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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, 2014, filed with the SEC on February 26, 2015 (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," 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 ("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 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 and compact full-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 ("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.

Despite current geopolitical challenges, we are very encouraged by the positive momentum in the U.S. economy. Lodging demand is at record levels and hotel supply currently remains below historical averages. We expect to see increases in corporate profits over the upcoming years and currently do not anticipate any significant slowdown in lodging fundamentals. Accordingly, we remain cautiously optimistic that we are in a positive multi-year lodging cycle.

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

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

As of June 30, 2015, we owned 125 properties, comprised of 123 hotels with approximately 20,400 rooms and two planned hotel conversions, located in 21 states and the District of Columbia, and an interest in a mortgage loan secured by a hotel. We own, through wholly-owned subsidiaries, 100% of the interests in all properties, with the exception of one property in which we own a 98.3% controlling interest in a joint venture.

We elected to be taxed as a REIT, for U.S. federal income tax purposes, when we filed our U.S. federal tax return for the taxable year ended December 31, 2011. Substantially all of our assets are held by, and all of our operations are conducted through, our operating partnership RLJ Lodging Trust, L.P. (the "Operating Partnership"). We are the sole general partner of our operating partnership. As of June 30, 2015, 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 creating long-term shareholder value through enhancing our portfolio's quality, recycling capital and maintaining a prudent capital structure. During the three months ended June 30, 2015, the following significant activities took place:

- Sold the 63-room Fairfield Inn and Suites Valparaiso, located in Valparaiso, IN, for a sales price of $2.4 million. In conjunction with this transaction, we recorded a $0.9 million gain on disposal which is included in the consolidated statement of operations.
- Repurchased 1,995,177 common shares for approximately $59.8 million under a share repurchase program.
- Paid down approximately $26.4 million of property level debt.
- Entered into four interest rate swaps with a total notional amount of $275.0 million.
- Declared a cash dividend of $0.33 per common 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 business districts within 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.

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 and franchise fees and other operating expenses. Room expense includes housekeeping and front office wages and payroll taxes, reservation systems, room supplies, laundry services and other costs. Food and beverage expense primarily includes the cost of food, the cost of beverages and associated labor costs. Other hotel expenses include labor

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and other costs associated with the other operating department revenue, as well as labor and other costs associated with administrative departments, sales and marketing, repairs and maintenance and utility costs. Our hotels that are subject to franchise agreements are charged a royalty fee plus additional fees for marketing, central reservation systems and other franchisor costs, that allow the properties to operate under the respective brands. Franchise fees are based on a percentage of room revenue and for certain hotels additional franchise fees are charged for food and beverage revenue. 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 accounting principles generally accepted in the United States of America ("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 commonly used measures 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 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. Our Annual Report on Form 10-K for the year ended December 31, 2014 contains a discussion of our critical accounting policies. There have been no significant changes to our critical accounting policies since December 31, 2014.

Results of Operations

At June 30, 2015, we owned 125 properties. Based on when a property is acquired, sold or closed for renovation, operating results for certain properties are not comparable for the three and six months ended June 30, 2015 and

2014. The non-comparable properties include 15 acquisitions which took place between January 1, 2014 and June 30, 2015, 39 dispositions which took place in 2014 and 2015 and three properties that were closed for renovation during all or a portion of the period between January 1, 2014 and June 30, 2015.

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Comparison of the three months ended June 30, 2015 to the three months ended June 30, 2014

	For the three months ended June 30,			
	2015	2014	$ change	% change
	(amounts in thousands)			
Revenue				
Operating revenue				
Room revenue	$262,240	$259,447	$2,793	1.1 %
Food and beverage revenue	29,587	27,481	2,106	7.7 %
Other operating department revenue	9,425	8,119	1,306	16.1 %
Total revenue	$301,252	$295,047	$6,205	2.1 %
Expense				
Operating expense				
Room expense	$55,207	$54,136	$1,071	2.0 %
Food and beverage expense	20,492	18,746	1,746	9.3 %
Management and franchise fee expense	31,677	31,052	625	2.0 %
Other operating expense	59,228	59,837	(609)	(1.0)%
Total property operating expense	166,604	163,771	2,833	1.7 %
Depreciation and amortization	37,778	35,422	2,356	6.7 %
Property tax, insurance and other	18,281	17,938	343	1.9 %
General and administrative	10,393	10,135	258	2.5 %
Transaction and pursuit costs	853	2,411	(1,558)	(64.6)%
Total operating expense	233,909	229,677	4,232	1.8 %
Operating income	67,343	65,370	1,973	3.0 %
Other income	456	405	51	12.6 %
Interest income	363	962	(599)	(62.3)%
Interest expense	(12,335)	(14,142)	1,807	(12.8)%
Income from continuing operations before income taxes	55,827	52,595	3,232	6.1 %
Income tax expense	(89)	(494)	405	(82.0)%
Income from continuing operations	55,738	52,101	3,637	7.0 %
Gain on disposal of hotel properties	672	1,260	(588)	(46.7)%
Net income	56,410	53,361	3,049	5.7 %
Net income attributable to non-controlling interests				
Noncontrolling interest in joint venture	(46)	(79)	33	(41.8)%
Noncontrolling interest in common units of Operating Partnership	(373)	(378)	5	(1.3)%
Net income attributable to common shareholders	$55,991	$52,904	$3,087	5.8 %

Revenue

Total revenue increased $6.2 million, or 2.1%, to $301.3 million for the three months ended June 30, 2015 from $295.0 million for the three months ended June 30, 2014. The increase was a result of a $10.6 million increase in total revenue at comparable properties, which included a 4.0% increase in RevPAR. This was partially offset by a $4.4 million net decrease in revenue attributable to non-comparable properties.

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The following are the quarter-to-date key hotel operating statistics for comparable properties owned at June 30, 2015 and 2014, respectively: