PARK ELECTROCHEMICAL CORP
Form ARS
June 27, 2006

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55,123

General and administrative(1)
35,466

31,086

24,175

19,534

18,186

Transaction and pursuit costs
4,410

3,520

3,996

14,345

8,665

IPO Costs
—

—

10,733

—

—

Total operating expenses
805,841

722,628

670,726

471,282

482,113

Operating income/(loss)
164,539

127,057

84,179

41,841

(29,982
)
Interest and other income
7,431

1,463

2,683

3,980

1,571

Interest expense
(64,348
)

(83,689
)

(95,362
)

(86,047
)

(87,108
)
Income (loss) before provision for income tax (expense)/ benefit
107,622

44,831

(8,500
)

(40,226
)

(115,519
)
Income tax expense
(879
)

(1,369
)

(740
)

(943
)

(1,777

)
Net income (loss) from continuing operations
106,743

43,462

(9,240
)

(41,169
)

(117,296
)
Net (income) loss attributable to noncontrolling interests
(1,258
)

(39
)

(309
)

213

—

Distributions to preferred shareholders
—

—

(61
)

(62
)

(62
)
Net income (loss) from continuing operations available to shareholders/owners
$
105,485

$
43,423

$
(9,610
)

$
(41,018
)

$
(117,358
)

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	As of December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except share and per share data)				
Balance Sheet Data:					
Investment in hotel and other properties, net	$3,241,163	$3,073,483	$2,820,457	$2,626,690	$1,877,583
Cash and cash equivalents	332,248	115,861	310,231	267,454	151,382
Total assets	3,717,974	3,346,385	3,290,018	3,045,824	2,202,865
Total debt	1,409,665	1,413,651	1,341,735	1,747,077	1,598,991
Total other liabilities	161,975	124,823	114,295	75,014	118,127
Total owners' equity	2,146,334	1,807,911	1,833,988	1,223,733	485,747
Per Share Data:					
Basic income (loss) from continuing operations per share	$0.89	$0.40	$(0.10)		
Diluted income (loss) from continuing operations per share (2)	$0.88	$0.40	$(0.10)		
Weighted average shares outstanding—basic	117,950,066	105,423,604	95,340,666		
Weighted average shares outstanding—diluted (2)	118,738,626	105,748,686	95,340,666		
Dividends declared per share	$0.86	$0.70	$0.38		

(1) The general and administrative expense includes non-cash share compensation expense amortization for restricted share grants of $13,078, $8,626 and $3,284 for the years ended December 31, 2013, 2012 and 2011, respectively.

(2) Income (loss) allocated to noncontrolling interest in our operating partnership has been excluded from the numerator, and OP units of our operating partnership have been omitted from the denominator, since the effect of including these amounts in the numerator and denominator would have no impact.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, related notes included thereto and Item 1.A., "Risk Factors", appearing elsewhere in this Annual Report on Form 10-K.

Overview

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

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

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

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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 unsecured 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.

As of December 31, 2013, we owned 149 properties, comprised of 147 hotels with approximately 22,300 rooms and two planned hotel conversions, located in 22 states and the District of Columbia, interests in land parcels located adjacent to certain hotels and an interest in a mortgage loan secured by a hotel. We own, through wholly-owned subsidiaries, 100% of the interests in all properties, with the exception of one property in which we own a 95% controlling interest in a joint venture.

Recent Significant Activities

Our recent significant activities reflect our commitment to maximizing shareholder value through selective acquisitions in high-growth markets, value-add renovations and conservative balance sheet management. During the year ended December 31, 2013, the following significant activities took place:

- Completed our follow-on public offering of 15,870,000 common shares of beneficial interest at a public offering price of $21.60 per share, for net proceeds of approximately $327.5 million, after deducting the underwriting discount and other estimated offering costs.
- Purchased six properties for an aggregate purchase price of $208.0 million.
- Acquired one hotel property by foreclosing on the mortgage loan and recorded a gain on foreclosure of $4.9 million.
- Sold one hotel property for $2.5 million and recorded a gain on sale of $2.1 million.
- Disposed of two hotel properties by transferring them to their lenders and recorded a gain on the extinguishment of indebtedness of $5.7 million.
- Repaid $577.4 million of mortgage indebtedness.
- Entered into a new $350.0 million five-year unsecured term loan, a $100.0 million expansion of our existing seven-year unsecured term loan, and $150.0 million of secured financing.
- Entered into eleven interest rate swaps with a notional amount of $1.0 billion.
- Granted 383,187 restricted common shares of beneficial interest to trustees and certain employees.

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 fees and other operating expenses. Room expense includes housekeeping wages and payroll taxes, reservation systems, room supplies, laundry services and front desk costs. Food and beverage expense primarily includes the cost of food, the cost of beverages and associated labor costs. Other hotel expenses include labor and other costs associated with the other operating department revenue, as well as labor and other costs associated with administrative departments, franchise fees, sales and marketing, repairs and maintenance and utility costs. Our hotels are managed by independent, third-

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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 Operating Performance

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

- Occupancy—Occupancy represents the total number of hotel rooms sold in a given period divided by the total number of rooms available. Occupancy measures the utilization of our hotels' available capacity. We use occupancy to measure demand at a specific hotel or group of hotels in a given period. Additionally, occupancy levels help us determine achievable ADR levels.
- Average Daily Rate (ADR)—ADR represents total hotel room revenues divided by total number of rooms sold in a given period. ADR measures average room price attained by a hotel and ADR trends provide useful information concerning the pricing environment and the nature of the customer base of a hotel or group of hotels. We use ADR to assess the pricing levels that we are able to generate, as changes in rates have a greater impact on operating margins and profitability than changes in occupancy.
- Revenue Per Available Room (RevPAR)—RevPAR is the product of ADR and occupancy. RevPAR does not include non-room revenues such as food and beverage revenue or other operating department revenues. We use RevPAR to identify trend information with respect to room revenues from comparable properties and to evaluate hotel performance on a regional basis.

RevPAR changes that are primarily driven by changes in occupancy have different implications for overall revenues and profitability than changes that are driven primarily by changes in ADR. For example, an increase in occupancy at a hotel would lead to additional variable operating costs (including housekeeping services, utilities and room supplies) and could also result in increased other operating department revenue and expense. Changes in ADR typically have a greater impact on operating margins and profitability as they only have a limited effect on variable operating costs.

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 with comparisons to budget and prior periods, as well as on a regional and company-wide basis. ADR and RevPAR include only room revenue. Room revenue comprised approximately 87.1% of our total revenue for the year ended December 31, 2013 and is dictated by demand (as measured by occupancy), pricing (as measured by ADR) and our available supply of hotel rooms.

Another commonly used measure in the lodging industry is the RevPAR penetration index, which measures a hotel's RevPAR in relation to the average RevPAR of that hotel's competitive set. Like other lodging companies, we use the RevPAR penetration index as an indicator of a hotel's market share in relation to its competitive set. However, the RevPAR penetration index for a particular hotel is not necessarily reflective of that hotel's relative share of any particular lodging market. The RevPAR penetration index for a particular hotel is calculated as the quotient of (1) the subject hotel's RevPAR divided by (2) the average RevPAR of the hotels in the subject hotel's competitive set, multiplied by 100. For example, if a hotel's RevPAR is $90 and the average RevPAR of the hotels in its competitive set is $90, the RevPAR penetration index would be 100, which would indicate that the subject hotel is capturing its fair market share in relation to its competitive set (i.e., the hotel's RevPAR is, on average, the same as its competitors). If, however, a hotel's RevPAR is $110 and the average RevPAR of the hotels in its competitive set is $90, the RevPAR penetration index of the subject hotel would be 122.2, which would indicate that the subject hotel maintains a RevPAR premium of approximately 22.2% (and, therefore, a market share premium) in relation to its competitive set.

One critical component in this calculation is the determination of a hotel's competitive set, which consists of a small group of hotels in the relevant market that we and the third-party hotel management company that manages the hotel believe are comparable for purposes of benchmarking the performance of such hotel. A hotel's competitive set is mutually agreed upon by us and the hotel's management company. Factors that we consider when establishing a competitive set include geographic proximity, brand affiliations and rate structure, as well as the level of service provided at the hotel. Competitive set

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determinations are highly subjective, however, and our methodology for determining a hotel's competitive set may differ materially from those used by other hotel owners and/or management companies.

For the year ended December 31, 2013, the portfolio wide RevPAR penetration index of our hotels was 113.2 which indicates that, on average, our hotels maintained a market share premium of approximately 13.2% in relation to their competitive set.

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."

Principal Factors Affecting Our Results of Operations

The principal factors affecting our operating results include overall demand for hotel rooms compared to the supply of available hotel rooms, and the ability of our third-party management companies to increase or maintain revenues while controlling expenses.

- Demand—The demand for lodging, especially business travel, generally fluctuates with the overall economy. Historically, periods of declining demand are followed by extended periods of relatively strong demand, which typically occurs during the growth phase of the lodging cycle.
- Supply—The development of new hotels is driven largely by construction costs, the availability of financing and expected performance of existing hotels.

We expect that our ADR, occupancy and RevPAR performance will be impacted by macroeconomic factors such as regional and local employment growth, government spending, personal income and corporate earnings, office vacancy rates and business relocation decisions, airport activity, business and leisure travel demand, new hotel construction and the pricing strategies of competitors. In addition, our ADR, occupancy and RevPAR performance are dependent on the continued success of the Marriott, Hilton and Hyatt brands.

- Revenue—Substantially all of our revenue is derived from the operation of hotels. Specifically, our revenue is comprised of:

Room revenue—Occupancy and ADR are the major drivers of room revenue. Room revenue accounts for the substantial majority of our total revenue.

Food and beverage revenue—Occupancy, the nature of the property and the type of customer staying at the hotel are the major drivers of food and beverage revenue (i.e., group business typically generates more food and beverage business through catering functions when compared to transient business, which may or may not utilize the hotel's food and beverage outlets).

Other operating department revenue—Occupancy and the nature of the property are the main drivers of other ancillary revenue, such as telephone, parking and other guest services. Some hotels, due to the limited focus of the services offered and size or space limitations, may not have facilities that generate other operating department revenue.

- Hotel Operating Expenses—The following presents the components of our hotel operating expenses:

Room expense—These costs include housekeeping wages and payroll taxes, reservation systems, room supplies, laundry services and front desk costs. Like room revenue, occupancy is the major driver of room expense and, therefore, room expense has a significant correlation to room revenue. These costs can increase based on increases in salaries and wages, as well as the level of service and amenities that are provided.

Food and beverage expense—These expenses primarily include food, beverage and labor costs. Occupancy and the type of customer staying at the hotel (i.e., catered functions generally are more profitable than restaurant, bar or other on-property food and beverage outlets) are the major drivers of food and beverage expense, which correlates closely with food and beverage revenue.

Management fees—Base management fees are computed as a percentage of gross revenue. Incentive management fees generally are paid when operating profits exceed certain threshold levels. See "Our Properties—Our Hotel Management Agreements."

Other operating expenses—These 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.

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Most categories of variable operating expenses, including labor costs such as housekeeping, fluctuate with changes in occupancy. Increases in occupancy are accompanied by increases in most categories of variable operating expenses, while increases in ADR typically only result in increases in limited categories of operating costs and expenses, such as franchise fees, management fees and credit card processing fee expenses which are based on hotel revenues. Thus, changes in ADR have a more significant impact on operating margins than changes in occupancy.
Results of Operations

At December 31, 2013, 2012 and 2011 we owned 149, 145 and 141 properties, respectively. We sold or transfered three hotels during the periods presented, which are included in discontinued operations for the years ended December 31, 2013, 2012 and 2011, respectively. Based on when a property is acquired or closed for renovation, operating results for certain properties are not comparable for the years ended December 31, 2013, 2012 and 2011. The properties listed in the table below are hereafter referred to as non-comparable properties:

Property	Location	Acquisition Date	Non-comparable property for the years ended December 31, 2013 and 2012	Non-comparable property for the years ended December 31, 2012 and 2011
Fairfield Inn & Suites Washington DC Downtown (1)	Washington, DC	June 1, 2010		x
Hotel Indigo New Orleans Garden District (2)	New Orleans, LA	October 26, 2010	x	x
Hampton Inn Houston Near The Galleria	Houston, TX	March 14, 2011		x
Courtyard Charleston Historic District	Charleston, SC	October 27, 2011		x
Residence Inn Bethesda Downtown	Bethesda, MD	May 29, 2012	x	x
Courtyard New York Manhattan Upper East Side	New York, NY	May 30, 2012	x	x
Hilton Garden Inn San Francisco Oakland Bay Bridge	Emeryville, CA	June 11, 2012	x	x
Embassy Suites Boston Waltham	Waltham, MA	November 13, 2012	x	x
Courtyard Houston Downtown Convention Center	Houston, TX	March 19, 2013	x	n/a
Residence Inn Houston Downtown Convention Center	Houston, TX	March 19, 2013	x	n/a
Humble Tower Apartments (3)	Houston, TX	March 19, 2013	x	n/a
Courtyard Waikiki Beach	Honolulu, HI	June 17, 2013	x	n/a
Courtyard San Francisco (4)	San Francisco, CA	June 21, 2013	x	n/a
Residence Inn Atlanta Midtown Historic (5)	Atlanta, GA	August 6, 2013	x	n/a
SpringHill Suites Portland Hillsboro	Hillsboro, OR	October 8, 2013	x	n/a

(1) Property was closed for renovation from December 18, 2010 until March 29, 2011.
(2) Property was closed for renovation until December 27, 2012.
(3) Property was closed in February 2014. The conversion to a SpringHill Suites is expected to be complete by mid-2015.
(4) Property is closed and undergoing conversion. The conversion to a Courtyard is expected to be complete by late 2014.
(5) Property is closed and undergoing renovation. The renovation is expected to be complete in late 2014.

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Comparison of the year ended December 31, 2013 to the year ended December 31, 2012

	For the year ended December 31,			
	2013	2012	$ change	% change
	(amounts in thousands)			
Revenue				
Operating revenue				
Room revenue	$844,741	$738,207	$106,534	14.4 %
Food and beverage revenue	97,083	87,549	9,534	10.9 %
Other operating department revenue	28,556	23,929	4,627	19.3 %
Total revenue	970,380	849,685	120,695	14.2 %
Expense				
Operating expense				
Room expense	186,667	162,039	24,628	15.2 %
Food and beverage expense	67,945	60,427	7,518	12.4 %
Management fee expense	34,956	29,906	5,050	16.9 %
Other operating expense	285,539	256,565	28,974	11.3 %
Total property operating expense	575,107	508,937	66,170	13.0 %
Depreciation and amortization	127,231	126,340	891	0.7 %
Property tax, insurance and other	63,627	52,745	10,882	20.6 %
General and administrative	35,466	31,086	4,380	14.1 %
Transaction and pursuit costs	4,410	3,520	890	25.3 %
Total operating expense	805,841	722,628	83,213	11.5 %
Operating income	164,539	127,057	37,482	29.5 %
Other income	903	433	470	108.5 %
Interest income	1,665	1,664	1	0.1 %
Interest expense	(64,348)	(83,689)	19,341	(23.1)%
Loss on disposal	—	(634)	634	(100.0)%
Gain on foreclosure	4,863	—	4,863	—
Income from continuing operations before income taxes	107,622	44,831	62,791	140.1 %
Income tax expense	(879)	(1,369)	490	(35.8)%
Income from continuing operations	106,743	43,462	63,281	145.6 %
Income (loss) from discontinued operations	7,436	(2,143)	9,579	(447.0)%
Net income	114,179	41,319	72,860	176.3 %
Net (income) loss attributable to non-controlling interests				
Noncontrolling interest in joint venture	(540)	404	(944)	(233.7)%
Noncontrolling interest in common units of Operating Partnership	(718)	(425)	(293)	68.9 %
Net income attributable to common shareholders	$112,921	$41,298	$71,623	173.4 %

Revenue

Total revenue increased $120.7 million, or 14.2%, to $970.4 million for the year ended December 31, 2013 from $849.7 million for the year ended December 31, 2012. The increase was a result of $67.1 million in revenue attributable to non-comparable properties and a 7.1% increase in RevPAR at the comparable properties.

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The following are the key hotel operating statistics for comparable properties at December 31, 2013 and 2012, respectively:

	For the year ended December 31, 2013	2012	% Change
Number of comparable properties (at end of period)	137	137	
Occupancy %	74.3 %	72.4 %	2.7 %
ADR	$138.34	$132.70	4.3 %
RevPAR	$102.85	$96.06	7.1 %

For the year ended December 31, 2013, portfolio RevPAR was $105.58, representing a 9.0% increase over portfolio RevPAR for the year ended December 31, 2012. The increase in portfolio RevPAR was driven by a 5.8% increase in ADR and a 3.0% increase in occupancy.

Room Revenue

Our portfolio consists primarily of focused-service and compact full-service hotels that generate the majority of their revenues through room sales. Room revenue increased $106.5 million, or 14.4%, to $844.7 million for the year ended December 31, 2013 from $738.2 million for the year ended December 31, 2012. This increase was a result of $57.9 million of room revenue from non-comparable properties and a 7.1% increase in RevPAR at the comparable properties.

Food and Beverage Revenue

Food and beverage revenue increased $9.5 million, or 10.9%, to $97.1 million for the year ended December 31, 2013 from $87.5 million for the year ended December 31, 2012. The increase includes $5.1 million in food and beverage revenue arising from non-comparable properties. Food and beverage revenue for the remainder of the portfolio increased $4.4 million.

Other Operating Department Revenue

Other operating department revenue, which includes revenue derived from ancillary sources such as telephone charges and parking fees, increased $4.6 million, or 19.3%, to $28.6 million for the year ended December 31, 2013 from $23.9 million for the year ended December 31, 2012. This increase was primarily due to $4.1 million of other operating department revenue from non-comparable properties.

Property Operating Expense

Property operating expense increased $66.2 million, or 13.0%, to $575.1 million for the year ended December 31, 2013 from $508.9 million for the year ended December 31, 2012. This increase includes $40.5 million in property operating expense attributable to non-comparable properties. The remaining increase was primarily attributable to higher room expense, food and beverage expense, other operating department costs and management and franchise fees at the comparable properties. Room expense, food and beverage expense, and other operating department costs fluctuate based on various factors, including changes in occupancy, labor costs, utilities and insurance costs. Management fees and franchise fees, which are computed as a percentage of gross revenue and room revenue, respectively, increased as a result of higher revenues.

Depreciation and Amortization

Depreciation and amortization expense increased $0.9 million, or 0.7%, to $127.2 million for the year ended December 31, 2013 from $126.3 million for the year ended December 31, 2012. The increase is the result of a $9.0 million increase in depreciation and amortization expense arising from non-comparable properties, partially offset by FF&E at hotels being fully depreciated during the periods and $4.7 million of accelerated depreciation that was recorded in 2012, but not in 2013.

Property Tax, Insurance and Other

Property tax, insurance and other expense increased $10.9 million, or 20.6%, to $63.6 million for the year ended December 31, 2013 from $52.7 million for the year ended December 31, 2012. The increase includes $5.6 million in property

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tax, insurance and other expense attributable to non-comparable properties. The remaining increase of $5.3 million is the net impact of increasing property tax assessments offset by favorable resolution of property tax appeals at comparable properties.

General and Administrative

General and administrative expense increased $4.4 million, or 14.1%, to $35.5 million for the year ended December 31, 2013 from $31.1 million for the year ended December 31, 2012. The increase in general and administrative expense is primarily attributable to an increase in amortization of restricted share awards and performance units of $1.9 million and $2.6 million, respectively.

Interest Expense

The components of our interest expense for the years ended December 31, 2013 and 2012 are as follows (in thousands):

	For the year ended December 31,	
	2013	2012
Mortgage indebtedness	$44,290	$74,712
Revolving credit facility and term loans	15,574	3,525
Amortization of deferred financing fees	4,484	5,452
Total interest expense	$64,348	$83,689

Interest expense decreased $19.3 million, or 23.1%, to $64.3 million for the year ended December 31, 2013 from $83.7 million for the year ended December 31, 2012. The decrease in interest expense was the result of a decrease of $30.4 million of interest expense due to decreases in principal balances from mortgage amortization as well as $566.6 million of mortgage principal balances that were paid down and a decrease in amortization of deferred financing fees of $2.0 million. Partially offsetting this was an increase in interest incurred on the revolving credit facility and term loans of $12.0 million and accelerated amortization of deferred financing fees related to the paydown of mortgage indebtedness of $1.0 million.

Income Taxes

As part of our structure, we own TRSs that are subject to federal and state income taxes. Income tax expense decreased $0.5 million to $0.9 million for the year ended December 31, 2013 from $1.4 million for the year ended December 31, 2012, primarily as a result of the recognition of deferred tax benefits related to our TRSs in 2013. The effective tax rates were 10.1% and 6.2% for the years ended December 31, 2013 and 2012, respectively.

Income from Discontinued Operations

Income from discontinued operations increased $9.6 million to $7.4 million for the year ended December 31, 2013 from a loss of $2.1 million for the year ended December 31, 2012. Income from discontinued operations for the year ended December 31, 2013 includes a $2.1 million gain on the sale of the Fairfield Inn Memphis, Tennessee, a $3.3 million gain on extinguishment of indebtedness from the Courtyard Goshen, Indiana and a $2.4 million gain on extinguishment of indebtedness from the SpringHill Suites Southfield, Michigan.

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Comparison of the year ended December 31, 2012 to the year ended December 31, 2011

	For the year ended December 31,			
	2012	2011	$ change	% change
	(amounts in thousands)			
Revenue				
Hotel operating revenue				
Room revenue	$738,207	$653,044	$85,163	13.0 %
Food and beverage revenue	87,549	81,741	5,808	7.1 %
Other operating department revenue	23,929	20,120	3,809	18.9 %
Total revenue	849,685	754,905	94,780	12.6 %
Expense				
Operating expense				
Room expense	162,039	145,859	16,180	11.1 %
Food and beverage expense	60,427	56,540	3,887	6.9 %
Management fee expense	29,906	25,904	4,002	15.4 %
Other operating expense	256,565	229,810	26,755	11.6 %
Total property operating expense	508,937	458,113	50,824	11.1 %
Depreciation and amortization	126,340	127,420	(1,080)	(0.8)%
Property tax, insurance and other	52,745	46,289	6,456	13.9 %
General and administrative	31,086	24,175	6,911	28.6 %
Transaction and pursuit costs	3,520	3,996	(476)	(11.9)%
IPO costs	—	10,733	(10,733)	(100.0)%
Total operating expense	722,628	670,726	51,902	7.7 %
Operating income	127,057	84,179	42,878	50.9 %
Other income	433	1,001	(568)	(56.7)%
Interest income	1,664	1,682	(18)	(1.1)%
Interest expense	(83,689)	(95,362)	11,673	(12.2)%
Loss on disposal	(634)	—	(634)	— %
Income (loss) from continuing operations before income taxes	44,831	(8,500)	53,331	(627.4)%
Income tax expense	(1,369)	(740)	(629)	85.0 %
Income (loss) from continuing operations	43,462	(9,240)	52,702	(570.4)%
(Loss) income from discontinued operations	(2,143)	20,949	(23,092)	(110.2)%
Net income	41,319	11,709	29,610	252.9 %
Net (income) loss attributable to non-controlling interests				
Noncontrolling interest in joint venture	404	(47)	451	(959.6)%
Noncontrolling interest in common units of Operating Partnership	(425)	(255)	(170)	66.7 %
Net income attributable to common shareholders	41,298	11,407	29,891	262.0 %
Distributions to preferred unitholders	—	(61)	61	(100.0)%
Net income attributable to common shareholders	$41,298	$11,346	$29,952	264.0 %

Revenue

Total revenue increased $94.8 million, or 12.6%, to $849.7 million for the year ended December 31, 2012 from $754.9 million for the year ended December 31, 2011. The increase was a result of $42.0 million in revenue attributable to non-comparable properties and a 6.9% increase in RevPAR at the comparable properties.

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The following are the key hotel operating statistics for comparable properties at December 31, 2012 and 2011, respectively:

	For the year ended December 31, 2012	2011	% Change
Number of comparable properties (at end of period)	134	134	
Occupancy %	72.3 %	71.6 %	1.1 %
ADR	$131.79	$124.64	5.7 %
RevPAR	$95.34	$89.22	6.9 %

For the year ended December 31, 2012, portfolio RevPAR was $96.84, representing a 9.0% increase over portfolio RevPAR for the year ended December 31, 2011. The increase in portfolio RevPAR was driven by a 7.1% increase in ADR and a 1.8% increase in occupancy.

Room Revenue

Our portfolio consists primarily of focused-service and compact full-service hotels that generate the majority of their revenues through room sales. Room revenue increased $85.2 million, or 13.0%, to $738.2 million for the year ended December 31, 2012 from $653.0 million for the year ended December 31, 2011. This increase was a result of $37.3 million of room revenue from non-comparable properties and a 6.9% increase in RevPAR at the comparable properties.

Food and Beverage Revenue

Food and beverage revenue increased $5.8 million, or 7.1%, to $87.5 million for the year ended December 31, 2012 from $81.7 million for the year ended December 31, 2011. The increase includes $3.0 million in food and beverage revenue arising from non-comparable properties. Food and beverage revenue for the remainder of the portfolio increased $2.8 million.

Other Operating Department Revenue

Other operating department revenue, which includes revenue derived from ancillary sources such as telephone charges and parking fees, increased $3.8 million, or 18.9%, to $23.9 million for the year ended December 31, 2012 from $20.1 million for the year ended December 31, 2011. The increase was due to $1.7 million of other operating department revenue from non-comparable properties, a $1.5 million increase in parking revenue across the portfolio and an increase of $0.6 million of other operating revenue.

Hotel Operating Expense

Hotel operating expense increased $50.8 million, or 11.1%, to $508.9 million for the year ended December 31, 2012 from $458.1 million for the year ended December 31, 2011. This increase includes $23.0 million in hotel operating expense attributable to non-comparable properties. The remaining increase was primarily attributable to higher room expense, food and beverage expense, other operating department costs, and management and franchise fees at the comparable properties. Room expense, food and beverage expense and other operating department costs fluctuate based on various factors, including changes in occupancy, labor costs, utilities and insurance costs. Management fees and franchise fees, which are computed as a percentage of gross revenue and room revenue, respectively, increased as a result of higher revenues.

Depreciation and Amortization

Depreciation and amortization expense decreased $1.1 million, or 0.8%, to $126.3 million for the year ended December 31, 2012 from $127.4 million for the year ended December 31, 2011. The decrease is partially attributable to a net decrease of $2.9 million of accelerated depreciation. For the years ended 2012 and 2011, we recorded accelerated depreciation on furniture, fixtures and equipment of $4.7 million and $7.6 million, respectively, in conjunction with brand conversions under our 2011 capital improvement plan. Additionally, the decrease reflects approximately $69.3 million of furniture, fixtures and equipment that were fully depreciated during 2012. Partially offsetting this was a $3.9 million increase in depreciation and amortization expense arising from non-comparable properties and a $9.1 million increase in depreciation on building and furniture, fixtures and equipment for property improvement capital expenditures made during 2012.

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Property Tax, Insurance and Other

Property tax, insurance and other expense increased $6.5 million, or 13.9%, to $52.7 million for the year ended December 31, 2012 from $46.3 million for the year ended December 31, 2011. The increase includes $3.3 million in property tax, insurance and other expense attributable to non-comparable properties. The remaining increase of $3.2 million is the net impact of increasing property tax assessments offset by favorable resolution of property tax appeals at the comparable properties.

General and Administrative

General and administrative expense increased $6.9 million, or 28.6%, to $31.1 million for the year ended December 31, 2012 from $24.2 million for the year ended December 31, 2011. The increase in general and administrative expense is primarily attributable to an increase in amortization of restricted share awards of $5.3 million, an increase in filing fees and other expenses of being a publicly traded company of $0.4 million and an increase in professional fees of $1.2 million.

Interest Expense

The components of our interest expense for the years ended December 31, 2012 and 2011 are as follows (in thousands):

	For the year ended December 31,	
	2012	2011
Mortgage indebtedness	$74,712	83,363
Revolving credit facility and term loans	3,525	6,156
Amortization of deferred financing fees	5,452	5,842
Total interest expense	$83,689	$95,361

Interest expense decreased $11.7 million, or 12.2%, to $83.7 million for the year ended December 31, 2012 from $95.4 million for the year ended December 31, 2011. The decrease was primarily due to a decrease in interest expense on mortgage loans of $4.8 million, a decrease in interest expense on credit facilities and term loans of $2.8 million and the expiration of unfavorable interest rate hedges resulting in a decrease in hedge driven interest expense of $3.6 million. Additionally, in 2012, $1.5 million was incurred for the prepayment of mortgage indebtedness, compared to $2.9 million in 2011. Partially offsetting this decrease was $1.8 million that was reclassified from accumulated other comprehensive loss to interest expense related to hedges that were ineffective in offsetting variable cash flows.

Income Taxes

As part of our structure, we own taxable REIT subsidiaries that are subject to federal and state income taxes. The effective tax rates were 6.2% and 1.7% for the year ended December 31, 2012 and 2011, respectively. Our income tax expense increased $0.6 million to $1.4 million for the year ended December 31, 2012 from $0.7 million for the year ended December 31, 2011, primarily as a result of the recording of a one-time benefit during 2011 related to the disposal of an acquired tax attribute of $0.6 million.

Income from Discontinued Operations

Income from discontinued operations decreased $23.1 million to a loss of $2.1 million for the year ended December 31, 2012 from $20.9 million for the year ended December 31, 2011. Income from discontinued operations for the year ended December 31, 2011 includes a $23.5 million gain on extinguishment of indebtedness from the New York LaGuardia Airport Marriott.

Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our performance: (1) FFO, (2) Adjusted FFO, (3) EBITDA, and (4) Adjusted EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as a measure of our operating performance. FFO,

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Adjusted FFO, EBITDA and Adjusted EBITDA, as calculated by us, may not be comparable to FFO, Adjusted FFO, EBITDA and Adjusted EBITDA as reported by other companies that do not define such terms exactly as we define such terms.

Funds From Operations

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

We further adjust FFO for certain additional items that are not in NAREIT's definition of FFO, such as hotel transaction and pursuit costs, the amortization of share-based compensation, and certain other expenses that we consider outside the normal course of business. We believe that Adjusted FFO provides useful supplemental information to investors regarding our ongoing operating performance that, when considered with net income and FFO, is beneficial to an investor's understanding of our operating performance.

The following is a reconciliation of our GAAP net income to FFO and Adjusted FFO for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	For the year ended December 31,		
	2013	2012	2011
Net income (1)	$114,179	$41,319	$11,709
Gain on sale of property	(2,081)	—	—
Depreciation and amortization	127,231	126,340	127,420
Distributions to preferred unitholders	—	—	(61)
Loss on disposal	—	634	—
Gain on extinguishment of indebtedness (2)	(5,708)	—	(23,515)
Impairment loss	—	896	—
Noncontrolling interest in joint venture	(540)	404	(47)
Adjustments related to discontinued operations (3)	199	458	3,294
Adjustments related to joint venture (4)	(484)	(451)	(308)
FFO attributable to common shareholders	232,796	169,600	118,492
Gain on foreclosure	(4,863)	—	—
Transaction and pursuit costs	4,410	3,520	3,996
IPO Costs (5)	—	—	10,733
Amortization of share based compensation	13,078	8,626	3,284
Loan related costs (6)(7)(8)	1,046	3,451	4,303
Other expenses (9)(10)(11)	157	436	1,362

Adjusted FFO	$246,624	$185,633	$142,170

(1) Includes net income from discontinued operations.

(2) For the year ended December 31, 2013, this includes the gain on extinguishment of indebtedness from the SpringHill Suites Southfield, Michigan and Courtyard Goshen, Indiana. For the year ended December 31, 2011, this includes the

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gain on the transfer of title to the New York LaGuardia Marriott hotel to the lenders pursuant to a deed in lieu of foreclosure. These gains are included in discontinued operations.

(3) Includes depreciation and amortization expense from discontinued operations.

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

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

(6) Includes $0.7 million for the year ended December 31, 2012 of default interest and penalties incurred in connection with SpringHill Suites Southfield, Michigan mortgage loan.

(7) Includes $1.0 million and $1.4 million for the years ended December 31, 2013 and 2012, respectively, of accelerated amortization of deferred financing fees related to the amendment and restatement of our credit facility.

(8) Includes $1.4 million and $4.3 million for the years ended December 31, 2012 and 2011, respectively, of incremental interest expense related to the accelerated payoff of mortgage indebtedness.

(9) Includes $0.1 million for the year ended December 31, 2013 of accelerated amortization of deferred management fees.

(10) Includes less than $0.1 million and $0.4 million for the years ended December 31, 2013 and 2012, respectively, of legal expenses outside the normal course of operations.

(11) Includes $1.4 million for the year ended December 31, 2011 of certain compensation obligations of our predecessor not continued.

Earnings Before Interest, Taxes, Depreciation and Amortization

EBITDA is defined as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sales of assets; and (3) depreciation and amortization. We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. In addition, EBITDA is used as one measure in determining the value of hotel acquisitions and dispositions. We present EBITDA attributable to common shareholders, which includes our OP units, because our OP units
are redeemable for common shares. We believe it is meaningful for the investor to understand EBITDA attributable to all common shares and OP units.

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

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The following is a reconciliation of our GAAP net income to EBITDA and Adjusted EBITDA for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	For the year ended December 31,		
	2013	2012	2011
Net income (1)	$114,179	$41,319	$11,709
Depreciation and amortization	127,231	126,340	127,420
Distributions to preferred unitholders	—	—	(61)
Interest expense, net (2)	64,317	83,653	95,308
Income tax expense	879	1,369	740
Noncontrolling interest in joint venture	(540)	404	(47)
Adjustments related to discontinued operations (3)	572	1,744	4,440
Adjustments related to joint venture (4)	(484)	(1,199)	(1,007)
EBITDA	306,154	253,630	238,502
Transaction and pursuit costs	4,410	3,520	3,996
Gain on sale of property	(2,081)	—	—
IPO Costs (5)	—	—	10,733
Gain on foreclosure	(4,863)	—	—
Gain on extinguishment of indebtedness (6)	(5,708)	—	(23,515)
Impairment loss	—	896	—
Loss on disposal	—	634	—
Amortization of share based compensation	13,078	8,626	3,284
Other expenses (7)(8)(9)	157	436	1,362
Adjusted EBITDA	$311,147	$267,742	$234,362

(1) Includes net income from discontinued operations.
(2) Excludes amounts attributable to investment in loans of $1.6 million for each of the years ended December 31, 2013, 2012 and 2011, respectively.
(3) Includes depreciation, amortization and interest expense related to discontinued operations.
(4) Includes depreciation, amortization and interest expense allocated to the noncontrolling interest in joint venture.
(5) Includes expenses related to the transfer and assumption of indebtedness and other contractual obligations of our predecessor in connection with the IPO and our formation transactions.
(6) For the year ended December 31, 2013, this includes the gain on extinguishment of indebtedness from the SpringHill Suites Southfield, Michigan and Courtyard Goshen, Indiana. For the year ended December 31, 2011, this includes the gain on the transfer of title to the New York LaGuardia Marriott hotel to the lenders pursuant to a deed in lieu of foreclosure. These gains are included in discontinued operations.
(7) Includes $0.1 million for the year ended December 31, 2013 of accelerated amortization of deferred management fees.
(8) Includes less than $0.1 million and $0.4 million for the years ended December 31, 2013 and 2012, respectively, of legal expenses outside the normal course of operations.
(9) Includes $1.4 million for the year ended December 31, 2011 of certain compensation obligations of our predecessor not continued.

Liquidity and Capital Resources

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

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

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- interest expense and scheduled principal payments on outstanding indebtedness;
- distributions necessary to qualify for taxation as a REIT; and
- capital expenditures to improve our properties, including capital expenditures required by our franchisors.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our unsecured revolving credit facility and proceeds from our recent underwritten public offering of common shares. On March 25, 2013, the Company completed an offering of 15,870,000
common shares generating gross proceeds of approximately $342.8 million and proceeds, net of underwriter' discounts and other offering costs, of approximately $327.5 million.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional properties and redevelopments, renovations, expansions and other capital expenditures that need to be made periodically with respect to our properties and scheduled debt payments. We expect to meet our long-term liquidity requirements through various sources of capital, including our unsecured revolving credit facility and future equity (including OP units) or debt offerings, existing working capital, net cash provided by operations, long-term hotel mortgage indebtedness and other secured and unsecured borrowings. However, there are a number of factors that may have a material adverse effect on our ability to access these capital sources, including the current state of overall equity and credit markets, our degree of leverage, the value of our unencumbered assets and borrowing restrictions imposed by lenders, general market conditions for REITs, our operating performance and liquidity and market perceptions about us. The success of our business strategy will depend, in part, on our ability to access these various capital sources.

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

Credit Facilities

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

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

Seven-Year Term Loan, the Term Loans.

The credit agreements for these loans require that a group of no less than 20 of our hotel properties remain unencumbered by outstanding indebtedness. The credit agreements contain certain financial covenants relating to our maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default exists we are not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of December 31, 2013, we were in compliance with all financial covenants.

In 2012, we incurred $5.2 million in fees related to the Revolver, 2012 Five-Year Term Loan and Seven-Year Term Loan. In 2013, we incurred $3.0 million in fees related to the 2013 Five-Year Term Loan and the Seven-Year Term Loan amendment. All of these amounts were deferred and are being amortized over their respective terms.

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Borrowings under the Revolver and Term Loans bear interest at variable rates equal to the London InterBank Offered Rate, or LIBOR, plus an applicable margin. The margin ranges from 1.65% to 3.00%, depending on our leverage ratio, as calculated under the terms of each facility. We incur an unused facility fee on the Revolver of between 0.25% and 0.35%, based on the amount by which the maximum borrowing amount exceeds the total principal balance of outstanding borrowings.

Under the terms of the credit agreement for the Revolver, one or more standby letters of credit, up to a maximum aggregate outstanding balance of $30.0 million, may be issued on our behalf by the lenders under the Revolver. We will incur a fee of 0.125% of the value of each standby letter of credit that is issued on its behalf. Any outstanding standby letters of credit reduce the available borrowings on the Revolver by a corresponding amount. No standby letters of credit were outstanding at December 31, 2013. We also may borrow up to a maximum aggregate outstanding balance of $40.0 million of swingline loans. Any outstanding swingline loans reduce the available borrowings on the credit facility by a corresponding amount. No swingline loans were outstanding at December 31, 2013.

Prior Credit Facility

We entered into an unsecured revolving credit facility, or the Prior Credit Facility, on June 20, 2011, that provided for maximum borrowings of up to $300.0 million. The Prior Credit Facility required that a group of no less than 15 of our hotel properties remain unencumbered by outstanding indebtedness. The Prior Credit Facility contained certain financial covenants relating to our maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default existed, we were not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of December 31, 2012, we were in compliance with all financial covenants. On November 20, 2012, the Prior Credit Facility agreement was amended and restated in its entirety with the Revolver and 2012 Five-Year Term Loan as discussed above.

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

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

Prior Term Loan

On January 14, 2011, Fund III entered into a $140.0 million unsecured term loan, or the Prior Term Loan. Fund III agreed to maintain an unencumbered asset pool of ten hotel properties during the term of the Prior Term Loan. The Prior 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 year ended December 31, 2011, we incurred $5.1 million of interest expense related to the Prior Term Loan. On September 30, 2011, we amended the Prior Term Loan to extend the maturity date to November 15, 2011, with one extension to December 31, 2011, at our option. On October 21, 2011, the Prior Term Loan was fully repaid.

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As of December 31, 2013, and for the years ended December 31, 2013, 2012 and 2011, details of the credit facilities are as follows (in thousands):

	Outstanding borrowings at December 31, 2013	Interest rate at December 31, 2013 (1)	Interest expense for the year ended December 31,		
			2013	2012	2011
Revolver (2)	$—	n/a	1,222	158	—
2012 Five-Year Term Loan	275,000	1.87%	5,453	662	—
Seven-Year Term Loan (3)	225,000	4.04%	5,049	359	—
2013 Five-Year Term Loan (4)	350,000	3.25%	3,850	—	—
Prior Credit Facility (5)	—	n/a	—	2,345	662
Prior Term Loan	—	n/a	—	—	5,494
Total	$850,000		$15,574	$3,525	$6,156

(1) Interest rate at December 31, 2013 gives effect to interest rate hedges and LIBOR floors, as applicable.
(2) Includes the unused facility fee of $1.0 million and $0.1 million for the years ended December 31, 2013 and 2012, respectively.
(3) Includes interest expense related to an interest rate hedge of $1.3 million for year ended December 31, 2013.
(4) Includes interest expense related to an interest rate hedge of $1.6 million for year ended December 31, 2013.
(5) Includes the unused facility fee of $0.7 million and $0.7 million for the years ended December 31, 2012 and 2011, respectively.

Our Outstanding Mortgage Indebtedness

As of December 31, 2013 and 2012, we were subject to the following mortgage loans (in thousands):

Lender	Number of Assets Encumbered	Interest rate at December 31, 2013 (1)		Maturity Date		Principal balance at, December 31, 2013	December 31, 2012
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	$68,500	$68,500
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	17,500	17,500
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	21,000	21,000
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	11,000	11,000
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	24,000	24,000
Capmark Financial Group	1	6.12%		April 2015		4,068	4,202
Capmark Financial Group	1	5.55%		May 2015		10,916	11,298
Capmark Financial Group	1	5.55%		June 2015		4,736	4,901
Barclay's Bank	1	5.55%		June 2015		2,475	2,561
Barclay's Bank	1	5.55%		June 2015		4,063	4,203
Barclay's Bank	1	5.55%		June 2015		9,470	9,798
Barclay's Bank	1	5.55%		June 2015		8,452	8,745
Barclay's Bank	1	5.55%		June 2015		7,578	7,839
Barclay's Bank	1	5.60%		June 2015		5,255	5,434
Barclay's Bank	1	5.60%		June 2015		8,142	8,422

Barclay's Bank	1	5.55%	June 2015	4,962	5,134
Barclay's Bank	1	5.55%	June 2015	32,901	34,042
Barclay's Bank	1	5.60%	June 2015	6,251	6,466
Barclay's Bank	1	5.55%	June 2015	5,568	5,762
Barclay's Bank	1	5.55%	June 2015	6,399	6,621

Barclay's Bank	1	5.60%		June 2015		8,156	8,437
Barclay's Bank	1	5.55%		June 2015		6,394	6,614
Barclay's Bank	1	5.55%		June 2015		7,038	7,280
Barclay's Bank	1	5.55%		June 2015		6,399	6,621
Barclay's Bank	1	5.55%		June 2015		7,305	7,558
Barclay's Bank	1	5.55%		June 2015		9,166	9,484
Capmark Financial Group	1	5.50%		July 2015		6,450	6,673
Barclay's Bank	1	5.44%		Sept 2015		10,521	10,883
PNC Bank (4)	7	2.52%	(2)	May 2016	(5)	85,000	85,000
Wells Fargo (6)	2	4.19%	(2)	Sept 2016	(7)	82,000	—
Wells Fargo	1	4.19%	(2)	Sept 2016	(7)	33,000	—
Wells Fargo	1	4.19%	(2)	Sept 2016	(7)	35,000	—
Merrill Lynch				July 2016		—	9,180
Merrill Lynch				July 2016		—	7,684
Merrill Lynch				July 2016		—	9,194
Wachovia Securities				July 2016		—	487,296
Wachovia Securities				July 2016		—	6,582
Wells Fargo / Morgan Stanley				July 2016		—	34,823
Wells Fargo / Morgan Stanley				July 2016		—	6,753
Wells Fargo / Morgan Stanley				July 2016		—	9,616
Merrill Lynch				July 2016		—	5,531
VFC Partners 20 LLC				Sept 2016		—	5,014
	39					$559,665	$997,651

(1) Interest rate at December 31, 2013 gives effect to interest rate hedges and LIBOR floors, as applicable.
(2) Requires payments of interest only until the commencement of the extension period(s).
(3) Maturity date may be extended for up to two additional one-year terms at our option, subject to certain lender requirements.
(4) The seven hotels encumbered by the PNC Bank loan are cross-collateralized.
(5) Maturity date may be extended for one one-year term at our option, subject to certain lender requirements.
(6) The two hotels encumbered by the Wells Fargo loan are cross-collateralized.
(7) Maturity date may be extended for four one-year terms at our option, subject to certain lender requirements.

Sources and Uses of Cash

As of December 31, 2013, we had $332.2 million of cash and cash equivalents compared to $115.9 million at December 31, 2012.

Cash flows from Operating Activities

Net cash flow provided by operating activities totaled $251.4 million for the year ended December 31, 2013. Net income of $114.2 million included significant non-cash expenses, including $127.4 million of depreciation and amortization, $13.1 million of amortization of share-based compensation, $4.5 million of amortization of deferred financing fees, $1.1 million of amortization of deferred management fees and $0.1 million of expense related to the grant of shares to our trustees, partially offset by a $5.7 million gain on extinguishment of indebtedness, a $4.9 million gain on foreclosure, a $2.1 million gain on sale of a property and $0.5 million of accretion of interest income on investment in loans. In addition, changes in operating assets and liabilities due to the timing of cash receipts and payments from our hotels resulted in net cash inflow of $4.1 million.

Net cash flow provided by operating activities totaled $176.1 million for the year ended December 31, 2012. Net income of $41.3 million included significant non-cash expenses, including $126.8 million of depreciation, $8.6 million of amortization of share-based compensation, $5.5 million of amortization of deferred financing costs, $1.0 million of

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amortization of deferred management fees, $0.9 million loss on impairment, $0.6 million loss on disposal and $0.2 million of expense relate to the grant of shares to our trustees. In addition, changes in operating assets and liabilities due to the timing of cash receipts and payments from our hotels resulted in net cash outflow of $8.8 million.
Net cash flow provided by operating activities totaled $134.1 million for the year ended December 31, 2011. Net income of $11.7 million included significant non-cash expenses, including $130.7 million of depreciation, $5.8 million of amortization of deferred financing costs, $1.0 million of amortization of deferred management fees and $3.3 million of amortization of share-based compensation. In addition, there was a gain on the extinguishment of indebtedness of $23.5 million and changes in operating assets and liabilities due to the timing of cash receipts and payments from our hotels, which resulted in net cash inflow of $5.0 million.
Cash flows from Investing Activities

Net cash flow used in investing activities totaled $262.1 million for the year ended December 31, 2013 primarily due to $208.2 million used for the purchase of four hotels, $0.2 million paid for additions to property and equipment and $61.1 million in routine capital improvements and additions to hotels and other properties. These were partially offset by $2.7 million of purchase deposits applied against property acquisitions, the net releases from restricted cash reserves of $2.4 million in conjunction with the completion of renovation projects and $2.4 million of proceeds resulting from the sale of a property.

Net cash flow used in investing activities totaled $363.8 million for the year ended December 31, 2012 primarily due to $247.0 million used for the purchase of four hotels, $9.9 million in purchase deposits paid, $0.3 million paid for additions to property and equipment, $114.1 million in routine improvements and additions to hotels and $15.1 million for a major redevelopment project. These were partially offset by $0.2 million of principal payments on investment in loans and the net releases from restricted cash reserves of $22.5 million in conjunction with the completion of renovation projects.

Net cash flow used in investing activities totaled $347.0 million for the year ended December 31, 2011 primarily due to $236.9 million used for the purchase of nine hotels, $91.7 million in routine capital improvements and additions to hotels, $1.8 million for a major redevelopment project and the net funding of restricted cash reserves of $16.8 million.

Cash flows from Financing Activities

Net cash flow provided by financing activities totaled $227.1 million for the year ended December 31, 2013 primarily due to $450.0 million of aggregate proceeds from the unsecured term loans, $327.5 million from the issuance and sale of common shares of beneficial interest, $150.0 million in proceeds from mortgage loans and $205.5 million in borrowings on the Revolver. This was offset by $577.4 million of mortgage loan repayments, $221.5 million of repayments on the Revolver, $98.1 million in payment of distributions to shareholders and unitholders, $5.0 million paid for deferred financing fees and $4.0 million of shares acquired to satisfy the statutory minimum federal and state tax obligations of certain employees in connection with the vesting of restricted common shares of beneficial interest issued to such employees under our 2011 Plan.

Net cash flow used in financing activities totaled $6.7 million for the year ended December 31, 2012 primarily due to $429.1 million of mortgage loan repayments, $85.0 million repayment of the Prior Credit Facility, $69.3 million in payment of distributions to shareholders and unitholders, $6.9 million paid for deferred financing fees and $2.3 million of shares acquired to satisfy the statutory minimum federal and state tax obligations of certain employees in connection with the vesting of restricted common shares of beneficial interest issued to such employees under our 2011 Plan. This was offset by $400.0 million of aggregate proceeds from the Five-Year Term Loan and Seven-Year Term Loan, $85.0 million in borrowings on the Prior Credit Facility, $85.0 million in proceeds from mortgage loans and $16.0 million in borrowings on the Revolver.

Net cash flow provided by financing activities totaled $255.7 million for year ended December 31, 2011 primarily due to $528.3 million from the issuance and sale of common shares of beneficial interest, $142.0 million in proceeds from mortgage loans, $140.0 million in proceeds from the term loan and $126.7 million in net contributions from partners. This was offset by $489.3 million of mortgage loan repayments, $140.0 million repayment of the term loan, $16.3 million of partners' distributions, $24.7 million in payment of distributions to shareholders and unitholders, $6.2 million paid for deferred financing fees, $3.1 million in payment of member distributions, $0.5 million of payments for the redemption of preferred units, a $0.5 million distribution related to the joint venture noncontrolling interest and $0.7 million of shares acquired to satisfy the statutory minimum federal and state tax obligations of certain employees in connection with the vesting of restricted common shares of beneficial interest issued to such employees under our 2011 Plan.

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Capital Expenditures and Reserve Funds

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

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

With respect to some of our hotels that are operated under franchise agreements with major national hotel brands and for some of our hotels subject to first mortgage liens, we are obligated to maintain FF&E reserve accounts for future capital expenditures at these hotels. The amount funded into each of these reserve accounts is generally determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents for each of the respective hotels, and typically ranges between 1.0% and 5.0% of the respective hotel's total gross revenue. As of December 31, 2013, approximately $57.5 million was held in FF&E reserve accounts for future capital expenditures.

Off-Balance Sheet Arrangements

As of December 31, 2013, we had no off-balance sheet arrangements.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2013 (in thousands):

	Amount of commitment expiration per period						
Obligations and Commitments	2014	2015	2016	2017	2018	Thereafter	Total
Mortgage loans and interest (1)	$165,041	$195,401	$240,603	$—	$—	$—	$601,045
Borrowings under credit facilities (2)	25,586	25,586	25,586	24,727	18,549	232,562	352,596
Ground rent	4,650	4,650	4,650	4,650	4,650	428,790	452,040
Operating lease obligations	899	926	—	—	—	—	1,825
	$196,176	$226,563	$270,839	$29,377	$23,199	$661,352	$1,407,506

(1) Amounts include principal and interest payments. Interest payments have been included in the long-term debt obligations based on the interest rate at December 31, 2013, considering the effect of interest rate swaps.

(2) Amounts include principal and interest payments. Interest expense is calculated based on the variable rate as of December 31, 2013. It is assumed that the outstanding debt as of December 31, 2013 will be repaid upon maturity with interest-only payments until then.

Critical Accounting Policies

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

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Investment in Hotel and Other Properties

Our acquisitions generally consist of land, land improvements, buildings, building improvements, FF&E and inventory. We may also acquire intangibles related to in-place leases, management agreements and franchise agreements when properties are acquired. We allocate the purchase price among the assets acquired and liabilities assumed based on their respective fair values.

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

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

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

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

Revenue Recognition

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

Income Taxes

We have elected to be taxed as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code, as amended, commencing with the taxable year ended December 31, 2011. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our REIT taxable income, subject to certain adjustments and excluding any net capital gain. Our current intention is to adhere to these requirements and maintain the qualification for taxation as a REIT. As a REIT, we generally are not subject to federal corporate income tax on that portion of net income that is currently distributed. If we fail to qualify for taxation as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if we qualify for taxation as a REIT, we may

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be subject to certain state and local taxes on our income and property, and to federal income and excise taxes on undistributed taxable income.

Taxable income from non-REIT activities managed through taxable REIT subsidiaries is subject to federal, state and local income taxes. As a wholly-owned subsidiary of the Operating Partnership, the taxable REIT subsidiary is required to pay income taxes at the applicable rates. Our consolidated income tax provision or benefit includes the income tax provision or benefit related to the operations of the taxable REIT subsidiary as well as state income taxes incurred.

Where required, deferred income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities and their respective income tax bases and for operating loss, capital loss and tax credit carryforwards based on enacted income tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that is more likely than not they will be realized based on consideration of available evidence, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies.

We perform an annual review for any uncertain tax positions and, if necessary, will record expected future tax consequences of uncertain tax positions in the financial statements. At December 31, 2013 and 2012, we did not identify any uncertain tax positions.

Share-Based Compensation

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

Inflation

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

Seasonality

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Market risk includes risks that arise from changes in interest rates, equity prices and other market changes that affect market sensitive instruments. Our primary market risk exposure is to changes in interest rates on our variable rate debt. As of December 31, 2013, we had approximately $1.2 billion of total variable debt outstanding (or 87.0% of total indebtedness) with a weighted average interest rate of 3.21% per annum. If market rates of interest on our variable rate debt outstanding as of December 31, 2013 were to increase by 1.00%, or 100 basis points, interest expense would decrease future earnings and cash flows by approximately $4.6 million annually, taking into account our existing contractual hedging arrangements.

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

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The following table provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations outstanding as of December 31, 2013, the following table presents principal repayments and related weighted average interest rates by contractual maturity dates (in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total
Fixed rate debt	$—	$182,665	$—	$—	$—	$—	$182,665
Weighted average interest rate	—	5.56 %	—	—	—	—	5.56 %
Variable rate debt	$142,000	$—	$235,000	$275,000	$350,000	$225,000	$1,227,000
Weighted average interest rate (1)	3.77 %	—	3.58 %	1.87 %	3.25 %	4.04 %	3.21 %
Total	$142,000	$182,665	$235,000	$275,000	$350,000	$225,000	$1,409,665

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

The foregoing table reflects indebtedness outstanding as of December 31, 2013 and does not consider indebtedness, if any, incurred or repaid after that date. Our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during future periods, prevailing interest rates, and our hedging strategies at that time.

Changes in market interest rates on our fixed rate debt impact the fair value of the debt, but such changes have no impact on our combined consolidated financial statements. As of December 31, 2013, the estimated fair value of our fixed rate debt was $188.0 million, which is based on having the same debt service requirements that could have been borrowed at the date presented, at prevailing current market interest rates. If interest rates were to rise by 1.00%, or 100 basis points, and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease by approximately $1.8 million.

Item 8. Financial Statements and Supplementary Data

See Index to the Financial Statements on page F-1.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company's management has evaluated, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as required by paragraph (b) of Rules 13a-15 and 15d-15 of the Exchange Act. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2013, the Company's disclosure controls and procedures were effective to ensure that information we are required to disclose in reports filed or submitted with the Securities and Exchange Commission (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control-Integrated Framework (1992). Based on this assessment, management has concluded that, as of December 31, 2013, our internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page F-2 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15 and 15d-15 of the Exchange Act) during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information called for by this Item is contained in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 11. Executive Compensation

The information called for by this Item is contained in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information called for by this Item is contained in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders, or in Item 5 of this Annual Report on Form 10-K for the year ended December 31, 2013, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information called for by this Item is contained in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information called for by this Item is contained in our definitive Proxy Statement for our 2014 Annual Meeting of Shareholders, and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following is a list of documents filed as a part of this report:

(1) Financial Statements

Included herein at pages F-1 through F-37.

(2) Financial Statement Schedules

The following financial statement schedule is included herein at pages F-38 through F-45:

Schedule III—Real Estate and Accumulated Depreciation for RLJ Lodging Trust

All other schedules for which provision is made in Regulation S-X are either not required to be included herein under the related instructions, are inapplicable or the related information is included in the footnotes to the applicable financial statement and, therefore, have been omitted.

(3) Exhibits

The exhibits required to be filed by Item 601 of Regulation S-K are listed in the Exhibit Index on pages 70 to 72 of this report, which is incorporated by reference herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 27, 2014.

RLJ LODGING TRUST
By: /s/ THOMAS J. BALTIMORE, JR.
Thomas J. Baltimore, Jr.
President, Chief Executive Officer and Trustee

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ROBERT L. JOHNSON Robert L. Johnson	Executive Chairman and Trustee	February 27, 2014
/s/ THOMAS J. BALTIMORE, JR. Thomas J. Baltimore, Jr.	President, Chief Executive Officer and Trustee (principal executive officer)	February 27, 2014
/s/ LESLIE D. HALE Leslie D. Hale	Executive Vice President, Chief Financial Officer and Treasurer (principal financial officer)	February 27, 2014
/s/ CHRISTOPHER A. GORMSEN Christopher A. Gormsen	Chief Accounting Officer (principal accounting officer)	February 27, 2014
/s/ EVAN BAYH Evan Bayh	Trustee	February 27, 2014
/s/ NATHANIEL A. DAVIS Nathaniel A. Davis	Trustee	February 27, 2014
/s/ ROBERT M. LA FORGIA Robert M. La Forgia	Trustee	February 27, 2014
/s/ GLENDA G. MCNEAL Glenda G. McNeal	Trustee	February 27, 2014
/s/ JOSEPH RYAN Joseph Ryan	Trustee	February 27, 2014

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Exhibit Index

Exhibit Number	Description of Exhibit
2.1	Merger Agreement, dated as of February 1, 2011, by and among RLJ Lodging Fund II, L.P., RLJ Lodging Fund II (PF #1), L.P., RLJ Lodging Trust and RLJ Capital Partners II, LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on March 15, 2011)
2.2	Merger Agreement, dated as of February 1, 2011, by and among RLJ Real Estate Fund III, L.P., RLJ Real Estate Fund III (PF #1), L.P., RLJ Lodging Trust and RLJ Capital Partners III, LLC (incorporated by reference to Exhibit 2.2 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on March 15, 2011)
2.3	Contribution Agreement, dated as of February 1, 2011, by and between RLJ Lodging Trust and RLJ Development, LLC (incorporated by reference to Exhibit 2.3 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on March 15, 2011)
2.4	First Amendment to Contribution Agreement, dated as of April 25, 2011, by and between RLJ Lodging Trust and RLJ Development, LLC (incorporated by reference to Exhibit 2.4 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on April 29, 2011)
3.1	Articles of Amendment and Restatement of Declaration of Trust of RLJ Lodging Trust (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registrant's Registration Statement on Form S-11 filed on May 5, 2011)
3.2	Amended and Restated Bylaws of RLJ Lodging Trust (incorporated by reference to Exhibit 3.2 to Amendment No. 4 to the Registrant's Registration Statement on Form S-11 filed on May 5, 2011)
4.1	Form of Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on April 29, 2011)
4.2	Registration Rights Agreement, dated May 16, 2011, by and among RLJ Lodging Trust and the persons listed on Schedule I thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
4.3	Registration Rights Agreement, dated May 16, 2011, by and among RLJ Lodging Trust and the persons listed on Schedule I thereto (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.1	Amended and Restated Agreement of Limited Partnership, dated May 13, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.2	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Thomas J. Baltimore, Jr. (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.3	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Evan Bayh (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.4	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Ross H. Bierkan (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.5	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Nathaniel Davis (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.6	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Leslie D. Hale (incorporated by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.7	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Robert L. Johnson (incorporated by reference to Exhibit 10.9 to the Registrant's Current Report on Form 8-K filed on May 19,

	2011)
10.8	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Robert M. La Forgia (incorporated by reference to Exhibit 10.10 to the Registrant’s Current Report on Form 8-K filed on May 19, 2011)
10.9	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Glenda McNeal (incorporated by reference to Exhibit 10.11 to the Registrant’s Current Report on Form 8-K filed on May 19, 2011)
10.10	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Joseph Ryan (incorporated by reference to Exhibit 10.13 to the Registrant’s Current Report on Form 8-K filed on May 19, 2011)
10.11	RLJ Lodging Trust 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant’s Registration Statement on Form S-11/A (File. No. 333-172011) filed on May 5, 2011)

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10.12	Form of Restricted Share Agreement (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on May 5, 2011)
10.13	Form of Restricted Share Agreement for Trustees (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on May 5, 2011)
10.14	Form of Non-Qualified Option Agreement (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on April 13, 2011)
10.15	Form of Share Units Agreement (incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on April 13, 2011)
10.16	Employment Agreement dated as of April 27, 2011 by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P. and Robert L. Johnson (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on May 5, 2011)
10.17	Employment Agreement dated as of April 27, 2011 by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P. and Thomas J. Baltimore, Jr. (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on May 5, 2011)
10.18	Employment Agreement dated as of April 27, 2011 by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P. and Leslie D. Hale (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on May 5, 2011)
10.19	Employment Agreement dated as of April 27, 2011 by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P. and Ross H. Bierkan (incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on May 5, 2011)
10.20	Amended and Restated Credit Agreement, dated as of November 20, 2012, by and among the Operating Partnership, the Company, Wells Fargo Bank National Association, as Administrative Agent, Bank of America, N.A., as Syndication Agent, PNC Bank, National Association, as Documentation Agent, Compass Bank, an Alabama corporation, Deutsche Bank Securities Inc., and U.S. Bank National Association, as Senior Managing Agents, Royal Bank of Canada and Sumitomo Mitsui Banking Corporation, as Managing Agents, Wells Fargo Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Joint Lead Arrangers and Joint Bookrunners and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 27, 2012)
10.21	Amended and Restated Guaranty, dated as of November 20, 2012, by the Company and certain subsidiaries of the Company party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on November 27, 2012)
10.22	Form of WLS Management Agreement (incorporated by reference to Exhibit 10.14 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on April 13, 2011)
10.23	Term Loan Agreement, dated as of November 20, 2012, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, Capital One, N.A., as Documentation Agent, Raymond James, as Managing Agent, Wells Fargo Securities LLC and PNC Capital Markets LLC, as Joint Lead Arrangers and Joint Bookrunners and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)
10.24	First Amendment to Term Loan Agreement, dated as of August 27, 2013, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)
10.25	Additional Lender Supplement, dated as of August 27, 2013, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)
10.26	

	Guaranty, dated as of November 20, 2012, by RLJ Lodging Trust and certain subsidiaries of RLJ Lodging Trust party thereto (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)
10.27	Term Loan Agreement, dated as of August 27, 2013, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, Bank of America, N.A., Barclays Bank PLC, Compass Bank, an Alabama Banking Corporation, and U.S. Bank National Association, as Documentation Agents, and Wells Fargo Securities LLC and PNC Capital Markets LLC, as Joint Lead Arrangers and Joint Bookrunners and the lenders party thereto (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)
10.28	Guaranty, dated as of August 27, 2013, by RLJ Lodging Trust and certain subsidiaries of RLJ Lodging Trust party thereto (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)
21.1*	List of subsidiaries of RLJ Lodging Trust

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

*Filed herewith

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Item 8. Financial Statements.

INDEX TO FINANCIAL STATEMENTS

RLJ Lodging Trust:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
The Board of Trustees and Shareholders
RLJ Lodging Trust:

In our opinion, the combined consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of RLJ Lodging Trust and its subsidiaries (the "Company") as of December 31, 2013 and 2012 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related combined consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2012 and 2013). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
McLean, Virginia
February 27, 2014

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RLJ Lodging Trust
Combined Consolidated Balance Sheets
(Amounts in thousands, except share and per share data)

	December 31, 2013	December 31, 2012
Assets		
Investment in hotel and other properties, net	$3,241,163	$3,073,483
Investment in loans	8,208	12,426
Cash and cash equivalents	332,248	115,861
Restricted cash reserves	62,430	64,787
Hotel and other receivables, net of allowance of $234 and $194, respectively	22,762	22,738
Deferred financing costs, net	11,599	11,131
Deferred income tax asset	2,529	2,206
Purchase deposits	7,246	9,910
Prepaid expense and other assets	29,789	33,843
Total assets	$3,717,974	$3,346,385
Liabilities and Equity		
Borrowings under revolving credit facility	$—	$16,000
Mortgage loans	559,665	997,651
Term loans	850,000	400,000
Accounts payable and other liabilities	115,011	87,575
Deferred income tax liability	3,548	4,064
Advance deposits and deferred revenue	9,851	8,508
Accrued interest	2,695	2,284
Distributions payable	30,870	22,392
Total liabilities	1,571,640	1,538,474
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 December 31, 2013 and 2012, respectively.	—	—
Common shares of beneficial interest, $0.01 par value, 450,000,000 shares authorized; 122,640,042 and 106,565,516 shares issued and outstanding at December 31, 2013 and 2012, respectively.	1,226	1,066
Additional paid-in-capital	2,178,004	1,841,449
Accumulated other comprehensive loss	(5,941)	—
Distributions in excess of net earnings	(45,522)	(52,681)
Total shareholders' equity	2,127,767	1,789,834
Noncontrolling interest		
Noncontrolling interest in joint venture	7,306	6,766
Noncontrolling interest in Operating Partnership	11,261	11,311
Total noncontrolling interest	18,567	18,077
Total equity	2,146,334	1,807,911
Total liabilities and equity	$3,717,974	$3,346,385

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

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

	For the year ended December 31, 2013	2012	2011
Revenue			
Operating revenue			
Room revenue	$844,741	$738,207	$653,044
Food and beverage revenue	97,083	87,549	81,741
Other operating department revenue	28,556	23,929	20,120
Total revenue	970,380	849,685	754,905
Expense			
Operating expense			
Room expense	186,667	162,039	145,859
Food and beverage expense	67,945	60,427	56,540
Management fee expense	34,956	29,906	25,904
Other operating expense	285,539	256,565	229,810
Total property operating expense	575,107	508,937	458,113
Depreciation and amortization	127,231	126,340	127,420
Property tax, insurance and other	63,627	52,745	46,289
General and administrative	35,466	31,086	24,175
Transaction and pursuit costs	4,410	3,520	3,996
IPO Costs	—	—	10,733
Total operating expense	805,841	722,628	670,726
Operating income	164,539	127,057	84,179
Other income	903	433	1,001
Interest income	1,665	1,664	1,682
Interest expense	(64,348)	(83,689)	(95,362)
Loss on disposal	—	(634)	—
Gain on foreclosure	4,863	—	—
Income from continuing operations before income tax expense	107,622	44,831	(8,500)
Income tax expense	(879)	(1,369)	(740)
Income from continuing operations	106,743	43,462	(9,240)
Income (loss) from discontinued operations	7,436	(2,143)	20,949
Net income	114,179	41,319	11,709
Net (income) loss attributable to non-controlling interests			
Noncontrolling interest in consolidated joint venture	(540)	404	(47)
Noncontrolling interest in common units of Operating Partnership	(718)	(425)	(255)
Net income attributable to the Company	112,921	41,298	11,407
Distributions to preferred unitholders	—	—	(61)
Net income attributable to common shareholders	$112,921	$41,298	$11,346
Basic per common share data:			
Net income (loss) per share attributable to common shareholders before discontinued operations	$0.89	$0.40	$(0.10)
Discontinued operations	0.06	(0.02)	0.22
Net income per share attributable to common shareholders	$0.95	$0.38	$0.12
Weighted-average number of common shares	117,950,066	105,423,604	95,340,666

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Diluted per common share data:			
Net income (loss) per share attributable to common shareholders before discontinued operations	$0.88	$0.40	$(0.10)
Discontinued operations	0.06	(0.02)	0.22
Net income per share attributable to common shareholders	$0.94	$0.38	$0.12
Weighted-average number of common shares	118,738,626	105,748,686	95,340,666
Amounts attributable to the Company's common shareholders:			
Income (loss) from continuing operations	$105,539	$43,423	$(9,428)
Income (loss) from discontinued operations	7,382	(2,125)	20,774
Net income	$112,921	$41,298	$11,346
Comprehensive income			
Net income	114,179	41,319	11,709
Unrealized (loss) gain on interest rate derivatives	(5,941)	1,782	2,024
Comprehensive income	$108,238	$43,101	$13,733
Comprehensive income attributable to consolidated joint venture	(540)	404	(47)
Comprehensive income attributable to common units of Operating Partnership	(718)	(425)	(255)
Comprehensive income attributable to the Company	$106,980	$43,080	$13,431

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

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

	Partners' Capital Fund II		Fund III		Members' Capital		Preferred Units	
	General Partner	Limited Partners	General Partner	Limited Partners	Class A	Class B	Fund II	Fund III
Balance at December 31, 2010	$(13,409)	$433,013	$(23,328)	$811,918	$6,592	$4,751	$189	$190
Components of comprehensive income:								
Net income (loss)	(7)	(9,444)	—	(234)	(256)	(85)	—	—
Unrealized gain on interest rate derivatives	—	—	—	—	—	—	—	—
Total comprehensive income								
Partners' contributions	4,258	3,291	5,031	114,141	—	—	—	—
Partners' distributions	(3,230)	(4,876)	(3,798)	(4,392)	—	—	—	—
Members' distributions	—	—	—	—	(2,547)	(557)	—	—
Proceeds from sale of common stock, net-	—	—	—	—	—	—	—	
Issuance of restricted stock	—	—	—	—	—	—	—	—
Amortization of share based compensation-	—	—	—	—	—	—	—	
Share grants to trustees	—	—	—	—	—	—	—	—
Shares acquired to satisfy statutory minimum federal and state tax obligations on vesting restricted stock	—	—	—	—	—	—	—	—
Forfeiture of restricted stock	—	—	—	—	—	—	—	—
Exchange of owners' equity for common stock and units	12,388	(421,960)	22,095	(921,396)	(3,789)	(4,109)	61	60
Distributions to JV partner	—	—	—	—	—	—	—	—
Distributions to preferred unitholders	—	(24)	—	(37)	—	—	—	—
Redemption of preferred units	—	—	—	—	—	—	(250)	(250)
Distributions on common shares and units	—	—	—	—	—	—	—	—
Balance at December 31, 2011	$—	$—	$—	$—	$—	$—	$—	$—

Shareholders' Equity Common Stock					Noncontrolling Interests			
Shares	Par Value	Additional Paid-in-Capital	Distributions in excess of net earnings	Accumulated Other Comprehen-sive Loss	Operating Partnership	Consolidated Joint Venture	Total Non-controlling Interests	Total Owners'/ Shareholders Equity
—	$—	$—	$—	$ (3,806)	$—	$7,623	$ 7,623	$1,223,733
—	—	—	21,433	—	255	47	302	11,709
—	—	—	—	2,024	—	—	—	2,024

								13,733
—	—	—	—	—	—	—	—	126,721
—	—	—	—	—	—	—	—	(16,296)
—	—	—	—	—	—	—	—	(3,104)
31,595,000	316	527,977	—		—		—	528,293
1,120,830	11	(11)	—	—	—	—	—	—
—	—	3,284	—		—		—	3,284
7,810	—	120	—	—	—	—	—	120
(47,542)	—	(702)	—	—	—	—	—	(702)
(3,000)	—	—	—	—	—	—	—	—
73,605,951	736	1,304,343	—	—	11,571	—	11,571	—
—	—	—	—	—	—	(500)	(500)	(500)
—	—	—	—	—	—	—	—	(61)
—	—	—	—	—	—	—	—	(500)
—	—	—	(40,393)	—	(340)	—	(340)	(40,733)
106,279,049	$1,063	$1,835,011	$(18,960)	$ (1,782)	$11,486	$7,170	$ 18,656	$1,833,988

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

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

	Shareholders' Equity					Noncontrolling Interests			
	Common Stock								
	Shares	Par Value	Additional Paid-in Capital	Distributions in excess of net earnings	Accumulated Other Comprehensive Loss	Operating Partnership	Consolidated Joint Venture	Total Non-controlling Interests	Total Equity
Balance at December 31, 2011	106,279,049	$1,063	$1,835,011	$(18,960)	$(1,782)	$11,486	$7,170	$18,656	$1,833,988
Net income (loss)	—	—	—	41,298	—	425	(404)	21	41,319
Unrealized gain on interest rate derivative	—	—	—	—	1,782	—	—	—	1,782
Issuance of restricted stock	436,646	4	(4)	—	—	—	—	—	—
Amortization of share based compensation	—	—	8,626	—	—	—	—	—	8,626
Share grants to trustees	8,530	—	160	—	—	—	—	—	160
Shares acquired to satisfy statutory minimum federal and state tax obligations on vesting restricted stock	(131,831)	(1)	(2,344)	—	—	—	—	—	(2,345)
Forfeiture of restricted stock	(26,878)	—	—	—	—	—	—	—	—
Distributions on common shares and units	—	—	—	(75,019)	—	(600)	—	(600)	(75,619)
Balance at December 31, 2012	106,565,516	$1,066	$1,841,449	$(52,681)	$—	$11,311	$6,766	$18,077	$1,807,911
Net income	—	—	—	112,921	—	718	540	1,258	114,179
	—	—	—	—	(5,941)	—	—	—	(5,941)

Unrealized loss on interest rate derivative									
Proceeds from sale of common stock, net	15,870,000	159	327,388	—	—	—	—	—	327,547
Issuance of restricted stock	377,830	3	(3)	—	—	—	—	—	—
Amortization of share based compensation	—	—	13,078	—	—	—	—	—	13,078
Share grants to trustees	5,357	—	124	—	—	—	—	—	124
Shares acquired to satisfy statutory minimum federal and state tax obligations on vesting restricted stock	(173,409)	(2)	(4,032)	—	—	—	—	—	(4,034)
Forfeiture of restricted stock	(5,252)	—	—	—	—	—	—	—	—
Distributions on common shares and units	—	—	—	(105,762)	—	(768)	—	(768)	(106,530)
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

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)

	For the year ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Net income	$114,179	$41,319	$11,709
Adjustments to reconcile net income to cash flow provided by operating activities:			
Gain on extinguishment of indebtedness	(5,708)	—	(23,515)
Gain on sale of property	(2,081)	—	—
Gain on foreclosure	(4,863)	—	—
Depreciation and amortization	127,430	126,798	130,714
Amortization of deferred financing costs	4,484	5,452	5,842
Amortization of deferred management fees	1,128	1,000	1,000
Accretion of interest income on investment in loans	(513)	—	—
Impairment loss	—	896	—
Loss on disposal	—	634	—
Share grants to trustees	124	160	120
Amortization of share based compensation	13,078	8,626	3,284
Deferred income taxes	(839)	(87)	1,945
Changes in assets and liabilities:			
Hotel and other receivables, net	716	(2,493)	31
Prepaid expense and other assets	2,924	(5,851)	(6,723)
Accounts payable and other liabilities	(114)	(3,992)	12,618
Advance deposits and deferred revenue	1,030	3,503	(1,525)
Accrued interest	411	169	(1,380)
Net cash flow provided by operating activities	251,386	176,134	134,120
Cash flows from investing activities:			
Acquisition of hotel and other properties, net of cash acquired	(208,195)	(247,049)	(236,858)
Purchase deposits, net	2,664	(9,910)	—
Proceeds from principal payments on investment in loans	—	207	207
Improvements and additions to hotel and other properties	(61,077)	(129,235)	(93,477)
Additions to property and equipment	(185)	(342)	(116)
Proceeds from sale of property	2,369	—	—
Releases from restricted cash reserves, net	2,357	22,501	(16,768)
Net cash flow used in investing activities	(262,067)	(363,828)	(347,012)
Cash flows from financing activities:			
Borrowings under revolving credit facility	205,500	101,000	—
Repayments under revolving credit facility	(221,500)	(85,000)	—
Borrowings on term loans	450,000	400,000	140,000
Repayments of term loans	—	—	(140,000)
Proceeds from mortgage loans	150,000	85,000	142,000
Payment of mortgage principal	(577,441)	(429,084)	(489,342)
Distributions to noncontrolling interest	—	—	(500)
Repurchase of common shares	(4,034)	(2,345)	(702)
Distributions on common shares	(97,316)	(68,752)	(24,451)
Distributions on Operating Partnership units	(736)	(551)	(206)
Payment of preferred unitholder distributions	—	—	(61)

Payment of deferred financing costs	(4,952)	(6,944)	(6,183)
Payment of members' distributions	—	—	(3,104)
Proceeds from partners' contributions	—	—	126,721
Payment of partners' distributions	—	—	(16,296)
Redemption of preferred units	—	—	(500)
Proceeds from issuance of common shares	327,547	—	528,293
Net cash flow provided by (used in) financing activities	227,068	(6,676)	255,669
Net change in cash and cash equivalents	216,387	(194,370)	42,777
Cash and cash equivalents, beginning of period	115,861	310,231	267,454
Cash and cash equivalents, end of period	$332,248	$115,861	$310,231

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

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 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 qualified and elected 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 year ended December 31, 2011 reflect the results of operations of the RLJ Predecessor together with the Company. The financial condition as of December 31, 2013 and December 31, 2012, as well as the results of operations for the years ended December 31, 2013 and December 31, 2012 reflects solely the Company.

Substantially all of the Company’s assets are held by, and all of its operations are conducted through the Operating Partnership. The Company is the sole general partner of the Operating Partnership. As of December 31, 2013, there were 123,534,042 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 December 31, 2013, the Company owned 149 properties, comprised of 147 hotels with approximately 22,300 rooms and two planned hotel conversions, located in 22 states and the District of Columbia, interests in land parcels located adjacent to certain hotels and an interest in one mortgage loan secured by a hotel. The Company, through wholly-owned subsidiaries, owned a 100% interest in all of its properties, with the exception of the DoubleTree Metropolitan Hotel New York City, in which the Company, through wholly-owned subsidiaries, owned a 95%

controlling interest in a joint venture, DBT Met Hotel Venture, LP, which was formed to engage in hotel operations related to the DoubleTree Metropolitan hotel. An independent operator manages each property.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The combined consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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

The combined consolidated financial statements for the periods prior to the May 16, 2011 IPO of RLJ Lodging Trust include the accounts of Fund II, Fund III, and RLJ Development and their respective wholly-owned subsidiaries. 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 May 16, 2011 IPO, are presented as the RLJ Predecessor and referred to as the Company. All significant intercompany balances have been eliminated in consolidation.

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.

Reporting Periods

As of December 31, 2013, the Company owned five hotels that were managed by affiliates of Marriott International (“Marriott”). Beginning January 1, 2013, the Company’s hotels managed by Marriott were accounted for on a calendar year basis. Prior to January 1, 2013, the Company’s hotels managed by Marriott were accounted for on a fiscal year comprised of 52 or 53 weeks ending on the Friday closest to December 31. The Company’s results for the years ended December 31, 2012 and 2011 include the results of operations for the Company’s Marriott-managed hotels for the 52-week periods ended December 28, 2012 and December 30, 2011, respectively.

Risks and Uncertainties

During the last economic recession, the Company experienced reduced demand for its hotel rooms and services. While uncertainty over the continued economic recovery may impact the lodging industry and the Company's financial results and growth, the Company remains cautiously optimistic that its future financial results and growth will benefit from current economic conditions and favorable lodging fundamentals.

At December 31, 2013, the Company owned five, 21 and 17 hotels located in the New York, New York; Chicago, Illinois; and Austin, Texas metropolitan areas, respectively, that accounted for 15.8%, 10.9% and 10.2% of our total revenue, respectively. As a result, the Company is susceptible to adverse market conditions in these areas, including industry downturns, relocation of businesses and any oversupply of hotel rooms or a reduction in lodging demand.

At December 31, 2013, the Company owned 104 and 31 hotels that operate under Marriott and Hilton brands, respectively. As a result, the Company is subject to the potential risks associated with the concentration of its hotels under a limited number of brands. A negative public image or other adverse event that becomes associated with either of these brands could adversely affect hotels operated under the respective brand. If either of these brands suffers a significant decline in appeal to the traveling public, the revenues and profitability of the Company's branded hotels could be adversely affected.

The Company owns 106 hotels that are managed by White Lodging Services Corporation ("WLS"). As a result, the Company is subject to the potential risks associated with the concentration of the majority of our hotels under a single management company. A negative public image or other adverse event that becomes associated with or impacts WLS could adversely affect the revenues and profitability of hotels that are managed by them.

Reclassifications

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

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Revenue Recognition

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

Incentive payments received pursuant to entry into management agreements are deferred and amortized into income over the life of the respective agreements. In May 2012, the Company received an incentive payment of $4.0 million related to purchasing a hotel and entering into a franchise agreement, which is being recognized over the remaining term of the franchise agreement. As of December 31, 2013, there was approximately $3.8 million remaining to be recognized.

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.

Investment in Hotel and Other Properties

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

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

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

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

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

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

Investment in Loan

The Company holds an investment in one collateralized mortgage loan. The loan is collateralized by the related hotel and was recorded at acquisition at the initial investment, which includes the amount paid to the seller plus any fees paid or less any fees received. The acquired loan was of a deteriorated credit quality as the loan was already in default, as of the date it was acquired by the Company and therefore the amount paid for the loan reflected the Company's determination that it was probable the Company would be unable to collect all amounts due pursuant to the loan's contractual terms.

The Company considers expected prepayments, and estimates the amount and timing of undiscounted expected principal, interest and other cash flows. The Company determines any excess of the loan's scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted. The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid to acquire the loan is accreted into interest income over the remaining life of the loan. The Company will regularly re-estimate cash flows expected to be collected over the life of the loan. Any increases in future cash flows expected to be collected will result in a prospective adjustment to the interest yield which will be recognized over the loan's remaining life. Any decreases in cash flows expected to be collected after loan acquisition will result in an impairment charge. A reserve will be established if the present value of payments expected to be received, observable market prices, or the estimated fair value of the collateral (for a loan that is dependent on the collateral for repayment) of an impaired loan is lower than the carrying value of that loan. As of December 31, 2013 and 2012, no reserves for loan losses were deemed necessary.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The Company maintains cash balances in domestic banks, which, at times, may exceed the limits of amounts insured by the Federal Deposit Insurance Corporation.

Restricted Cash Reserves

All cash that is required to be maintained in a reserve escrow account by a management agreement, franchise agreement and/or a mortgage agreement for replacement of furniture, fixtures and equipment and funding of real estate taxes and insurance is considered to be restricted cash reserves.

Hotel Receivables

Hotel receivables consist mainly of hotel guest and meeting and banquet room rental receivables. The Company does not generally require collateral, as ongoing credit evaluations are performed and an allowance for doubtful accounts is established against any receivable that is estimated to be uncollectible.

Deferred Financing Fees

Deferred financing fees relate to costs incurred to obtain long-term financing. Deferred financing fees are recorded at cost and are amortized using the straight-line method, which approximates the effective interest method, over the respective terms of the financing agreement, as applicable (see Note 7) and are included as a component of interest expense. The Company expenses unamortized deferred financing fees when the associated financing agreement is refinanced or repaid before maturity, unless criteria are met that would allow for the carryover of such costs to the refinanced agreement. For the years ended December 31, 2013, 2012 and 2011, approximately $4.5 million, $5.4 million and $5.8 million (excluding discontinued operations), respectively, of amortization expense was recorded as a component of interest expense. Accumulated amortization at December 31, 2013 and 2012 was approximately $4.9 million and $17.7 million (excluding discontinued operations), respectively.

Deferred Management Fees

In June 2006, in consideration for the agreement of WLS to enter into new management agreements on terms favorable to Fund II, a subsidiary of Fund II made a one-time payment of $20.0 million to WLS. This payment was recorded at cost, and is being amortized as a component of management fee expense over the 20-year initial term of the management agreement. For each of the years ended December 31, 2013, 2012 and 2011, approximately $1.0

million (excluding discontinued operations) of amortization expense was recorded for deferred management fees. As of December 31, 2013 and 2012, accumulated amortization was approximately $7.7 million and $6.6 million, respectively.

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Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) is comprised of unrealized gains and losses resulting from hedging activities.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense was approximately $3.7 million, $4.4 million and $4.0 million for the years ended December 31, 2013, 2012 and 2011, respectively, (excluding discontinued operations) and is included in other hotel operating expenses.

Transaction and Pursuit Costs

The Company incurs costs during the review of potential property acquisitions and dispositions, including legal fees, architectural costs, environmental reviews and market studies. These costs are expensed as incurred.

Derivative Financial Instruments

In the normal course of business, the Company is exposed to the effects of interest rate changes. As of December 31, 2013 and 2012, 87.0% and 45.5%, respectively, of the Company's borrowings were subject to variable rates. As of December 31, 2013 and 2012, after taking into consideration the effect of interest rate swaps and caps, 30.8% and 40.6%, respectively, of the Company's borrowings were subject to variable rates. The Company limits the risks associated with interest rate changes by following the Company's established risk management policies and procedures, including the use of derivatives. The Company utilizes derivative financial instruments to manage, or hedge, interest rate risk. The Company attempts to require that hedging derivative instruments be effective in reducing the interest rate risk exposure that they are designated to hedge. This effectiveness is essential in order to qualify for hedge accounting. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income each period until the instrument matures.

The Company utilizes a variety of borrowing vehicles including an unsecured revolving credit facility and medium and long-term financings. To reduce the Company's susceptibility to interest rate variability, the Company uses interest rate instruments, typically interest rate swaps, to convert a portion of variable rate debt to fixed rate debt. Interest rate differentials that arise under interest rate swap contracts are recognized in interest expense over the life of the contracts. Interest rate swap agreements contain a credit risk that counterparties may be unable to fulfill the terms of the agreement. The Company has minimized that risk by evaluating the creditworthiness of its counterparties, who are limited to major banks and financial institutions, and it does not anticipate nonperformance by the counterparties. Gains and losses on derivatives determined to be effective hedges are reported in other comprehensive income (loss) and are reclassified to earnings in the period in which earnings are affected by the underlying hedged item. The ineffective portion of all hedged items is recognized in earnings in the current period.

Distributions by the RLJ Predecessor

Fund II was required to make quarterly distributions to the Fund II General Partner and Fund II's limited partners in accordance with the Fund II LP Agreements. Distributable proceeds were apportioned among the Fund II General Partner and the Fund II limited partners in proportion to their respective percentage interests and then distributed to each partner (i) first, to partners until each has received a hurdle return of 9%, (ii) second, to partners until each partners' respective unreturned invested equity is reduced to zero, and (iii) thereafter 80% to limited partners and 20% to the Fund II General Partner. As of December 31, 2010 and through the date of the closing of the IPO on May 16, 2011, an aggregate of approximately $158.8 million (excluding advisory fees, see Note 14) had been distributed to partners.

Fund III was required to make quarterly distributions to the Fund III General Partner and Fund III's limited partners in accordance with the Fund III LP Agreements. Distributable proceeds were apportioned among the Fund III General Partner and the Fund III LP limited partners in proportion to their respective percentage interests and then distributed to each partner (i) first, to partners until each has received a hurdle return of 9%, (ii) second, to partners until each partners' respective unreturned invested equity is reduced to zero, (iii) third, 80% to partners and 20% to the Fund III General Partner, until each partner has received an internal rate of return of 11%, (iv) fourth, 60% to partners and 40%

o the Fund III General Partner until the aggregate amount under (i) and (iii) distributed to the Fund III General Partner equals 20% of the aggregate amount distributed to the partners, and (v) thereafter 80% to limited partners and 20% to the Fund III General Partner. As of December 31, 2010 and through the date of the closing of the IPO on May 16, 2011, no distributions had been made to partners (excluding advisory fees, see Note 14).

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Fund II, through wholly-owned subsidiaries, made distributions to preferred unitholders semi-annually on June 30 and December 31 each year. As of December 31, 2010 and through the date of the closing of the IPO on May 16, 2011, an aggregate of approximately $0.1 million had been distributed to preferred unitholders.

Fund III, through wholly-owned subsidiaries, made distributions to preferred unitholders semi-annually on June 30 and December 31 each year. As of December 31, 2010 and through the date of the closing of the IPO on May 16, 2011, an aggregate of approximately $0.1 million had been distributed to preferred unitholders.
Pursuant to the terms of the RLJ Development's Limited Liability Company Agreement (the "LLC Agreement"), distributions were made at the discretion of the managing member. Distributions were made to Members in the following priority; (i), first to Class A Members who are entitled to receive any unpaid preferred return until the unpaid preferred return is reduced to zero; (ii), next to each Member, an amount equal to the excess of the tax rate percentage (as defined by the LLC Agreement) multiplied by the aggregate amount of net profits allocated to such members; (iii), next to Class A Members in proportion to the respective amounts of their unreturned capital (as defined by the LLC Agreement), until the unreturned capital of all Class A Members is reduced to zero; (iv), thereafter, among the Members in proportion to their respective membership percentage interests.

Distributions by the Company

The Company's board of trustees determines the amount of future distributions based upon various factors including operating results, economic conditions, other operating trends, our financial condition and capital requirements, as well as minimum REIT distribution requirements. The Company's ability to make distributions is dependent on our receipt of quarterly distributions from the Operating Partnership and the Operating Partnership's ability to make distributions is dependent upon the results of operations of our hotels.

Allocation of Profits and Losses

Profits and losses of Fund II were allocated to the Fund II General Partner and Fund II's limited partners in accordance with the Fund II LP Agreements. Profits and losses were apportioned among the Fund II General Partner and the Fund II limited partners in proportion to their respective percentage interests (i) first, to partners until each has received a hurdle return of 9%, (ii) second, to partners until each partners' respective unreturned invested equity is reduced to zero, and (iii) thereafter 80% to limited partners and 20% to the Fund II General Partner.
Profits and losses of Fund III were allocated to the Fund III General Partner and Fund III's limited partners in accordance with the Fund III LP Agreements. Profits and losses were apportioned among the Fund III General Partner and the Fund III limited partners in proportion to their respective percentage interests (i) first, to partners until each has received a hurdle return of 9%, (ii) second, to partners until each partners' respective unreturned invested equity is reduced to zero, (iii) third, 80% to partners and 20% to the Fund III General Partner, until each partner has received an internal rate of return of 11%, (iv) fourth, 60% to partners and 40% to the Fund III General Partner until the aggregate amount under (i) and (iii) distributed to the Fund III General Partner equals 20% of the aggregate amount distributed to the partners, and (v) thereafter 80% to limited partners and 20% to the Fund III General Partner.
Profits of RLJ Development were allocated in accordance with the LLC Agreement: (i) first, to Members who received allocations of losses for earlier periods in proportion to the cumulative amount of those losses; (ii) next, to Class A Members in proportion to their respective percentage interests, until those Members have received cumulative allocation of profits for the current year and all prior years not offset by losses allocated to them equal to the cumulative amount of their annual preferred return; and (iii) thereafter, to the Members in proportion to their respective membership percentage interests. Losses of RLJ Development were allocated to Members in the following order or priority: (i) first, to Members who received allocations of profits in earlier fiscal years in proportion to the cumulative amount of profits previously allocated to them; (ii) next, to Members who have a positive capital account in proportion to the respective amounts of their positive capital accounts until the accounts are reduced to zero; and (iii) thereafter, to the Members in proportion to their respective percentage interests.

Noncontrolling Interests

The combined 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 combined consolidated financial statements. As of December 31, 2013 the Company consolidated DBT Met Hotel Venture, LP, a majority-owned partnership that has a third-party, noncontrolling 5.0% ownership interest. The third-party partnership interest is included in noncontrolling interest in joint venture on the balance sheet. Profits and losses are allocated in proportion to each party's respective ownership interest.

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As of December 31, 2013, the Company consolidates RLJ Lodging Trust, LP, 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 consolidated joint venture on the balance sheet. Profits and losses are allocated in proportion to each party's respective ownership interest.

Income Taxes

The Company has elected to be taxed as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code, as amended, commencing with the 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 REIT taxable income, subject to certain adjustments and excluding any net capital gain. The Company's current intention is to adhere to these requirements and maintain the qualification for taxation as a REIT. As a REIT, the Company generally is not subject to federal corporate income tax on that portion of net income that is currently distributed. If the Company fails to qualify for taxation as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on income and property, and to federal income and excise taxes on undistributed taxable income.

Taxable income from non-REIT activities managed through taxable REIT subsidiaries is subject to federal, state and local income taxes. The taxable REIT subsidiary is required to pay income taxes at the applicable rates. The consolidated income tax provision or benefit includes the income tax provision or benefit related to the operations of the taxable REIT subsidiary as well as state income taxes incurred.

Where required, deferred income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities and their respective income tax bases and for operating loss, capital loss and tax credit carryforwards based on enacted income tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that is more likely than not they will be realized based on consideration of available evidence, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies.

The Company performs an annual review for any uncertain tax positions and, if necessary, will record expected future tax consequences of uncertain tax positions in the financial statements. At December 31, 2013 and 2012, the Company did not identify any uncertain tax positions.

Earnings Per Share

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

Share-based Compensation

From time to time, the Company may issue share-based awards under the 2011 Equity Incentive Plan (the “2011 Plan”), as compensation to officers, employees and non-employee trustees (see Note 12). The vesting of awards issued to officers and employees is based on either continued employment (time-based) or based on the relative total shareholder returns of the Company and continued employment (performance-based), as determined by the board of trustees at the date of grant. The Company recognizes, for time-based awards, compensation expense for non-vested shares on a straight-line basis over the vesting period based upon the fair market value of the shares on the date of grant, adjusted for forfeitures. The Company recognizes, for performance-based awards, compensation expense over the requisite service period for each award, based on the fair market value of the shares on the date of grant, as determined using a Monte Carlo simulation, adjusted for forfeitures.

Environmental

The Company is subject to various Federal, state and local environmental regulations related to its property ownership and operation. The Company has performed environmental assessments of its properties, the results of which have not revealed any environmental liability that the Company believes would have a materially adverse effect on its financial position, operations or liquidity.

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3. Acquisition of Hotel and Other Properties

During the year ended December 31, 2013, the Company acquired the following properties:

Property	Location	Acquisition Date	Management Company	Rooms	Purchase Price (in thousands)	% Interest	
Courtyard Houston Downtown Convention Center	Houston, TX	March 19, 2013	White Lodging Services	191	$34,308	100	%
Residence Inn Houston Downtown Convention Center	Houston, TX	March 19, 2013	White Lodging Services	171	29,421	100	%
Humble Tower Apartments (1)	Houston, TX	March 19, 2013	The Sterling Group	82	15,547	100	%
Courtyard Waikiki Beach	Honolulu, HI	June 17, 2013	Highgate Hotels	399	75,250	100	%
Courtyard San Francisco (2)	San Francisco, CA	June 21, 2013	n/a	150	29,475	100	%
Residence Inn Atlanta Midtown Historic (3)	Atlanta, GA	August 6, 2013	n/a	78	4,731	100	%
SpringHill Suites Portland Hillsboro	Hillsboro, OR	October 8, 2013	InnVentures	106	24,000	100	%
				1,177	$212,732		

(1) Conversion to a SpringHill Suites expected to be complete by mid-2015.
(2) Conversion to a Courtyard expected to be complete by late 2014.
(3) The Company was the successful bidder at a foreclosure sale of the property collateralizing a non-performing loan. The property was operating at the time of the acquisition and was subsequently closed for a major renovation, which is expected to be complete in late 2014.

During the year ended December 31, 2012, the Company acquired the following properties:

Hotel	Location	Acquisition Date	Management Company	Rooms	Purchase Price (in thousands)	% Interest	
Residence Inn Bethesda Downtown	Bethesda, MD	May 29, 2012	Marriott International	187	$64,500	100	%
Courtyard New York Manhattan Upper East Side	New York, NY	May 30, 2012	Highgate Hotels	226	82,000	100	%
Hilton Garden Inn San Francisco Oakland Bay Bridge	Emeryville, CA	June 11, 2012	Davidson Hotels & Resorts	278	36,158	100	%
Embassy Suites Boston Waltham	Waltham, MA	November 13, 2012	HEI Hotels and Resorts	275	64,500	100	%
				966	$247,158		

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

For the year ended December 31,

	2013	2012
Land and land improvements	$30,989	$46,980
Buildings and improvements	188,180	191,751
Furniture, fixtures and equipment	8,754	8,427
Lease intangibles	650	—
Management agreement intangibles	(3,695)	—
Above market ground lease	(7,878)	—
	217,000	247,158
Bargain purchase gain	(4,269)	—
Total Purchase Price	$212,731	$247,158

See Note 18 for detail of other assets acquired and liabilities assumed in conjunction with the Company's acquisitions.

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For the properties acquired during the years ended December 31, 2013 and 2012, respectively, total revenues and net income from the date of acquisition through December 31, 2013 and 2012, respectively, are included in the accompanying combined consolidated statements of operations as follows (in thousands):

	For the year ended December 31,	
	2013	2012
Revenue	$90,666	$28,433
Net income	$18,772	$2,377

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

	For the year ended December 31,	
	2013	2012
Revenue	$991,206	$926,242
Net income	$112,293	$60,098
Net income per share attributable to common shareholders - basic	$0.95	$0.57
Net income per share attributable to common shareholders - diluted	$0.95	$0.57
Weighted average number of shares outstanding - basic	117,950,066	105,423,604
Weighted average number of shares outstanding - diluted	118,738,626	105,748,686

4. Investment in Hotel and Other Properties

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

	December 31, 2013		December 31, 2012	
Land and land improvements	$594,402		$563,524	
Buildings and improvements	2,866,849		2,655,086	
Furniture, fixtures and equipment	485,531		438,807	
Intangibles	2,507		1,857	
	3,949,289		3,659,274	
Accumulated depreciation and amortization	(708,126	)	(585,791	)
Investment in hotel and other properties, net	$3,241,163		$3,073,483	

For the years ended December 31, 2013, 2012 and 2011 depreciation and amortization expense related to investment in hotel and other properties was approximately $126.8 million, $125.9 million and $126.7 million (excluding discontinued operations), respectively.

Impairment

During the year ended December 31, 2012, the Company recorded an impairment loss of $0.9 million related to the Fairfield Inn Memphis (recognized in discontinued operations). The Company evaluated the recoverability of the hotel's carrying value given deteriorating operating results for the year ended December 31, 2012. Based on an analysis of estimated undiscounted net cash flow, the Company concluded that the carrying value of the hotel was not recoverable. The Company estimated the fair value of the hotel using a discounted cash flow analysis. In the analysis, the Company estimated the future net cash flows from the hotel, the expected useful life and holding period, and applicable capitalization and discount rates.

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The Company determined that there was no impairment of any assets for each of the years ended December 31, 2013 and 2011.

5. 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.

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

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

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

On November 18, 2013, the Company sold the Fairfield Inn & Suites Memphis, located in Memphis, Tennessee for a sale price of $2.5 million. The Company recorded a gain on sale of approximately $2.1 million to discontinued operations at that time.

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

	For the year ended December 31,		
	2013	2012	2011
Operating revenue	$2,950	$4,520	$20,963
Operating expense	(2,930)	(4,459)	(22,381)
Operating income (loss)	20	61	(1,418)
Impairment loss	—	(896)	—
Interest expense	(373)	(1,308)	(1,148)

Loss from discontinued operations before gain on sale	(353)	(2,143)	(2,566)
Gain on sale of property	2,081	—	—
Gain on extinguishment of indebtedness	5,708	—	23,515
Net income (loss) from discontinued operations	$7,436	$(2,143)	$20,949

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6. Investment in Loan

On November 3, 2009, Fund III purchased two mortgage loans collateralized by the SpringHill Suites Houston Medical Park and the Residence Inn Atlanta Midtown Historic for a total purchase price of $12.7 million. The loans would mature on September 6, 2017 and amortize based on a 30 year term. The acquired loans were of deteriorated credit quality as the loans were already in default at the date of the Company's acquisition of the loans, and therefore the amounts paid for the loans reflected the Company's determination that it was probable the Company would be unable to collect all amounts due pursuant to the loan's contractual terms.

The SpringHill Suites Houston Medical Park and Residence Inn Atlanta Midtown Historic loans each required monthly payments of principal and interest of $0.1 million. For each of the years ended December 31, 2013, 2012 and 2011, interest income from the loans was $1.6 million.

The borrower defaulted on the loan collateralized by the Residence Inn Atlanta Midtown Historic in February 2013. On August 6, 2013, the Company was a successful bidder at a foreclosure sale of the property collateralizing the non-performing loan for a purchase price of $4.7 million, which was equal to the Company's basis in the mortgage loan. The Company recorded a gain of $4.3 million related to the property acquired and a gain of $0.6 million related to other assets acquired and liabilities assumed for a total gain on foreclosure of $4.9 million.

Investment in loans as of December 31, 2013 and 2012 consisted of the following (in thousands):

	December 31,	
	2013	2012
Note secured by SpringHill Suites Houston Medical Park	$13,681	$13,876
Note secured by Residence Inn Atlanta Midtown Historic	—	10,490
Face value	$13,681	$24,366
Carrying amount of loans	$8,208	$12,426

	December 31,	
	2013	2012
Accretable yield balance at beginning of year	$12,559	$13,820
Reclassification from nonaccretable difference	224	367
Interest income	(1,633)	(1,628)
Disposal of loan	(5,923)	—
Accretable yield balance at end of year	$5,227	$12,559

7. Debt

Revolving Credit Facility and Term Loans

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

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

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

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Company's maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default exists, the Company is not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of December 31, 2013, the Company was in compliance with all financial covenants.

In 2012, the Company incurred $5.2 million in fees related to the Revolver, 2012 Five-Year Term Loan and Seven-Year Term Loan. In 2013, the Company incurred $3.0 million in fees related to the 2013 Five-Year Term Loan and the Seven-Year Term Loan amendment. All of these amounts were deferred and are being amortized over their respective terms.

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

Under the terms of the credit agreement for the Revolver, one or more standby letters of credit, up to a maximum aggregate outstanding balance of $30.0 million, may be issued on behalf of the Company by the lenders under the Revolver. The Company will incur a fee of 0.125% of the value of each standby letter of credit that is issued on its behalf. Any outstanding standby letters of credit reduce the available borrowings on the Revolver by a corresponding amount. No standby letters of credit were outstanding at December 31, 2013. The Company also may borrow up to a maximum aggregate outstanding balance of $40.0 million of swingline loans. Any outstanding swingline loans reduce the available borrowings under the Revolver by a corresponding amount. No swingline loans were outstanding at December 31, 2013.

Prior Credit Facility

The Company entered into the Prior Credit Facility, on June 20, 2011, that provided for maximum borrowings of up to $300.0 million. The Prior Credit Facility required that a group of no less than 15 of the Company's hotel properties remain unencumbered by outstanding indebtedness. The Prior Credit Facility contained certain financial covenants relating to the Company's maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default existed, the Company was not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of December 31, 2012, the Company was in compliance with all financial covenants. On November 20, 2012, the Prior Credit Facility agreement was amended and restated in its entirety with the Revolver and 2012 Five-Year Term Loan as discussed above.

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

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

Prior Term Loan

On January 14, 2011, Fund III entered into a $140.0 million unsecured term loan, the "Prior Term Loan". Fund III agreed to maintain an unencumbered asset pool of ten hotel properties during the term of the Prior Term Loan. The Prior 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 year ended December 31, 2011, the Company incurred $5.1 million of interest expense, related to the Prior Term Loan. On September 30, 2011, the Company amended the Prior Term Loan to extend the maturity date to November 15, 2011, with one extension to December 31, 2011, at the Company's option. On October 21, 2011, the Prior Term Loan was fully repaid.

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As of December 31, 2013 and for the years ended December 31, 2013, 2012 and 2011, details of the credit facilities are as follows (in thousands):

	Outstanding borrowings at December 31, 2013	Interest rate at December 31, 2013 (1)	Interest expense for the year ended December 31,		
			2013	2012	2011
Revolver (2)	$—	n/a	$1,222	$158	$—
2012 Five-Year Term Loan	275,000	1.87%	5,453	662	—
Seven-Year Term Loan (3)	225,000	4.04%	5,049	359	—
2013 Five-Year Term Loan (4)	350,000	3.25%	3,850	—	—
Prior Credit Facility (5)	—	n/a	—	2,345	662
Prior Term Loan	—	n/a	—	—	5,494
Total	$850,000		$15,574	$3,525	$6,156

(1) Interest rate at December 31, 2013 gives effect to interest rate hedges and LIBOR floors, as applicable.

(2) Includes the unused facility fee of $1.0 million and $0.1 million for the years ended December 31, 2013 and 2012, respectively.

(3) Includes interest expense related to an interest rate hedge of $1.3 million for year ended December 31, 2013.

(4) Includes interest expense related to an interest rate hedge of $1.6 million for year ended December 31, 2013.

(5) Includes the unused facility fee of $0.7 million and $0.7 million for the years ended December 31, 2012 and 2011, respectively.

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Mortgage Loans

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

Lender	Number of Assets Encumbered	Interest rate at December 31, 2013 (1)		Maturity Date		Principal balance at, December 31, 2013	December 31, 2012
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	$68,500	$68,500
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	17,500	17,500
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	21,000	21,000
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	11,000	11,000
Wells Fargo	1	3.77%	(2)	Oct 2014	(3)	24,000	24,000
Capmark Financial Group	1	6.12%		April 2015		4,068	4,202
Capmark Financial Group	1	5.55%		May 2015		10,916	11,298
Capmark Financial Group	1	5.55%		June 2015		4,736	4,901
Barclay's Bank	1	5.55%		June 2015		2,475	2,561
Barclay's Bank	1	5.55%		June 2015		4,063	4,203
Barclay's Bank	1	5.55%		June 2015		9,470	9,798
Barclay's Bank	1	5.55%		June 2015		8,452	8,745
Barclay's Bank	1	5.55%		June 2015		7,578	7,839
Barclay's Bank	1	5.60%		June 2015		5,255	5,434
Barclay's Bank	1	5.60%		June 2015		8,142	8,422
Barclay's Bank	1	5.55%		June 2015		4,962	5,134
Barclay's Bank	1	5.55%		June 2015		32,901	34,042
Barclay's Bank	1	5.60%		June 2015		6,251	6,466
Barclay's Bank	1	5.55%		June 2015		5,568	5,762
Barclay's Bank	1	5.55%		June 2015		6,399	6,621
Barclay's Bank	1	5.60%		June 2015		8,156	8,437
Barclay's Bank	1	5.55%		June 2015		6,394	6,614
Barclay's Bank	1	5.55%		June 2015		7,038	7,280
Barclay's Bank	1	5.55%		June 2015		6,399	6,621
Barclay's Bank	1	5.55%		June 2015		7,305	7,558
Barclay's Bank	1	5.55%		June 2015		9,166	9,484
Capmark Financial Group	1	5.50%		July 2015		6,450	6,673
Barclay's Bank	1	5.44%		Sept 2015		10,521	10,883
PNC Bank (4)	7	2.52%	(2)	May 2016	(5)	85,000	85,000
Wells Fargo (6)	2	4.19%	(2)	Sept 2016	(7)	82,000	—
Wells Fargo	1	4.19%	(2)	Sept 2016	(7)	33,000	—
Wells Fargo	1	4.19%	(2)	Sept 2016	(7)	35,000	—
Merrill Lynch				July 2016		—	9,180
Merrill Lynch				July 2016		—	7,684
Merrill Lynch				July 2016		—	9,194
Wachovia Securities				July 2016		—	487,296
Wachovia Securities				July 2016		—	6,582
Wells Fargo / Morgan Stanley				July 2016		—	34,823

Wells Fargo / Morgan Stanley		July 2016	—	6,753
Wells Fargo / Morgan Stanley		July 2016	—	9,616
Merrill Lynch		July 2016	—	5,531
VFC Partners 20 LLC		Sept 2016	—	5,014
	39		$559,665	$997,651

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(1) Interest rate at December 31, 2013 gives effect to interest rate hedges and LIBOR floors, as applicable.
(2) Requires payments of interest only until the commencement of the extension period(s).
(3) Maturity date may be extended for up to two additional one-year terms at the Company's option, subject to certain lender requirements.
(4) The seven hotels encumbered by the PNC Bank loan are cross-collateralized.
(5) Maturity date may be extended for one one-year term at the Company's option, subject to certain lender requirements.
(6) The two hotels encumbered by the Wells Fargo loan are cross-collateralized.
(7) Maturity date may be extended for four one-year terms at the Company's option, subject to certain lender requirements.

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

Future Minimum Principal Payments

As of December 31, 2013, future minimum principal payments on debt are as follows (in thousands):

2014	$148,679
2015	175,986
2016	235,000
2017	275,000
2018	350,000
Thereafter	225,000
	$1,409,665

8. Derivatives and Hedging

The Company employs derivative financial 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 income (loss), a component of shareholders' equity. Unrealized gains and losses on the ineffective portion of all designated hedges are recognized in earnings in the current period. For derivative instruments not designated as hedging instruments, unrealized gains or losses are recognized in earnings in the current period.

At December 31, 2013, the fair value of interest rate swap assets of $3.2 million was included in prepaid expenses and other assets in the accompanying combined consolidated balance sheets. At December 31, 2013 and December 31, 2012, the aggregate fair value of interest rate swap liabilities of $9.1 million and $0.5 million, respectively, was included in accounts payable and other liabilities in the accompanying combined consolidated balance sheets.

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

Hedge type	Notional value at December 31, 2013	December 31, 2012	Hedge interest rate	Maturity	Fair value at December 31, 2013	December 31, 2012
Swap-cash flow (1)	$—	$40,000	1.00%	10/6/2013	$—	$(265)
Swap-cash flow (1)	—	31,000	1.00%	10/6/2013	—	(205)
Interest rate cap (1)	—	60,000	1.00%	6/29/2013	—	—
Swap-cash flow (2)	275,000	—	1.12%	11/20/2017	3,161	—
Swap-cash flow (2)	175,000	—	1.56%	3/6/2018	(1,866)	—
Swap-cash flow (2)	175,000	—	1.64%	3/6/2018	(2,406)	—
Swap-cash flow (2)	16,500	—	1.83%	9/15/2018	(238)	—
Swap-cash flow (2)	16,500	—	1.75%	9/15/2018	(181)	—
Swap-cash flow (2)	40,500	—	1.83%	9/15/2018	(585)	—
Swap-cash flow (2)	41,500	—	1.75%	9/15/2018	(456)	—
Swap-cash flow (2)	18,000	—	1.83%	9/15/2018	(260)	—
Swap-cash flow (2)	17,000	—	1.75%	9/15/2018	(187)	—
Swap-cash flow (2)	125,000	—	2.02%	3/6/2019	(1,838)	—
Swap-cash flow (2)	100,000	—	1.94%	3/6/2019	(1,085)	—
	$1,000,000	$131,000			$(5,941)	$(470)

(1) Not designated as a cash flow hedge
(2) Designated as a cash flow hedge

As of December 31, 2013 and December 31, 2012, there was approximately $5.9 million and zero, respectively, in unrealized losses included in accumulated other comprehensive income (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 year ended December 31, 2013 and 2012. For the years ended December 31, 2013 and 2012, approximately $3.7 million and $2.4 million, respectively, of amounts included in accumulated other comprehensive income (loss) were reclassified into interest expense.

9. Fair Value

Fair Value Measurement

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

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

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

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

Fair Value of Financial Instruments

The Company used the following market assumptions and/or estimation methods:

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

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

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

- Fixed rate mortgage notes payable - The fair value estimated at December 31, 2013 and 2012 of $188.0 million and $745.3 million, respectively, is calculated based on the net present value of payments over the term of the loans using estimated market rates for similar mortgage loans with similar terms and loan to value ratios, which is a Level 3 input. As a result, the Company determined that its fixed rate mortgage notes payable in their entirety are classified in Level 3 of the fair value hierarchy. The carrying value of fixed rate mortgage notes payable at December 31, 2013 and 2012 was $182.7 million and $770.7 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 December 31, 2013 (in thousands):

	Fair Value at December 31, 2013			
	Level 1	Level 2	Level 3	Total
Interest rate swap asset	$—	$3,161	$—	$3,161
Interest rate swap liability	$—	$(9,102)	$—	$(9,102)
Total	$—	$(5,941)	$—	$(5,941)

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 December 31, 2013, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Non-recurring Fair Value Measurement

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

10. Commitments and Contingencies

Ground Leases

The Residence Inn Chicago Oak Brook is subject to a ground lease with an initial term that expires on March 6, 2100. During the initial term of the ground lease, the total rent is $1.56 million, which was paid in a lump sum upon commencement of the ground lease in 2001. After the initial term, we may extend the ground lease for an additional renewal term of 99 years for $1. Under certain circumstances set forth in the ground lease, we have the option to acquire the land underlying the Residence Inn Chicago Oak Brook.

The Marriott Louisville Downtown is subject to a ground lease with an initial term extending out to 2053. The ground lease may be extended for up to four additional twenty-five year terms at the Company's option. The annual ground rent is one dollar; however, the property is subject to an annual profit participation payment based on net income as calculated based on the terms of the ground lease. For the years ended December 31, 2013, 2012 and 2011, no liability was incurred for profit participation.

The Courtyard Austin Downtown Convention Center and Residence Inn Austin Downtown Convention Center are subject to a ground lease with a term extending to 2100. The annual ground rent is $0.4 million; however, the properties are subject to an annual profit participation payment based on gross revenue as calculated based on the terms of the ground lease. For the years ended December 31, 2013, 2012 and 2011, approximately $0.5 million, $0.3 million and $0.2 million, respectively, was incurred for contingent rent.

The Hilton Garden Inn Bloomington is subject to a ground lease with an initial term extending to 2053. The ground lease automatically extends for up to five additional ten-year terms unless certain conditions are met. A de minimis minimum rent payment is to be paid in ten equal annual installments commencing with the twentieth anniversary of the leases' inception. No other payments are required under the terms of the ground lease.

The Hilton Garden Inn Bloomington is subject to an agreement to lease parking spaces with an initial term extending to 2033. The agreement to lease parking spaces may be extended if certain events occur. The agreement provides for a monthly rental payment based on city ordinance rates (at December 31, 2013, 2012 and 2011 the rate was de minimis) and the number of parking spaces reserved for the exclusive use of the hotel, plus amounts based on actual usage in excess of the reserved spaces. For each of the years ended December 31, 2013, 2012 and 2011, approximately $0.1 million of rent was paid.

The Hampton Inn Garden City is subject to a ground lease with an initial term extending to 2016. The lease is associated with an agreement for payment in lieu of taxes and will revert to fee simple ownership at the end of the ground lease. A de minimis rent payment is to be paid annually. In addition, an annual compliance fee of $1 is required under the terms of the ground lease.

The Courtyard Charleston Historic District is subject to a ground lease with a term extending to 2096. The annual ground rent is $0.8 million until 2021, after which the annual base rent increases periodically during the term of the ground lease to a maximum of $1.0 million. The annual ground rent expense is recognized on a straight-line basis. In addition to base rent, the property is subject to a contingent rent payment based on gross quarterly collected room revenue (for no more than 126 rooms per night), as calculated based on the terms of the ground lease. For the years ended December 31, 2013, 2012 and 2011, approximately $0.3 million, $0.3 million and $16,000, respectively, was incurred for contingent rent.

The Courtyard Waikiki Beach is subject to a ground lease with a term extending to 2112. The annual ground rent is $3.5 million through 2016, after which the annual rent shall increase by the increase, if any, in the Consumer Price Index ("CPI") from the immediately preceding calendar year. The increase is limited to 5.0% per annum for the first 10 years in which the annual rent is subject to increase, and 6.0% per annum during the seven subsequent years in which the annual rent is subject to increase. Thereafter, there is no cap on the increase in the CPI. The acquisition of the Courtyard Waikiki Beach resulted in an above market ground lease intangible of $7.9 million, which is being amortized over the term of the ground lease as a reduction to ground rent expense. For the year ended December 31, 2013, $1.8 million of ground rent expense was incurred. There was no ground rent expense in 2011 or 2012 as this property was acquired in 2013.

As of December 31, 2013, future minimum ground lease payments are as follows (in thousands):

	Amount of commitment expiration per period						
	2014	2015	2016	2017	2018	Thereafter	Total
Future minimum ground lease payments	$4,650	$4,650	$4,650	$4,650	$4,650	$428,790	$452,040

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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 from 1.0% to 5.0% of the individual hotel's revenues and maintain the reserves in restricted cash reserve escrows. Any unexpended amounts will remain the property of the Company upon termination of the management agreements, franchise agreements or mortgage loan documents. Additionally, some loan agreements require the Company to reserve restricted cash for the periodic payment of real estate taxes and insurance. As of December 31, 2013 and December 31, 2012, approximately $62.4 million and $64.8 million, respectively, was available in restricted cash reserves for future capital expenditures, real estate taxes and insurance.

Litigation

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

Management Agreements

As of December 31, 2013, 146 of the Company's hotel properties were operated pursuant to long-term agreements with initial terms ranging from 5 to 25 years, with 17 management companies as follows:

Management Company	Number of Hotels
Aimbridge Hospitality	2
Concord Hospitality Enterprises Company	1
Crescent Hotels and Resorts	3
Crestline Hotels and Resorts	1
Davidson Hotels and Resorts	1
Embassy Suites Management	3
HEI Hotels and Resorts	1
Highgate Hotels	5
Interstate Hotels and Resorts (1)	8
InnVentures	1
K Partners Hospitality Group	1
Marriott Hotel Services	5
Sage Hospitality	2
Stonebridge Realty Advisors	1
Urgo Hotels	4
Windsor Capital Group	1
WLS	106
	146

(1) Includes agreements entered into with Noble Management Group, a wholly-owned subsidiary of Interstate Hotels and Resorts.

Each management company receives a base management fee generally between 2.0% 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.

For the years ended December 31, 2013, 2012 and 2011, the Company incurred management fee expense, including amortization of deferred management fees, of approximately $35.0 million, $29.9 million and $25.9 million, respectively, (excluding discontinued operations).

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Franchise Agreements

As of December 31, 2013, 140 of the Company's hotel properties are operated under franchise agreements with initial terms ranging from 9 to 30 years. The franchise agreements for these hotels allow the properties to operate under the respective brands. Pursuant to the franchise agreements, the Company pays a royalty fee, generally between 3.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs that amount to between 1.0% and 4.3% of room revenue. Certain hotels are also charged a royalty fee of between 2.0% and 3.0% of food and beverage revenues. For the years ended December 31, 2013, 2012 and 2011, the Company incurred franchise fee expense of approximately $64.2 million, $55.4 million and $48.5 million, respectively (excluding discontinued operations).

Purchase Commitments

As of December 31, 2013, the Company, through wholly-owned subsidiaries, is subject to one purchase and sale agreement to purchase one property. The Company intends to consummate the transactions pursuant to the terms of the agreement. However, if the Company fails to consummate, it could be required to forfeit its deposit of $7.2 million.

11. Equity

Common Shares of Beneficial Interest

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

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

On June 3, 2011, the Company issued and sold an additional 4,095,000 common shares of beneficial interest, $0.01 par value per share, at a price per share of $18.00 upon exercise of the Overallotment, for total gross proceeds of $73.7 million. The Company received aggregate net proceeds of approximately $69.1 million in connection with the Overallotment. The Company used the net proceeds from the Overallotment for general corporate purposes.

On March 25, 2013, the Company issued and sold 15,870,000 common shares of beneficial interest, $0.01 par value per share, at a price per share of $21.60 for total gross proceeds of $342.8 million. The Company received aggregate net proceeds of approximately $327.5 million. The Company used the net proceeds from the offering to repay amounts outstanding on its unsecured revolving credit facility, to repay mortgage indebtedness and for general corporate purposes.

Preferred Shares of Beneficial Interest

Under the declaration of trust of the Company, the total number of shares initially authorized for issuance was 10,000 preferred shares. On May 5, 2011, the declaration of trust was amended to authorize the issuance of up to 50,000,000 preferred shares. As of both December 31, 2013 and 2012, respectively, there were no preferred shares of beneficial interest outstanding.

Noncontrolling Interest in Joint Venture

As of December 31, 2013, the Company consolidated DBT Met Hotel Venture, LP, a majority-owned limited partnership that has a third-party partner that owns a noncontrolling 5.0% ownership interest. The third-party partnership interest is included in noncontrolling interest in joint venture on the balance sheet.

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Noncontrolling Interest in Operating Partnership

The Company consolidates its Operating Partnership, a majority owned limited partnership that has a noncontrolling ownership interest and is included in noncontrolling interest in Operating Partnership on the balance sheet. As of December 31, 2013, the Operating Partnership had 123,534,042 OP units outstanding, of which 99.3% were owned by the Company and its subsidiaries and 0.7% were owned by other limited partners.

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

Partners' Capital

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

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

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

Members' Capital

The rights and obligations of the equity holders of RLJ Development (the "Members") were governed by the limited liability company agreement of RLJ Development, dated December 19, 2000 and amended January 1, 2002 (the "Operating Agreement"). Each Member's interest in the Company is equal to the percentage of capital initially contributed by that Member. The Class A Member held a 75% ownership interest and the two Class B Members held a total interest of 25%. The Class A Member made capital contributions totaling $115.3 million, none of which were contributed during the period from January 1, 2011 through May 16, 2011 or the year ended December 31, 2010. The Class B Members were not required to make, nor did they make any, capital contributions during the period from January 1, 2011 through May 16, 2011 or the year ended December 31, 2010.

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

Preferred Distributions

Fund II, through wholly-owned subsidiaries, made distributions to preferred unitholders semi-annually on June 30 and December 31 each year. As of May 16, 2011, an aggregate of approximately $0.1 million had been distributed or was payable to preferred unitholders. On May 16, 2011, in conjunction with the IPO, the Fund II unitholders interests in Fund II were redeemed. The Company paid the unitholders the liquidation value of $0.3 million plus accumulated and unpaid dividends of approximately $12,000 and a redemption premium of approximately $12,000.

Fund III, through wholly-owned subsidiaries, made distributions to preferred unitholders semi-annually on June 30 and December 31 each year. As of May 16, 2011, an aggregate of approximately $0.1 million had been distributed or was payable to preferred unitholders. On May 16, 2011, in conjunction with the IPO, the Fund III unitholders interests in Fund III were redeemed. The Company paid the unitholders the liquidation value of $0.3 million plus accumulated and unpaid dividends of approximately $12,000 and a redemption premium of approximately $24,000.

12. Equity Incentive Plan

The Company may issue equity-based awards to officers, employees, non-employee trustees and other eligible persons under the 2011 Plan. The 2011 Plan provides for a maximum of 5,000,000 common shares of beneficial interest to be issued in

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the form of share options, share appreciation rights, restricted share awards, unrestricted share awards, share units, dividend equivalent rights, long-term incentive units, other equity-based awards and cash bonus awards.

Share Awards

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

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

A summary of the non-vested shares as of December 31, 2013, 2012 and 2011 is as follows:

	2013		2012		2011	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at January 1,	1,013,673	$ 17.80	970,288	$ 17.93	—	$ —
Granted (1)	383,187	21.25	445,176	17.23	1,128,640	17.81
Vested (1)	(458,808)	18.24	(374,913)	17.46	(155,352)	17.03
Forfeited	(5,252)	20.07	(26,878)	17.80	(3,000)	17.53
Unvested at December 31,	932,800	$ 18.99	1,013,673	$ 17.80	970,288	$ 17.93

(1) For the years ended December 31, 2013, 2012 and 2011, respectively, includes 5,357, 8,530 and 7,810 unrestricted shares issued in lieu of cash compensation to non-employee trustees at a weighted average grant date fair value of $23.20, $18.75 and $15.36, respectively.

For the years ended December 31, 2013, 2012 and 2011, the Company recognized approximately $8.6 million, $6.7 million and $3.3 million respectively, of share-based compensation expense related to restricted share awards. As of December 31, 2013, there was $16.7 million of total unrecognized compensation costs related to non-vested share awards and these costs were expected to be primarily recognized over a weighted-average period of 2.2 years. The total fair value of shares vested (calculated as number of shares multiplied by vesting date share price) during the years ended December 31, 2013, 2012 and 2011 was approximately $10.5 million, $6.5 million and $2.6 million, respectively.

Performance Units

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

As of December 31, 2013, there were 1.0 million unvested performance units outstanding with a weighted average grant date fair value of $15.36 per performance unit.

For the year ended December 31, 2013 and 2012, the Company recognized $4.5 million and $1.9 million, respectively, of share-based compensation expense related to performance unit awards. There was no share-based compensation expense in 2011 related to the performance units as they were granted in 2012. As of December 31, 2013, there was $9.0 million of total unrecognized compensation cost related to the performance units and these costs are expected to be recognized over a weighted-average period of 2.1 years.

As of December 31, 2013, there were 3,078,127 common shares available for future grant under the 2011 Plan. Any performance units that convert into restricted shares will reduce the number of common shares available for future grant under the 2011 Plan.

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13. Earnings per Common Share

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

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

For the year ended December 31, 2013, approximately $0.1 million represented undistributed earnings that were allocable to participating shares. For the years ended December 31, 2012 and 2011, no earnings representing undistributed earnings were allocated to participating shares because the Company paid dividends in excess of net income.

The limited partners' outstanding limited partnership units in the Operating Partnership (which may be redeemed for common shares of beneficial interest under certain circumstances) have been excluded from the diluted earnings per share calculation as there was no effect on the amounts for the years ended December 31, 2013, 2012 and 2011, since the limited partners' share of income would also be added back to net income attributable to common shareholders.

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

	For the year ended December 31, 2013	2012	2011
Numerator:			
Net income attributable to common shareholders before discontinued operations	$105,539	$43,423	$(9,428)
Add: Income (loss) from discontinued operations	7,382	(2,125)	20,774
Net income attributable to common shareholders	112,921	41,298	11,346
Less: Dividends paid on unvested restricted shares	(936)	(802)	(392)
Less: Undistributed earnings attributable to unvested restricted shares	(61)	—	—
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	$111,924	$40,496	$10,954
Denominator:			
Weighted-average number of common shares - basic	117,950,066	105,423,604	95,340,666
Unvested restricted shares	251,217	59,587	—
Unvested performance units	537,343	265,495	—
Weighted-average number of common shares - diluted	118,738,626	105,748,686	95,340,666
Basic per common share data:			
Net income per share attributable to common shareholders before discontinued operations - basic	$0.89	$0.40	$(0.10)
Discontinued operations	0.06	(0.02)	0.22
Net income per share attributable to common shareholders - basic	$0.95	$0.38	$0.12
Diluted per common share data:			
Net income per share attributable to common shareholders before discontinued operations - diluted	$0.88	$0.40	$(0.10)
Discontinued operations	0.06	(0.02)	0.22
Net income per share attributable to common shareholders - diluted	$0.94	$0.38	$0.12

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14. Advisory Fees

Pursuant to the terms of the Fund II LP Agreements, the Fund II General Partner was entitled to receive annual advisory fees directly from the limited partners in consideration for the Fund II General Partner providing and managing the day-to-day operations and expenditures of Fund II. Total advisory fees due to the Fund II General Partner from limited partners, including advisory fees due from the limited partners admitted during subsequent closes, for the years ended December 31, 2011 and 2010, were approximately $3.2 million and $8.6 million, respectively. As of December 31, 2011 all advisory fees due had been paid by the limited partners.

Pursuant to the terms of the Fund III LP Agreements, the Fund III General Partner was entitled to receive annual advisory fees directly from the limited partners in consideration for the Fund III General Partner providing and managing the day-to-day operations and expenditures of Fund III. Total advisory fees due to the Fund III General Partner from limited partners, including advisory fees due from the limited partners admitted during subsequent closes, for the years ended December 31, 2011 and 2010, were approximately $3.8 million and $13.7 million, respectively. As of December 31, 2011 all advisory fees due had been paid by the limited partners.

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

15. Related Party Transactions

RLJ Companies, LLC and its affiliates, a related party, periodically provide or receive services or pay or collect certain amounts to or from the Company. At December 31, 2013 and December 31, 2012, there was approximately $1,000 and $45,000, respectively, due from RLJ Companies, LLC which was included in other assets.

16. Income Taxes

For federal income tax purposes, the cash distributions paid for the years ended December 31, 2013 and 2012 are characterized as follows:

	For the Years Ended December 31,			
	2013		2012	
Common distributions				
Ordinary income	100.0	%	100.0	%
Return of capital	—		—	
Capital gains	—		—	
	100.0	%	100.0	%

The components of the income tax provision from continuing operations are as follows (in thousands):

	For the Years Ended December 31,					
	2013		2012		2011	
Current:						
Federal	$(323	)	$(50	)	$(1	)
State	(1,439	)	(1,381	)	(1,232	)
Deferred:						
Federal	830		64		443	
State	53		(2	)	50	
Total net tax expense	$(879	)	$(1,369	)	$(740	)

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The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income from continuing operations for the years ended December 31, 2013, 2012 and 2011 as a result of the following differences (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Expected federal tax expense at statutory rate	$(40,271)	$(14,952)	$(4,398)
Tax impact of REIT election	37,230	22,618	19,619
Expected tax (expense)/benefit at TRS	(3,041)	7,666	15,221
Change in valuation allowance	3,612	(8,741)	(17,045)
State income (expense) benefit, net of federal tax benefit	(1,345)	595	1,411
Impact of rate change	(94)	146	—
Other permanent items	(443)	(394)	(436)
Impact of acquired tax attributes	361	(361)	—
Impact of provision to return	71	(280)	109
Income tax expense	$(879)	$(1,369)	$(740)

Deferred income taxes represent the tax effect from continuing operations of the differences between the book and tax basis of assets and liabilities. Deferred tax assets (liabilities) include the following (in thousands):

	December 31,	
	2013	2012
Property and equipment	$(1,787)	$(2,633)
Prepaid expenses	(1,662)	(1,431)
Other - DTL	(99)	—
Gross deferred tax liabilities	$(3,548)	$(4,064)
Property and equipment	$515	$4,997
Deferred revenue - key money	1,478	1,562
Incentive and vacation accrual	2,325	1,933
Allowance for doubtful accounts	92	77
Other - DTA	285	204
Other carryforwards	106	108
Net operating loss carryforwards	51,254	50,463
Valuation allowance	(53,526)	(57,138)
Gross deferred tax assets	$2,529	$2,206

The Company recorded a valuation allowance of approximately $53.5 million and $57.1 million related to its net operating loss, or NOL, carryforwards and other deferred tax assets at December 31, 2013 and 2012, respectively, as the Company believed it was more likely than not that it would not realize the benefits associated with these NOLs and other deferred tax assets. The ability to carry forward the tax benefit of NOLs of approximately $51.3 million will begin to expire in 2026 for federal tax purposes and during the period from 2016 to 2026 for state tax purposes if not utilized. The Company’s TRS entities experienced a change of control as defined in Section 382 of the Code, the TRS’s ability to utilize NOLs in the years after the change in control will be limited.

The Company owns subsidiary TRSs which are not part of a consolidated tax return, these deferred tax assets and liabilities are presented on a combined basis and are not subject to a valuation allowance.

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The net current and non-current components of deferred income taxes included in the combined consolidated balance sheets are as follows (in thousands):

	December 31, 2013	2012
Current net deferred tax assets	$263	$193
Current net deferred tax liabilities	(1,761)	(1,431)
Non-current net deferred tax assets	2,266	2,013
Non-current net deferred tax liabilities	(1,787)	(2,633)
Net deferred tax liability	$(1,019)	$(1,858)

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

17. Segment Information

The Company separately evaluates the performance of each of its hotels. However, because each of the hotels has similar economic characteristics, facilities, and services, the properties have been aggregated into a single operating segment.

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

	For the year ended December 31,		
	2013	2012	2011
Interest paid	$59,826	$79,376	$91,558
Income taxes paid	$1,420	$1,598	$1,392
Supplemental investing and financing transactions:			
In conjunction with the acquisitions, the Company recorded the following:			
Purchase of real estate	$228,573	$247,158	$249,018
Accounts receivable	740	164	556
Other assets	957	728	1,040
Advance deposits	(313)	(224)	(379)
Accounts payable and other liabilities	(12,168)	(777)	(2,439)
Application of purchase deposit	—	—	(8,500)
Deferred tax liabilities assumed	—	—	(2,438)
Receipt of assets in full satisfaction	(4,731)	—	—
Gain on foreclosure	(4,863)	—	—
Acquisition of hotel and other properties	$208,195	$247,049	$236,858
In conjunction with the dispositions, the Company recorded the following:			
Sale of real estate	$(5,585)	$—	$(31,534)
Gain on sale of property	(2,081)	—	—
Other assets	(709)	—	(8,007)
Other liabilities	1,169	—	5,056
Gain on extinguishment of indebtedness	(5,708)	—	(23,515)
Forgiveness of indebtedness	10,545	—	58,000
Disposition of hotel properties	$(2,369)	$—	$—
Supplemental non-cash transactions:			
Change in fair market value of designated interest rate swaps	$(5,941)	$1,326	$2,024
Accrued capital expenditures	$10,610	$4,563	$12,801
Distributions payable	$30,870	$22,392	$16,076

19. Subsequent Events

In January 2014, the Company paid a dividend of $0.24 per common share to shareholders of record at December 31, 2013.

In February 2014, the Company entered into a purchase and sale agreement to acquire a portfolio of ten hotels comprised of 1,560 rooms for a total purchase price of approximately $313.0 million. The transaction is expected to be completed in March 2014 and is subject to customary closing conditions.

In February 2014, the Company granted 305,053 restricted common shares of beneficial interest to officers and certain employees.

In February 2014, the Company sold eleven properties for a total sales price of approximately $84.8 million.

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20. Quarterly Operating Results (unaudited)

The Company's unaudited condensed consolidated quarterly operating data for the years ended December 31, 2013 and 2012 follows (in thousands, except share and per share data). In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of quarterly results have been reflected in the data. It is also management's opinion, however, that quarterly operating data for hotels enterprises are not indicative of results to be achieved in succeeding years or quarters. In order to obtain a more accurate indication of performance, there should be a review of operating results, changes in shareholders' equity and cash flows for a period of several years.

	Year ended December 31, 2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$214,870	$260,822	$252,116	$242,572
Income from continuing operations	$8,803	$38,571	$33,770	$25,599
Discontinued operations	$(219)	$2,410	$3,158	$2,087
Net income attributable to common shareholders	$8,491	$40,510	$36,469	$27,451
Comprehensive income	$8,016	$45,514	$20,513	$32,937
Basic per share data:				
Income from continuing operations	$0.08	$0.32	$0.28	$0.21
Discontinued operations	$—	$0.01	$0.02	$0.02
Net income attributable to common shareholders	$0.08	$0.33	$0.30	$0.23
Diluted per share data:				
Income from continuing operations	$0.08	$0.32	$0.28	$0.21
Discontinued operations	$—	$0.01	$0.02	$0.01
Net income attributable to common shareholders	$0.08	$0.33	$0.30	$0.22
Basic weighted average common shares outstanding	106,815,375	121,520,253	121,594,219	121,667,166
Diluted weighted average common shares outstanding	107,423,195	122,280,431	122,750,121	122,540,253

	Year ended December 31, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$182,233	$222,079	$223,941	$221,432
Income (loss) from continuing operations	$(6,696)	$19,103	$17,022	$14,033
Discontinued operations	$(225)	$(84)	$(1,721)	$(113)
Net income (loss) attributable to common shareholders	$(6,513)	$18,885	$15,196	$13,730
Comprehensive income (loss)	$(6,519)	$19,266	$15,585	$14,748
Basic per share data:				
Income (loss) from continuing operations	$(0.06)	$0.17	$0.16	$0.11
Discontinued operations	$—	$—	$(0.02)	$—
Net income (loss) attributable to common shareholders	$(0.06)	$0.17	$0.14	$0.11
Diluted per share data:				
Income (loss) from continuing operations	$(0.06)	$0.17	$0.16	$0.11
Discontinued operations	$—	$—	$(0.02)	$—
Net income (loss) attributable to common shareholders	$(0.06)	$0.17	$0.14	$0.11
Basic weighted average common shares outstanding	105,332,812	105,388,743	105,453,978	105,517,515
Diluted weighted average common shares outstanding	105,332,812	105,454,679	105,509,104	105,865,104

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RLJ Lodging Trust
Real Estate and Accumulated Depreciation
December 31, 2013
(amounts in thousands)

		Initial Costs		Subsequent Costs Capitalized		Gross Amount at December 31, 2013					
Description	Debt	Land & Improvements	Building & Improvements	Land & Improvements	Building & Improvements	Land & Improvements	Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciation Life
Marriott Austin South	$—	$2,253	$ 16,522	$—	$ 1,430	$2,253	$ 17,952	$20,205	$ 3,311	2006	15 - 40 years
Marriott Denver South @ Park Meadows	—	5,385	39,488	—	1,928	5,385	41,416	46,801	7,674	2006	15 - 40 years
Marriott Louisville Downtown	68,500	—	89,541	—	3,326	—	92,867	92,867	17,077	2006	15 - 40 years
Marriott Auburn Hills Pontiac @ Centerpoint	—	3,438	25,224	—	125	3,438	25,349	28,787	4,791	2006	15 - 40 years
Marriott Chicago Midway	—	4,464	32,736	10	1,891	4,474	34,627	39,101	6,415	2006	15 - 40 years
Renaissance Boulder Flatiron Hotel	—	4,440	32,557	—	1,542	4,440	34,099	38,539	6,269	2006	15 - 40 years
Renaissance Fort Lauderdale Plantation Hotel	—	4,842	35,517	—	1,863	4,842	37,380	42,222	6,850	2006	15 - 40 years
Holiday Inn Austin NW Arboretum Area	—	1,546	11,337	—	489	1,546	11,826	13,372	2,220	2006	15 - 40 years
Courtyard Austin University Area	—	1,894	13,891	—	927	1,894	14,818	16,712	2,727	2006	15 - 40 years
Courtyard Austin Northwest Arboretum	—	1,443	10,585	3	1,277	1,446	11,862	13,308	2,161	2006	15 - 40 years
Courtyard Austin South	4,962	1,530	11,222	3	1,223	1,533	12,445	13,978	2,250	2006	15 - 40 years

Courtyard Benton Harbor St Joseph	—	345	2,534	—	206	345	2,740	3,085	498	2006	15 - 40 years
Courtyard Tampa Brandon	—	1,036	7,599	—	1,372	1,036	8,971	10,007	1,869	2006	15 - 40 years
Courtyard Chicago Downtown Magnificent Mile	32,901	8,140	59,696	—	2,339	8,140	62,035	70,175	11,413	2006	15 - 40 years
Courtyard Fort Wayne	—	1,143	8,389	—	316	1,143	8,705	9,848	1,624	2006	15 - 40 years
Courtyard Denver West Golden	6,251	1,325	9,716	—	1,169	1,325	10,885	12,210	1,898	2006	15 - 40 years
Courtyard Grand Rapids Airport	4,068	706	5,185	—	142	706	5,327	6,033	980	2006	15 - 40 years
Courtyard Chicago Southeast Hammond	—	1,038	7,616	4	1,229	1,042	8,845	9,887	1,554	2006	15 - 40 years
Courtyard Indianapolis @ The Capitol	—	2,482	18,207	—	1,240	2,482	19,447	21,929	3,534	2006	15 - 40 years
Courtyard Denver Southwest Lakewood	2,475	536	3,931	—	965	536	4,896	5,432	798	2006	15 - 40 years
Courtyard Boulder Longmont	5,568	1,192	8,745	—	851	1,192	9,596	10,788	1,733	2006	15 - 40 years

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		Initial Costs		Subsequent Costs Capitalized		Gross Amount at December 31, 2013					
Description	Debt	Land & Improvements	Building & Improvements	Land & Improvements	Building & Improvements	Land & Improvements	Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciation Life
Courtyard Boulder Louisville	8,452	1,640	12,025	2	1,441	1,642	13,466	15,108	2,372	2006	15 - 40 years
Courtyard Louisville Northeast	—	1,374	10,079	2	765	1,376	10,844	12,220	1,993	2006	15 - 40 years
Courtyard Merrillville	—	537	3,943	—	378	537	4,321	4,858	1,072	2006	15 - 40 years
Courtyard Mesquite	—	942	6,915	—	97	942	7,012	7,954	1,322	2006	15 - 40 years
Courtyard Midway Airport	8,729	2,172	15,927	3	1,791	2,175	17,718	19,893	3,805	2006	15 - 40 years
Courtyard South Bend Mishawaka	—	640	4,699	2	996	642	5,695	6,337	1,161	2006	15 - 40 years
Courtyard Detroit Pontiac Bloomfield	—	482	3,543	—	227	482	3,770	4,252	928	2006	15 - 40 years
Courtyard Salt Lake City Airport	—	2,333	17,110	—	1,293	2,333	18,403	20,736	3,287	2006	15 - 40 years
Courtyard San Antonio Airport Northstar	—	1,196	8,768	4	1,032	1,200	9,800	11,000	1,784	2006	15 - 40 years
Courtyard Houston Sugarland	—	1,217	8,931	—	1,084	1,217	10,015	11,232	1,761	2006	15 - 40 years
Courtyard Valparaiso	—	248	1,825	—	264	248	2,089	2,337	528	2006	15 - 40 years
Courtyard Chicago Schaumburg	—	2,078	15,239	—	1,236	2,078	16,475	18,553	2,845	2007	15 - 40 years
Courtyard Fort Lauderdale SW Miramar	—	1,619	11,872	—	568	1,619	12,440	14,059	1,943	2007	15 - 40 years
Courtyard Austin Downtown Convention Center	49,200	6,049	44,361	—	1,476	6,049	45,837	51,886	6,999	2007	15 - 40 years
	—	1,576	11,754	—	36	1,576	11,790	13,366	1,593	2008	15 - 40 years

Courtyard Grand Junction											
Courtyard Austin Airport	—	1,691	12,404	58	1,279	1,749	13,683	15,432	2,000	2007	15 - 40 years
Residence Inn Austin Northwest Arboretum	—	1,403	10,290	—	232	1,403	10,522	11,925	1,959	2006	15 - 40 years
Residence Inn Austin South	—	802	5,883	—	807	802	6,690	7,492	1,156	2006	15 - 40 years
Residence Inn Austin North Parmer Lane	7,305	1,483	10,872	—	453	1,483	11,325	12,808	2,055	2006	15 - 40 years
Residence Inn Indianapolis Carmel	8,156	1,646	12,076	—	1,082	1,646	13,158	14,804	2,359	2006	15 - 40 years
Residence Inn Indianapolis Fishers	—	998	7,322	—	845	998	8,167	9,165	1,435	2006	15 - 40 years
Residence Inn Denver West Golden	6,394	1,222	8,963	—	69	1,222	9,032	10,254	1,687	2006	15 - 40 years
Residence Inn Chicago Southeast Hammond	—	980	7,190	—	726	980	7,916	8,896	1,414	2006	15 - 40 years

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		Initial Costs		Subsequent Costs Capitalized		Gross Amount at December 31, 2013					
Description	Debt	Land & Improvements	Building & Improvements	Land & Improvements	Building & Improvements	Land & Improvements	Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciation Life
Residence Inn Houston By The Galleria	—	2,665	19,549	—	1,163	2,665	20,712	23,377	3,722	2006	15 - 40 years
Residence Inn Indianapolis Airport	—	786	5,772	—	304	786	6,076	6,862	1,266	2006	15 - 40 years
Residence Inn Indianapolis Downtown On The Canal	—	2,670	19,588	—	1,764	2,670	21,352	24,022	3,853	2006	15 - 40 years
Residence Inn Denver Southwest Lakewood	4,063	986	7,230	—	24	986	7,254	8,240	1,358	2006	15 - 40 years
Residence Inn Longmont Boulder	6,399	1,407	10,321	—	780	1,407	11,101	12,508	1,973	2006	15 - 40 years
Residence Inn Boulder Louisville	—	1,298	9,519	—	462	1,298	9,981	11,279	1,816	2006	15 - 40 years
Residence Inn Louisville Northeast	7,038	1,319	9,675	—	71	1,319	9,746	11,065	1,823	2006	15 - 40 years
Residence Inn Merrillville	—	595	4,372	—	1,181	595	5,553	6,148	1,188	2006	15 - 40 years
Residence Inn Detroit Novi	6,450	1,427	10,445	—	24	1,427	10,469	11,896	1,963	2006	15 - 40 years
Residence Inn Chicago Oak Brook	10,521	—	20,436	—	829	—	21,265	21,265	3,874	2006	15 - 40 years
Residence Inn Fort Lauderdale Plantation	—	2,183	16,021	112	908	2,295	16,929	19,224	3,475	2006	15 - 40 years
Residence Inn Detroit Pontiac	—	320	2,354	—	174	320	2,528	2,848	997	2006	15 - 40 years

Auburn Hills											
Residence Inn Austin Round Rock	—	1,684	12,349	—	170	1,684	12,519	14,203	2,355	2006	15 - 40 years
Residence Inn Salt Lake City Airport	—	875	6,416	—	952	875	7,368	8,243	1,229	2006	15 - 40 years
Residence Inn San Antonio Downtown Market Sq	—	1,822	13,360	—	782	1,822	14,142	15,964	2,545	2006	15 - 40 years
Residence Inn Chicago Schaumburg	—	1,790	13,124	—	271	1,790	13,395	15,185	2,520	2006	15 - 40 years
Residence Inn South Bend	—	603	4,425	—	459	603	4,884	5,487	875	2006	15 - 40 years
Residence Inn Houston Sugarland	—	1,100	8,073	—	1,295	1,100	9,368	10,468	1,666	2006	15 - 40 years
Residence Inn Chicago Naperville	9,167	1,923	14,101	—	823	1,923	14,924	16,847	2,737	2006	15 - 40 years
Residence Inn Louisville Downtown	—	1,815	13,308	—	563	1,815	13,871	15,686	2,360	2007	15 - 40 years
Residence Inn Fort Lauderdale SW Miramar	—	1,692	12,409	—	380	1,692	12,789	14,481	2,022	2007	15 - 40 years
Residence Inn Grand Junction	—	870	9,197	—	36	870	9,233	10,103	1,296	2008	15 - 40 years

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		Initial Costs		Subsequent Costs Capitalized		Gross Amount at December 31, 2013					
Description	Debt	Land & Improvements	Building & Improvements	Land & Improvements	Building & Improvements	Land & Improvements	Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciation Life
Residence Inn Austin Downtown Convention Center	32,800	3,767	27,626	—	620	3,767	28,246	32,013	4,347	2007	15 - 40 years
SpringHill Suites Austin North Parmer Lane	6,399	1,957	14,351	—	577	1,957	14,928	16,885	2,723	2006	15 - 40 years
SpringHill Suites Austin South	—	1,605	11,768	—	114	1,605	11,882	13,487	2,245	2006	15 - 40 years
SpringHill Suites Indianapolis Carmel	8,142	1,816	13,320	—	849	1,816	14,169	15,985	2,602	2006	15 - 40 years
SpringHill Suites Louisville Hurstbourne North	7,578	1,890	13,869	—	740	1,890	14,609	16,499	2,693	2006	15 - 40 years
SpringHill Suites South Bend Mishawaka	5,255	983	7,217	—	213	983	7,430	8,413	1,511	2006	15 - 40 years
SpringHill Suites Chicago Schaumburg	—	1,554	11,396	—	829	1,554	12,225	13,779	2,252	2006	15 - 40 years
SpringHill Suites Denver North Westminster	9,470	2,409	17,670	—	1,120	2,409	18,790	21,199	3,439	2006	15 - 40 years
SpringHill Suites Boulder Longmont	—	1,144	8,388	—	628	1,144	9,016	10,160	1,497	2007	15 - 40 years
Fairfield Inn & Suites Austin University Area	—	556	4,078	—	142	556	4,220	4,776	782	2006	15 - 40 years
Fairfield Inn & Suites	—	505	3,702	—	439	505	4,141	4,646	715	2006	15 - 40 years

Austin South Airport Fairfield Inn & Suites Tampa Brandon	—	926	6,795	—	274	926	7,069	7,995	1,546	2006	15 - 40 years
Fairfield Inn & Suites Denver Cherry Creek	—	1,203	8,823	—	1,214	1,203	10,037	11,240	1,750	2006	15 - 40 years
Fairfield Inn & Suites Chicago SE Hammond	—	722	5,301	—	472	722	5,773	6,495	1,047	2006	15 - 40 years
Fairfield Inn & Suites Indianapolis Airport	—	657	4,820	—	299	657	5,119	5,776	1,054	2006	15 - 40 years
Fairfield Inn & Suites Key West	—	1,803	19,325	—	459	1,803	19,784	21,587	3,494	2006	15 - 40 years
Fairfield Inn & Suites Merrillville	—	768	5,636	—	298	768	5,934	6,702	1,092	2006	15 - 40 years
Fairfield Inn & Suites Chicago Midway Airport	4,736	1,425	10,449	—	203	1,425	10,652	12,077	1,990	2006	15 - 40 years
Fairfield Inn & Suites San Antonio Airport	—	1,140	8,363	—	142	1,140	8,505	9,645	1,602	2006	15 - 40 years
Fairfield Inn & Suites San Antonio Dwntn Mkt	—	1,378	10,105	—	794	1,378	10,899	12,277	1,945	2006	15 - 40 years
Fairfield Inn & Suites Valparaiso	—	157	1,157	—	135	157	1,292	1,449	302	2006	15 - 40 years

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Description	Debt	Initial Costs Land & Improvements	Initial Costs Building & Improvements	Subsequent Costs Capitalized Land & Improvements	Subsequent Costs Capitalized Building & Improvements	Gross Amount at December 31, 2013 Land & Improvements	Gross Amount at December 31, 2013 Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciation Life
Holiday Inn Grand Rapids Airport	—	582	4,274	—	2	582	4,276	4,858	962	2006	15 - 40 years
Hampton Inn Merrillville	—	665	4,879	—	657	665	5,536	6,201	965	2006	15 - 40 years
Holiday Inn Express Merrillville	—	545	4,005	—	87	545	4,092	4,637	771	2006	15 - 40 years
Hampton Inn Chicago Midway Airport	—	2,747	20,143	—	1,854	2,747	21,997	24,744	3,909	2006	15 - 40 years
Hilton Garden Inn Chicago Midway Airport	—	2,978	21,842	—	235	2,978	22,077	25,055	4,146	2006	15 - 40 years
Sleep Inn Midway Airport	—	1,189	8,718	—	1,131	1,189	9,849	11,038	1,924	2006	15 - 40 years
Holiday Inn Express & Suites Midway Airport	—	1,874	13,742	—	232	1,874	13,974	15,848	2,638	2006	15 - 40 years
Homewood Suites Tampa Brandon	—	1,377	10,099	—	819	1,377	10,918	12,295	1,571	2007	15 - 40 years
Hilton Garden Inn Bloomington	17,500	—	18,945	—	611	—	19,556	19,556	2,374	2009	15 - 40 years
TGI Friday's Chicago Midway	2,186	829	6,139	—	170	829	6,309	7,138	1,167	2006	15 - 40 years
Hilton Garden Inn St George	—	1,822	13,363	—	17	1,822	13,380	15,202	2,230	2007	15 - 40 years
SpringHill Suites Bakersfield	—	1,560	8,838	—	4	1,560	8,842	10,402	1,668	2007	15 - 40 years
SpringHill Suites Gainesville	—	4,018	12,118	7	12	4,025	12,130	16,155	1,959	2007	15 - 40 years
Hampton Inn Suites	—	1,106	12,721	—	444	1,106	13,165	14,271	2,079	2007	15 - 40 years

Clearwater St Petersburg Ulmerton Road											
Hampton Inn Garden City	—	5,691	22,764	24	537	5,715	23,301	29,016	3,735	2007	15 - 40 years
Hampton Inn Suites Las Vegas Red Rock Summerlin	—	2,341	4,609	—	3	2,341	4,612	6,953	850	2007	15 - 40 years
Courtyard Houston By The Galleria	21,000	3,069	22,508	—	10	3,069	22,518	25,587	3,612	2007	15 - 40 years
Hampton Inn Fort Walton Beach	—	8,774	6,109	60	923	8,834	7,032	15,866	1,023	2007	15 - 40 years
Hilton Mystic	—	6,092	9,111	104	360	6,196	9,471	15,667	1,447	2007	15 - 40 years
Embassy Suites Los Angeles Downey	22,000	4,857	29,943	78	2,550	4,935	32,493	37,428	4,643	2008	15 - 40 years
Hyatt House Colorado Springs	4,500	1,453	8,234	—	19	1,453	8,253	9,706	1,132	2008	15 - 40 years
Hyatt House Austin Arboretum	10,300	2,813	15,940	—	96	2,813	16,036	18,849	2,199	2008	15 - 40 years

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Description	Debt	Initial Costs		Subsequent Costs Capitalized		Gross Amount at December 31, 2013			Accumulated Depreciation	Date Acquired	Depreciation Life
		Land & Improvements	Building & Improvements	Land & Improvements	Building & Improvements	Land & Improvements	Buildings & Improvements	Total			
Hyatt House Dallas Lincoln Park	17,400	3,169	17,958	55	283	3,224	18,241	21,465	2,507	2008	15 - 40 years
Hyatt House Dallas Uptown	12,300	2,241	12,698	45	50	2,286	12,748	15,034	1,755	2008	15 - 40 years
Hyatt House Dallas Richardson	5,500	1,445	8,186	94	74	1,539	8,260	9,799	1,147	2008	15 - 40 years
Hyatt House Houston Galleria	13,000	2,976	16,866	—	318	2,976	17,184	20,160	2,329	2008	15 - 40 years
Hilton Garden Inn New York West 35th Street	—	24,244	96,978	7	843	24,251	97,821	122,072	11,984	2009	15 - 40 years
Embassy Suites Tampa Downtown Convention Ctr	—	2,161	71,017	98	1,123	2,259	72,140	74,399	6,800	2010	15 - 40 years
Fairfield Inn & Suites Washington DC Downtown	—	16,214	22,265	93	4,077	16,307	26,342	42,649	2,693	2010	15 - 40 years
Embassy Suites Fort Myers Estero	—	2,816	7,862	27	176	2,843	8,038	10,881	869	2010	15 - 40 years
Homewood Suites Washington DC Downtown	33,000	23,139	34,188	—	230	23,139	34,418	57,557	3,030	2010	15 - 40 years
Hilton New York Fashion District	—	35,592	82,392	3	556	35,595	82,948	118,543	6,902	2010	15 - 40 years
Hampton Inn Suites Denver Tech Center	—	2,373	9,180	51	1,396	2,424	10,576	13,000	1,050	2010	15 - 40 years
Hotel Indigo New Orleans Garden	—	1,901	3,865	179	11,564	2,080	15,429	17,509	950	2010	15 - 40 years

District Residence Inn Columbia	—	1,993	11,487	26	1,488	2,019	12,975	14,994	1,174	2010	15 - 40 years
Residence Inn National Harbor Washington DC	—	7,457	37,046	5	81	7,462	37,127	44,589	2,983	2010	15 - 40 years
Residence Inn Silver Spring	11,000	3,945	18,896	23	959	3,968	19,855	23,823	1,774	2010	15 - 40 years
Hilton Garden Inn New Orleans Convention Center	—	3,405	20,750	15	3,557	3,420	24,307	27,727	2,117	2010	15 - 40 years
Hampton Inn West Palm Beach Arprt Central	—	2,280	9,769	—	440	2,280	10,209	12,489	898	2010	15 - 40 years
Hilton Garden Inn West Palm Beach Airport	—	1,206	10,811	9	299	1,215	11,110	12,325	923	2010	15 - 40 years
Hilton Garden Inn Los Angeles Hollywood	—	5,303	19,136	149	5,093	5,452	24,229	29,681	2,168	2010	15 - 40 years
DoubleTree Metropolitan Hotel New York City	—	140,332	188,014	103	15,219	140,435	203,233	343,668	16,076	2010	15 - 40 years
Embassy Suites Columbus	—	1,274	6,805	175	1,290	1,449	8,095	9,544	703	2011	15 - 40 years

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		Initial Costs		Subsequent Costs Capitalized		Gross Amount at December 31, 2013					
Description	Debt	Land & Improvements	Building & Improvements	Land & Improvements	Building & Improvements	Land & Improvements	Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depr Life
Renaissance Pittsburgh Hotel	—	3,274	39,934	42	1,535	3,316	41,469	44,785	3,165	2011	15 - 4
Courtyard Atlanta Buckhead	—	2,860	21,668	15	1,272	2,875	22,940	25,815	1,780	2011	15 - 4
DoubleTree Hotel Columbia	—	1,933	6,486	76	3,049	2,009	9,535	11,544	887	2011	15 - 4
Marriott Denver Airport @ Gateway Park	24,000	3,083	38,356	39	1,315	3,122	39,671	42,793	3,137	2011	15 - 4
Embassy Suites West Palm Beach Central	—	3,656	9,614	114	4,649	3,770	14,263	18,033	1,412	2011	15 - 4
Hilton Garden Inn Durham Raleigh Research Triangle Park	—	1,751	4,763	54	5,134	1,805	9,897	11,702	1,124	2011	15 - 4
Hilton Garden Inn Pittsburgh University Place	—	1,975	18,490	58	6,352	2,033	24,842	26,875	2,239	2011	15 - 4
Hampton Inn Houston Near The Galleria	—	9,326	9,220	69	715	9,395	9,935	19,330	833	2011	15 - 4
Courtyard Charleston Historic District	—	2,714	35,828	16	317	2,730	36,145	38,875	2,048	2011	15 - 4
Residence Inn Bethesda Downtown	35,000	8,154	52,750	119	139	8,273	52,889	61,162	2,234	2012	15 - 4
Courtyard New York Manhattan	—	20,654	60,223	19	921	20,673	61,144	81,817	2,552	2012	15 - 4

Upper East Side Hilton Garden Inn San Francisco Oakland Bay Brg	—	11,902	22,758	3	1,049	11,905	23,807	35,712	978	2012	15 -
Embassy Suites Boston Waltham	—	6,268	56,025	17	1,137	6,285	57,162	63,447	1,739	2012	15 -
Courtyard Houston Downtown Convention Center	—	5,799	28,954	—	562	5,799	29,516	35,315	623	2013	15 -
Residence Inn Houston Downtown Convention Center	—	4,674	24,913	—	452	4,674	25,365	30,039	527	2013	15 -
Humble Tower Apartments	—	2,382	12,756	—	185	2,382	12,941	15,323	269	2013	15 -
Courtyard Waikiki Beach	—	557	79,033	38	43	595	79,076	79,671	1,153	2013	15 -
Courtyard San Francisco	—	11,277	18,198	—	2,017	11,277	20,215	31,492	—	2013	15 -
Residence Inn Atlanta Midtown Historic	—	2,812	6,044	2	172	2,814	6,216	9,030	—	2013	15 -
SpringHill Suites Portland Hillsboro	—	3,488	18,283	—	1	3,488	18,284	21,772	125	2013	15 -
	$559,665	$592,088	$2,707,941	$2,314	$158,908	$594,402	$2,866,849	$3,461,251	$367,306		

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The change in total cost of properties for the years ended December 31, 2013, 2012, and 2011 is as follows:

	2013	2012	2011
Reconciliation of Land and Buildings and Improvements			
Balance at beginning of period	$3,218,610	$2,908,626	$2,676,184
Add: Acquisitions	219,169	238,731	223,668
Add: Improvements	30,309	72,149	41,188
Less: Disposition of properties	(6,837)	—	(32,414)
Balance at end of period before impairment charges	3,461,251	3,219,506	2,908,626
Impairment charges on real estate assets owned at end of period	—	(896)	—
Balance at end of period	$3,461,251	$3,218,610	$2,908,626

The change in accumulated depreciation of real estate assets for the years ended December 31, 2013, 2012 and 2011 is as follows:

	2013	2012	2011
Reconciliation of Accumulated Depreciation			
Balance at beginning of period	$(295,397)	$(228,809)	$(175,432)
Add: Depreciation for the period	(73,556)	(66,588)	(58,743)
Less: Disposition of properties	1,647	—	5,366
Balance at end of period	$(367,306)	$(295,397)	$(228,809)