RLJ Lodging Trust
Form S-11/A
December 20, 2011

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As filed with the Securities and Exchange Commission on December 20, 2011

Registration No. 333-178367

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

FORM S-11

FOR REGISTRATION UNDER THE
SECURITIES ACT OF 1933 OF SECURITIES
OF CERTAIN REAL ESTATE COMPANIES

RLJ Lodging Trust

(Exact Name of Registrant as Specified in governing instruments)

3 Bethesda Metro Center
Suite 1000
Bethesda, MD 20814
(301) 280-7777

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Thomas J. Baltimore, Jr.
President and Chief Executive Officer
3 Bethesda Metro Center
Suite 1000
Bethesda, MD 20814
(301) 280-7777

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

J. Warren Gorrell, Jr.
David W. Bonser
Hogan Lovells US LLP
555 Thirteenth Street, NW
Washington, DC 20004
(202) 637-5600

Approximate date of commencement of proposed sale to the public:
From time to time after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ý

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

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

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

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling shareholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and the selling shareholders are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated December 20, 2011

PROSPECTUS

65,457,064 Shares

Common Shares

This prospectus relates to the offer and sale from time to time of up to 65,457,064 common shares of beneficial interest, or common shares, of RLJ Lodging Trust by the selling shareholders identified in this prospectus or in supplements to this prospectus. See "Selling Shareholders." This prospectus does not necessarily mean that the selling shareholders will offer or sell those shares. We cannot predict when or in what amounts the selling shareholders may sell any of the shares offered by this prospectus. The prices at which the selling shareholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. We are filing the registration statement pursuant to contractual obligations that exist with the selling shareholders.

Our common shares are listed on the New York Stock Exchange, or the NYSE, under the symbol "RLJ." On December 19, 2011, the last reported sale price of our common shares on the NYSE was $16.98 per share. Our principal executive offices are located at 3 Bethesda Metro Center, Suite 1000, Bethesda, MD 20814, and our telephone number is (301) 280-7777.

We are not offering for sale any common shares in the registration statement of which this prospectus is a part. We will not receive any of the proceeds from sales of our common shares by the selling shareholders, but will incur expenses.

We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes, commencing with the taxable year ending December 31, 2011. To assist us in qualifying as a REIT, shareholders generally are restricted from owning more than 9.8% of our outstanding common shares or our preferred shares of beneficial interest, in each case by value or number of shares, whichever is more restrictive. See "Description of Shares Restrictions on Ownership and Transfer."

Investing in our common shares involves risks. See "Risk Factors" beginning on page 4 of this prospectus for a description of various risks you should consider in evaluating an investment in our common shares.

Neither the Securities and Exchange Commission nor any state or other securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2011.

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You should rely only on the information contained in this prospectus. To the extent there are any inconsistencies between the information in this prospectus and any prospectus supplement, you should rely on the information in the applicable prospectus supplement. We have not, and the selling shareholders have not, authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not, and the selling shareholders are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is current as of the date such information is presented. Our business, financial condition, liquidity, earnings before interest, taxes, depreciation and amortization, or EBITDA, funds from operations, or FFO, results of operations and prospects may have changed since those dates.

This prospectus contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us, including Marriott International, Inc., Hilton Worldwide, InterContinental Hotels Group, Hyatt Hotels Corporation and Choice Hotels International, Inc., or their respective parents, subsidiaries or affiliates. Other than Marriott Hotel Services, Inc., which is an affiliate of Marriott International, Inc. and a selling shareholder, none of the owners of these trademarks, their respective parents, subsidiaries or affiliates or any of their respective officers, directors, members, managers, shareholders, owners, agents or employees, which we collectively refer to as the Trademark Owner Parties, is a seller of the common shares being offered hereby, plays (or will play) any role in the offer or sale of our common shares, has endorsed the offer of common shares hereby, or has any responsibility for the creation or contents of this prospectus. In addition, none of the Trademark Owner Parties has or will have any liability or responsibility whatsoever arising out of or related to the offer or sale of the common shares being offered hereby, including any liability or responsibility for any financial statements, projections or other financial information or other information contained in this prospectus or otherwise disseminated in connection with the offer or sale of the common shares offered hereby. You must understand that, if you purchase our common shares, your sole recourse for any alleged or actual impropriety relating to the offer and sale of such common shares and/or our operation of our business will be against us and in no event may you seek to impose liability arising from or related to such activity, directly or indirectly, upon any of the Trademark Owner Parties.

Except where the context suggests otherwise, we define certain terms in this prospectus as follows:

- "our company," "we," "us" and "our" refer to RLJ Lodging Trust, a Maryland real estate investment trust, together with its consolidated subsidiaries, including RLJ Lodging Trust, L.P., a Delaware limited partnership, which we refer to as "our operating partnership";

- "our predecessor" collectively refers to RLJ Development, LLC, or RLJ Development, and two lodging-focused private equity funds that were sponsored and managed by RLJ Development, RLJ Lodging Fund II, L.P. (and its parallel fund), or collectively, Fund II, and RLJ Real Estate Fund III, L.P. (and its parallel fund), or collectively, Fund III, all of which were entities under the common control of Robert L. Johnson, our Executive Chairman;

- "our hotels" refers to the 140 hotels owned by us as of September 30, 2011;

- "our formation transactions" refers to a series of transactions in which, among other things, (1) our company was formed, (2) our operating partnership was formed, (3) each of Fund II and Fund III was merged with and into our company, with investors in each of Fund II and Fund III receiving common shares as consideration, and (4) RLJ Development contributed substantially all of its assets and liabilities to our operating partnership in exchange for units of limited partnership interest in our operating partnership, or OP Units; for a more complete description of our formation transactions, see the final prospectus relating to our initial public offering, which was filed with the Securities and Exchange Commission, or the SEC, on May 11, 2011;

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- a "compact full-service hotel" typically refers to any hotel with (1) less than 300 guestrooms and less than 12,000 square feet of meeting space or (2) more than 300 guestrooms where, unlike traditional full-service hotels, the operations focus primarily on the rental of guestrooms such that a significant majority of its total revenue is generated from room rentals rather than other sources, such as food and beverage;

- a "focused-service hotel" typically refers to any hotel where the operations focus primarily on the rental of guestrooms and that offers services and amenities to a lesser extent than a typical full-service or compact full-service hotel (for example, a focused-service hotel may have a restaurant, but, unlike a restaurant in a typical full-service or compact full-service hotel, it may not offer three meals per day and may not offer room service); in addition, a focused-service hotel differs from a compact full-service hotel in that it typically has less than 2,000 square feet of meeting space, if any at all; and

- "TRSs" refers to our taxable REIT subsidiaries that are wholly-owned, directly or indirectly, by our operating partnership and any disregarded subsidiaries of our TRSs.

We refer to the "RevPAR penetration index" of our hotels to measure each hotel's revenue per available room, or RevPAR, in relation to the average RevPAR of that hotel's competitive set. Each hotel's competitive set 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.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It does not contain all of the information that you should consider before making a decision to invest in our common shares. You should read carefully the more detailed information set forth under the heading "Risk Factors" and the other information included in this prospectus, including our historical and pro forma financial statements and related notes.

Our Company

We are a self-advised and self-administered Maryland REIT, that invests primarily in premium-branded, focused-service and compact full-service hotels. We are one of the largest U.S. publicly-traded lodging REITs in terms of both number of hotels and number of rooms. Our hotels are concentrated in urban and dense suburban markets that we believe exhibit multiple demand generators and high barriers to entry. We believe focused-service and compact full-service hotels with these characteristics generate high levels of RevPAR, strong operating margins and attractive returns.

As of September 30, 2011, we owned interests in 140 hotels with 20,488 suites/rooms located in 19 states and the District of Columbia. In addition, on October 27, 2011, we acquired the 176-room Courtyard Charleston Historic District in Charleston, South Carolina. As of the date of this prospectus, we, through wholly-owned subsidiaries, own a 100% interest in 140 of our hotels and a 95% interest in one hotel.

Our strategy is to invest primarily in premium-branded, focused-service and compact full-service hotels. Focused-service and compact full-service hotels typically generate most of their revenue from room rentals, have limited food and beverage outlets and meeting space and require fewer employees than traditional full-service hotels. We believe premium-branded, focused-service 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 also may invest in compact full-service hotels, which have operating characteristics that resemble those of focused-service hotels. International lodging brands that are consistent with our premium-branded investment strategy include, among others, Courtyard by Marriott™, Residence Inn by Marriott™, Hilton Garden Inn™, Homewood Suites by Hilton™, Hyatt Place™ and Embassy Suites™.

We intend to elect and qualify to be taxed as a REIT, for U.S. federal income tax purposes, commencing with the portion of our taxable year ending December 31, 2011. Substantially all of our assets are held by, and all of our operations are conducted through, our operating partnership. We are the sole general partner of our operating partnership. As of the date of this prospectus, we own, through a combination of direct and indirect interests, 99.2% of the OP units. See "Description of Our Operating Partnership and Our Partnership Agreement."

Our Hotels

As of September 30, 2011, we owned interests in 140 hotels with 20,488 suites/rooms located in 19 states and the District of Columbia. No metropolitan statistical area, or MSA, and no individual hotel accounted for more than 15.4% or 8.2%, respectively, of our total revenue for the nine months ended September 30, 2011.

Our hotels operate under strong, premium brands, with approximately 93% of our hotels operating under existing relationships with either Marriott International, Inc. or its affiliates, or Marriott,

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subsidiaries of Hilton Worldwide, or Hilton, or Hyatt Hotels Corporation or its affiliates, or Hyatt. The following table sets forth the brand affiliations of our hotels:

Brand Affiliations(1)	Number of Hotels	Percentage of Total Hotels	Number of Rooms	Percentage of Total Rooms
Marriott				
Courtyard by Marriott	32	22.9%	4,223	20.6%
Fairfield Inn & Suites by Marriott	14	10.0%	1,433	7.0%
Marriott	6	4.3%	1,834	9.0%
Renaissance	3	2.1%	782	3.8%
Residence Inn by Marriott	33	23.6%	3,607	17.6%
SpringHill Suites by Marriott	11	7.9%	1,354	6.6%
Subtotal	**99**	**70.8%**	**13,233**	**64.6%**
Hilton				
Doubletree	2	1.4%	911	4.5%
Embassy Suites	4	2.9%	950	4.6%
Hampton Inn/Hampton Inn & Suites	9	6.4%	1,115	5.4%
Hilton	2	1.4%	462	2.3%
Hilton Garden Inn	6	4.3%	1,174	5.7%
Homewood Suites	2	1.4%	301	1.5%
Subtotal	**25**	**17.8%**	**4,913**	**24.0%**
Hyatt				
Hyatt Summerfield Suites	6	4.3%	828	4.0%
Subtotal	**6**	**4.3%**	**828**	**4.0%**
Other Brand Affiliation/Independent(2)	**10**	**7.1%**	**1,514**	**7.4%**
Total	**140**	**100.0%**	**20,488**	**100.0%**

(1) Table does not reflect the 176-room Courtyard Charleston Historic District, which was acquired on October 27, 2011.

(2) We are in the process of branding or rebranding 5 of these 10 hotels into brands affiliated with Hilton or InterContinental.

For the nine months ended September 30, 2011, the average occupancy rate for our hotels was 73.1%, and the average daily rate, or ADR, and revenue per available room, or RevPAR, of our hotels was $123.24 and $90.06, respectively.

Risk Factors

You should carefully consider the matters discussed under the heading "Risk Factors" beginning on page 4 of this prospectus prior to deciding whether to invest in our common shares. Some of these risks include:

- We will continue to be significantly influenced by the economies and other conditions in the specific markets in which we operate, particularly in the metropolitan areas where we have high concentrations of hotels.

We are dependent on the performance of the third-party hotel management companies that manage the operations of each of our hotels and could be materially and adversely affected if such third-party managers do not manage our hotels in our best interests.

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Restrictive covenants in certain of our hotel management and franchise agreements contain provisions limiting or restricting the sale or financing of our hotels, which could have a material adverse effect on us.

Substantially all of our hotels operate under either Marriott or Hilton brands; therefore, we are subject to risks associated with concentrating our portfolio in just two brand families.

Our long-term growth depends in part on successfully identifying and consummating acquisitions of additional hotels and the failure to make such acquisitions could materially impede our growth.

The departure of any of our key personnel who have significant experience and relationships in the lodging industry could materially and adversely affect us.

As of September 30, 2011, we had approximately $1.34 billion of debt outstanding, which may materially and adversely affect our operating performance and put us at a competitive disadvantage.

Our management has limited experience operating a public company, which may impede their ability to successfully manage our business.

If we do not qualify as a REIT or if we fail to remain qualified as a REIT, we will be subject to U.S. federal income tax and potentially state and local taxes, which would reduce our earnings and the amount of cash available for distribution to our shareholders.

Our cash available for distribution to shareholders may not be sufficient to pay distributions at expected or required levels, and we may need to borrow funds or rely on other external sources in order to make such distributions, or we may not be able to make such distributions at all, which could cause the market price of our common shares to decline significantly.

The number of common shares available for future issuance or sale could adversely affect the per share trading price of our common shares.

Our Principal Office

Our principal executive offices are located at 3 Bethesda Metro Center, Suite 1000, Bethesda, Maryland 20814. Our telephone number is (301) 280-7777. Our website is located at www.rljlodgingtrust.com. The information found on or accessible through our website is not incorporated into, and does not form a part of, this prospectus or any other report or document that we have filed or will file with, or have furnished or will furnish to, the SEC. We have included our website address as an inactive textual reference and do not intend it to be an active link to our website.

RISK FACTORS

An investment in our common shares involves risks. Before making an investment decision, you should carefully consider the following risk factors, which address the material risks concerning our business and an investment in our common shares, together with the other information contained in this prospectus. If any of the risks discussed in this prospectus were to occur, our business, prospects, financial condition, liquidity, EBITDA, FFO and results of operations and our ability to service our debt and make distributions to our shareholders could be materially and adversely affected, the market price per common share could decline significantly and you could lose all or a part of your investment. Some statements in this prospectus, including statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements."

Risks Related to Our Business and Properties

We will continue to be significantly influenced by the economies and other conditions in the specific markets in which we operate, particularly in the metropolitan areas where we have high concentrations of hotels.

Our hotels located in the New York, New York, Chicago, Illinois, Austin, Texas, Denver-Boulder, Colorado, Louisville, Kentucky, and the Baltimore, Maryland-Washington, D.C. metropolitan areas accounted for approximately 15.4%, 12.8%, 10.9%, 9.7%, 6.7%, and 5.1%, respectively, of our total revenue for the nine months ended September 30, 2011. As a result, we are particularly 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. Adverse economic developments in the markets in which we have a concentration of hotels, or in any of the other markets in which we operate, or any increase in hotel supply or decrease in lodging demand resulting from the local, regional or national business climate, could materially and adversely affect us.

We are dependent on the performance of the third-party hotel management companies that manage the operations of each of our hotels and could be materially and adversely affected if such third-party managers do not manage our hotels in our best interests.

Since federal income tax laws restrict REITs and their subsidiaries from operating or managing hotels, we do not operate or manage our hotels. Instead, we lease all of our hotels to subsidiaries of our TRSs, and our TRS lessees retain third-party managers to operate our hotels pursuant to management agreements. We have entered into individual hotel management agreements for our hotels, 104 of which are with White Lodging Services, or WLS. We could be materially and adversely affected if any of our third-party managers fail to provide quality services and amenities, fail to maintain a quality brand name or otherwise fail to manage our hotels in our best interest. In addition, from time to time, disputes may arise between us and our third-party managers regarding their performance or compliance with the terms of the hotel management agreements, which in turn could adversely affect our results of operations. We generally will attempt to resolve any such disputes through discussions and negotiations; however, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to terminate our management agreement, litigate the dispute or submit the matter to third-party dispute resolution, the outcome of which may be unfavorable to us.

Under the terms of the hotel management agreements, our ability to participate in operating decisions regarding our hotels is limited to certain matters, including approval of the annual operating budget, and we do not have the authority to require any hotel to be operated in a particular manner (for instance, setting room rates). While our TRS lessees closely monitor the performance of our third-party managers, our general recourse under the hotel management agreements is limited to termination upon sixty days' notice if we believe our third-party managers are not performing adequately. For example, we have a right to terminate a management agreement with WLS, our largest provider of management services, if WLS fails to achieve certain hotel performance criteria measured over any two consecutive fiscal years, as outlined in each WLS management agreement. However, even if WLS fails to perform under the terms of a management agreement, it has the option (exercisable a maximum of three times per hotel) to avoid a performance termination by paying a performance deficit fee as specified in the management agreement.

In the event that we terminate any of our management agreements, we can provide no assurances that we could find a replacement manager or that our franchisors will consent to a replacement manager in a timely manner, or at all, or that any replacement manager will be successful in operating our hotels. Furthermore, if WLS, as our largest provider of management services, is financially unable or unwilling to perform its obligations pursuant to our management agreements, our ability to find a replacement manager or managers for our WLS-managed hotels could be challenging and time consuming, depending on the number of WLS-managed hotels affected, and could cause us to incur significant costs to obtain new management agreements for the affected hotels. Accordingly, if we lose a significant number of our WLS management agreements, we could be materially and adversely affected. In addition, many of our existing franchise agreements provide the franchisor with a right of first offer in the event of certain sales or transfers of a hotel and provide that the franchisor has the right to approve any change in the hotel management company engaged to manage the hotel. If any of the foregoing were to occur, it could have a material adverse effect on us.

Restrictive covenants in certain of our hotel management and franchise agreements contain provisions limiting or restricting the sale or financing of our hotels, which could have a material adverse effect on us.

Hotel management and franchise agreements typically contain restrictive covenants that limit or restrict our ability to sell or refinance a hotel without the consent of the hotel management company or franchisor. Many of our franchise agreements provide the franchisor with a right of first offer in the event of certain sales or transfers of a hotel and provide that the franchisor has the right to approve any change in the hotel management company engaged to manage the hotel. Generally, we may not agree to sell, lease or otherwise transfer particular hotels unless the transferee is not a competitor of the hotel management company or franchisor and the transferee assumes the related hotel management and franchise agreements. For example, substantially all of our management agreements with WLS provide that any sale of a hotel to a purchaser who does not meet all of the requirements under the applicable franchise agreement associated with such hotel must be first approved by WLS. If the hotel management company or franchisor does not consent to the sale or financing of our hotels, we may be prohibited from taking actions that would otherwise be in our and our shareholders' best interests.

Substantially all of our hotels operate under either Marriott or Hilton brands; therefore, we are subject to risks associated with concentrating our portfolio in just two brand families.

125 of the 141 hotels that we own as of the date of this prospectus utilize brands owned by Marriott or Hilton. As a result, our success is dependent in part on the continued success of Marriott and Hilton and their respective brands. We believe that building brand value is critical to increase demand and build customer loyalty. Consequently, if market recognition or the positive perception of Marriott and/or Hilton is reduced or compromised, the goodwill associated with the Marriott- and Hilton-branded hotels in our portfolio may be adversely affected. Furthermore, if our relationship with Marriott or Hilton were to deteriorate or terminate as a result of disputes regarding the management of our hotels or for other reasons, Marriott and/or Hilton could, under certain circumstances, terminate our current franchise licenses with them or decline to provide franchise licenses for hotels that we may acquire in the future. If any of the foregoing were to occur, it could have a material adverse effect on us.

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Our long-term growth depends in part on successfully identifying and consummating acquisitions of additional hotels and the failure to make such acquisitions could materially impede our growth.

We can provide no assurances that we will be successful in identifying attractive hotels or that, once identified, we will be successful in consummating an acquisition. We face significant competition for attractive investment opportunities from other well-capitalized investors, some of which have greater financial resources and a greater access to debt and equity capital to acquire hotels than we do. This competition increases as investments in real estate become increasingly attractive relative to other forms of investment. As a result of such competition, we may be unable to acquire certain hotels that we deem attractive or the purchase price may be significantly elevated or other terms may be substantially more onerous. In addition, we expect to finance future acquisitions through a combination of borrowings under our three-year, $300 million unsecured revolving credit facility, the use of retained cash flows, and offerings of equity and debt securities, which may not be available on advantageous terms, or at all. Any delay or failure on our part to identify, negotiate, finance on favorable terms, consummate and integrate such acquisitions could materially impede our growth.

The departure of any of our key personnel who have significant experience and relationships in the lodging industry, including Robert L. Johnson, Thomas J. Baltimore, Jr. and Ross H. Bierkan, could materially and adversely affect us.

We depend on the experience and relationships of our senior management team, especially Robert L. Johnson, Executive Chairman of our board of trustees, Thomas J. Baltimore, Jr., our President and Chief Executive Officer and a member of our board of trustees, and Ross H. Bierkan, our Chief Investment Officer, to manage our day-to-day operations and strategic business direction. Messrs. Johnson, Baltimore and Bierkan have 17, 22 and 25 years of experience in the lodging industry, respectively, during which time they have established an extensive network of lodging industry contacts and relationships, including relationships with global and national hotel brands, hotel owners, financiers, operators, commercial real estate brokers, developers and management companies. We can provide no assurances that any of our key personnel will continue their employment with us, even though all of the members of our senior management team have entered employment agreements with us. The loss of services of Messrs. Johnson, Baltimore or Bierkan, or of the services of other members of our senior management team, or any difficulty attracting and retaining other talented and experienced personnel, could adversely affect our ability to source potential investment opportunities, our relationship with global and national hotel brands and other industry participants and the execution of our business strategy. Further, such a loss could be negatively perceived in the capital markets, which could reduce the market value of our common shares.

Our business strategy depends on achieving revenue and net income growth from anticipated increases in demand for hotel rooms; accordingly, any delay or a weaker than anticipated economic recovery could materially and adversely affect us and our growth prospects.

Our hotels have experienced declining operating performance across various U.S. markets during the most recent economic recession. Our business strategy depends on achieving revenue and net income growth from anticipated improvement in demand for hotel rooms as part of the economic recovery. As a result, any delay or a weaker than anticipated economic recovery could materially and adversely affect us and our growth prospects. Furthermore, even if the economy continues to recover, we cannot provide any assurances that demand for hotel rooms will increase from current levels. If demand does not increase in the near future, or if demand weakens further, our future results of operations and our growth prospects could also be materially and adversely affected.

The ongoing need for capital expenditures at our hotels could have a material adverse effect on us.

Our hotels have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. The franchisors of our hotels also require periodic capital improvements as a condition of maintaining the franchise licenses. In addition, our lenders will likely require that we set aside annual amounts for capital improvements to our hotels. The costs of all these capital improvements could materially and adversely affect us.

Any difficulties in obtaining capital necessary to make required periodic capital expenditures and renovation of our hotels could materially and adversely affect our financial condition and results of operations.

Our hotels require periodic capital expenditures and renovation to remain competitive. In addition, acquisitions or redevelopment of additional hotels will require significant capital expenditures. We may not be able to fund capital improvements on our hotels or acquisitions of new hotels solely from cash provided from our operating activities because we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gains, to maintain our qualification as a REIT, and we are subject to tax on any retained income and gains. As a result, our ability to fund capital expenditures, acquisitions or hotel redevelopment through retained earnings is very limited. Consequently, we expect to rely upon the availability of debt or equity capital to fund capital improvements and acquisitions. In addition, our organizational documents do not limit the amount of debt that we can incur. If we are unable to obtain the capital necessary to make required periodic capital expenditures and renovate our hotels on favorable terms, or at all, our financial condition, liquidity and results of operations could be materially and adversely affected.

Adverse global market and economic conditions and dislocations in the markets could cause us to recognize impairment charges, which could materially and adversely affect our business, financial condition and results of operations.

We continually monitor events and changes in circumstances, including those resulting from the recent economic downturn that could indicate that the carrying value of the real estate and related intangible assets in which we have an ownership interest may not be recoverable. When circumstances indicate that the carrying value of real estate and related intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we adjust the real estate and related intangible assets to the fair value and recognize an impairment loss. Because our predecessor acquired many of our hotels in the last five years, when prices for hotels in many markets were at or near their peaks, we may be particularly susceptible to future non-cash impairment charges as compared to companies that have carrying values well below current market values, which could materially and adversely affect our business, financial condition and results of operations. During 2008 and 2009, our predecessor recognized impairment charges on certain of our hotels of approximately $21.5 million and $98.4 million, respectively, in the aggregate.

Projections of expected future cash flows require management to make assumptions to estimate future occupancy, hotel operating expenses, and the number of years the hotel is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the hotel's fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related intangible assets on our balance sheet and our results of operations. Ongoing adverse market and economic conditions and market volatility will likely continue to make it difficult to value the hotels owned by us, as well as the value of our intangible assets. As a result of adverse market and economic conditions, there may be significant uncertainty in the valuation, or in the stability of, the cash flows, discount rates and other factors related to such assets that could result in a substantial decrease in their value.

Competition from other hotels in the markets in which we operate could adversely affect occupancy levels and/or ADRs, which could have a material adverse effect on us.

We face significant competition from owners and operators of other hotels. These competitors may have an operating model that enables them to offer rooms at lower rates than we can, which, particularly in the recent economic downturn, could result in those competitors increasing their occupancy at our expense and adversely affecting our ADRs. Given the importance of occupancy and ADR at focused-service and compact full-service hotels, this competition could adversely affect our ability to attract prospective guests, which could materially and adversely affect our results of operations.

Our organizational documents have no limitation on the amount of indebtedness we may incur. As a result, we may become highly leveraged in the future, which could materially and adversely affect us.

Our business strategy contemplates the use of both non-recourse secured and unsecured debt to finance long-term growth. In addition, our organizational documents contain no limitations on the amount of debt that we may incur, and our board of trustees may change our financing policy at any time without shareholder notice or approval. As a result, we may be able to incur substantial additional debt, including secured debt, in the future. Incurring debt could subject us to many risks, including the risks that:

- our cash flows from operations may be insufficient to make required payments of principal and interest;

- our debt may increase our vulnerability to adverse economic and industry conditions;

- we may be required to dedicate a substantial portion of our cash flows from operations to payments on our debt, thereby reducing cash available for distribution to our shareholders, funds available for operations and capital expenditures, future business opportunities or other purposes;

- the terms of any refinancing may not be in the same amount or on terms as favorable as the terms of the existing debt being refinanced; and

- the use of leverage could adversely affect our ability to raise capital from other sources or to make distributions to our shareholders and could adversely affect the market price of our common shares.

If we violate covenants in future agreements relating to indebtedness that we may incur, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. In addition, future indebtedness agreements may require that we meet certain covenant tests in order to make distributions to our shareholders.

Disruptions in the financial markets could adversely affect our ability to obtain sufficient third-party financing for our capital needs, including expansion, acquisition and other activities, on favorable terms or at all, which could materially and adversely affect us.

In recent years, the U.S. stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing, even for companies which otherwise are qualified to obtain financing. In addition, several banks and other institutions that historically have been reliable sources of financing have gone out of business, which has reduced significantly the number of lending institutions and the availability of credit. Continued volatility and uncertainty in the stock and credit markets may negatively impact our ability to access additional financing for our capital needs, including expansion, acquisition activities and other purposes, on favorable terms or at all, which may negatively affect our business. Additionally, due to this uncertainty, we may in the future be unable to refinance or extend our debt, or the terms of any refinancing may not be as favorable as the terms of our existing debt. If we are not successful in refinancing our debt when it becomes due, we may be forced to dispose of hotels on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing and may require us to further adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of new equity capital or the incurrence of additional secured or unsecured debt, which could materially and adversely affect us.

As of September 30, 2011, we had approximately $1.34 billion of debt outstanding, which may materially and adversely affect our operating performance and put us at a competitive disadvantage.

Required repayments of debt and related interest may materially and adversely affect our operating performance. As of September 30, 2011, we had approximately $1.34 billion of outstanding debt. Increases in interest rates on any variable rate debt would increase our interest expense, which could harm our cash flows and our ability to pay distributions to shareholders.

Because we anticipate that our internally generated cash will be adequate to repay only a portion of our debt at maturity, we expect that we will be required to repay debt through debt refinancings and/or equity offerings. The amount of our outstanding debt may adversely affect our ability to refinance our debt.

If we are unable to refinance our debt on acceptable terms, or at all, we may be forced to dispose of one or more of our hotels on disadvantageous terms, which may result in losses to us and may adversely affect cash available for distributions to our shareholders. In addition, if then prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, our interest expense would increase, which would adversely affect our future operating results and liquidity.

Our substantial outstanding debt may harm our business, financial condition, liquidity, EBITDA, FFO and results of operations, including:

- requiring us to use a substantial portion of our cash flows to pay principal and interest, which reduces the cash available for distributions to our shareholders;

- placing us at a competitive disadvantage compared to our competitors that have less debt;

- making us vulnerable to the current economic recession, particularly if it continues for the foreseeable future and reduces our flexibility to respond to difficult economic conditions; and

- limiting our ability to borrow more money for operations, capital or finance future acquisitions.

The use of debt to finance future acquisitions could restrict operations, inhibit our ability to grow our business and revenues, and negatively affect our business and financial results.

We may incur additional debt in connection with future hotel acquisitions. We may, in some instances, borrow under our $300 million unsecured revolving credit facility or borrow new funds to acquire hotels. In addition, we may incur mortgage debt by obtaining loans secured by a portfolio of some or all of the hotels that we own or acquire. If necessary or advisable, we also may borrow funds to make distributions to our shareholders in order to maintain our qualification as a REIT for U.S. federal income tax purposes. To the extent that we incur debt in the future and do not have sufficient funds to repay such debt at maturity, it may be necessary to refinance the debt through debt or equity financings, which may not be available on acceptable terms or at all and which could be dilutive to our shareholders. If we are unable to refinance our debt on acceptable terms or at all, we may be forced to dispose of hotels at inopportune times or on disadvantageous terms, which could result in losses. To the extent we cannot meet our future debt service obligations, we will risk losing to foreclosure some or all of our hotels that may be pledged to secure our obligations.

For tax purposes, a foreclosure of any of our hotels would be treated as a sale of the hotel for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the hotel, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code. In addition, we may give full or partial guarantees to lenders of mortgage debt on behalf of the entities that own our hotels. When we give a guarantee on behalf of an entity that owns one of our hotels, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any of our hotels are foreclosed on due to a default, our ability to pay cash distributions to our shareholders will be limited.

Hedging against interest rate exposure may adversely affect us.

Subject to maintaining our qualification as a REIT, we may manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as cap agreements and swap agreements. These agreements involve the risks that these arrangements may fail to protect or adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

As a result of any of the foregoing, our hedging transactions, which are intended to limit losses, could have a material adverse effect on us.

Our failure to comply with all covenants in our existing or future debt agreements could materially and adversely affect us.

The mortgages on our hotels, and hotels that we may acquire in the future likely will, contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable hotel or to discontinue insurance coverage. In addition, our continued ability to borrow under our revolving credit facility is subject to compliance with our financial and other covenants, including covenants relating to debt service coverage ratios and leverage ratios, and our ability to meet these covenants will be adversely affected if U.S. lodging fundamentals do not improve when and to the extent that we expect. In addition, any credit facility or secured loans that we enter into in the future likely will contain customary financial covenants, restrictions, requirements and other limitations with which we must comply. Our failure to comply with covenants in our existing or future indebtedness, as well as our inability to make required payments, could cause a default under the applicable debt agreement, which could result in the acceleration of the debt and require us to repay such debt with capital obtained from other sources, which may not be available to us or may be available only on unattractive terms. Furthermore, if we default on secured debt, lenders can take possession of the hotel or hotels securing such debt. In addition, debt agreements may contain specific cross-default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default on its debt and to enforce remedies, including acceleration of the maturity of such debt upon the occurrence of a default under such other indebtedness. If we default on several of our debt agreements or any significant debt agreement, we could be materially and adversely affected.

Covenants applicable to future debt could restrict our ability to make distributions to our shareholders and, as a result, we may be unable to make distributions necessary to qualify as a REIT, which could materially and adversely affect us and the market price of our common shares.

We intend to continue to operate in a manner so as to qualify as a REIT for U.S. federal income tax purposes. In order to qualify as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gain, each year to our shareholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we distribute to our shareholders in a calendar year is less than a minimum amount specified under the Code. If, as a result of covenants applicable to our future debt, we are restricted from making distributions to our shareholders, we may be unable to make distributions necessary for us to avoid U.S. federal corporate income and excise taxes and maintain our qualification as a REIT, which could materially and adversely affect us.

Costs associated with, or failure to maintain, franchisor operating standards may materially and adversely affect us.

Under the terms of our franchise license agreements, we are required to meet specified operating standards and other terms and conditions. We expect that our franchisors will periodically inspect our hotels to ensure that we and the hotel management companies follow brand standards. Failure by us, or any hotel management company that we engage, to maintain these standards or other terms and conditions could result in a franchise license being canceled or the franchisor requiring us to undertake a costly property improvement program. If a franchise license is terminated due to our failure to make required improvements or to otherwise comply with its terms, we also may be liable to the franchisor for a termination payment, which will vary by franchisor and by hotel. Furthermore, under certain circumstances, a franchisor may require us to make capital expenditures, even if we do not believe the capital improvements are necessary or desirable or will result in an acceptable return on our investment. If the funds required to maintain franchisor operating standards are significant, or if a franchise license is terminated, we could be materially and adversely affected.

If we were to lose a franchise license at one or more of our hotels, the value of the affected hotels could decline significantly and we could incur significant costs to obtain new franchise licenses, which could have a material adverse effect on us.

If we were to lose a franchise license, we would be required to rebrand the affected hotel(s). As a result, the underlying value of a particular hotel could decline significantly from the loss of associated name recognition, marketing support, participation in guest loyalty programs and the centralized reservation system provided by the franchisor, which could require us to recognize an impairment on the hotel. Furthermore, the loss of a franchise license at a particular hotel could harm our relationship with the franchisor, which could impede our ability to operate other hotels under the same brand, limit our ability to obtain new franchise licenses from the franchisor in the future on favorable terms, or at all, and cause us to incur significant costs to obtain a new franchise license for the particular hotel. Accordingly, if we lose one or more franchise licenses, we could be materially and adversely affected.

Applicable REIT laws may restrict certain business activities.

As a REIT, we are subject to various restrictions on our income, assets and activities. Business activities that could be impacted by applicable REIT laws include, but are not limited to, activities such as developing alternative uses of real estate, including the development and/or sale of timeshare or condominium units. Due to these restrictions, we anticipate that we will conduct certain business activities, including those mentioned above, in one or more of our TRSs. Our TRSs are taxable as regular C corporations and are subject to federal, state, local, and, if applicable, foreign taxation on their taxable income. In addition, neither we, nor our TRSs can directly manage or operate hotels, making us entirely dependent on unrelated third-party operators/managers.

Federal income tax provisions applicable to REITs may restrict our business decisions regarding the potential sale of a hotel.

The federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a "prohibited transaction" that is subject to a 100% excise tax. Under existing law, whether property, including hotels, is held as inventory or primarily for sale to customers in the ordinary course of business is a question of fact that depends upon all of the facts and circumstances with respect to the particular transaction. We intend to hold our hotels for investment with a view to long-term appreciation, to engage in the business of acquiring and owning hotels and to make occasional sales of hotels consistent with our investment objectives. There can be no assurance, however, that the Internal Revenue Service, or the IRS, might not contend that one or more of these sales are subject to the 100% excise tax. Moreover, the potential application of this penalty tax could deter us from selling one or more hotels even though it otherwise would be in the best interests of us and our shareholders for us to do so. There is a statutory safe harbor available for a limited number of sales in a single taxable year of properties that have been owned by a REIT for at least two years, but that safe harbor likely would not apply to all sales transactions that we might otherwise consider. As a result, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may adversely affect us.

The RevPAR penetration index may not accurately reflect our hotels' respective market shares.

We use the RevPAR penetration index, which measures a hotel's RevPAR in relation to the average RevPAR of that hotel's competitive set, as an indicator of a hotel's market share in relation to its competitive set. However, as a particular hotel's competitive set is selected by us and the manager of such hotel, no assurance can be given that a competitive set consisting of different hotels would not lead to a more accurate measure of such hotel's market share. As such, the RevPAR penetration index may not accurately reflect our hotels' respective market shares.

Joint venture investments that we make could be adversely affected by our lack of sole decision-making authority, our reliance on joint venture partners' financial condition and liquidity and disputes between us and our joint venture partners.

We own the Doubletree Metropolitan Hotel New York City through a joint venture with an affiliate of the hotel's property manager. In addition, we may enter into joint ventures in the future to acquire, develop, improve or partially dispose of hotels, thereby reducing the amount of capital required by us to make investments and diversifying our capital sources for growth. Such joint venture investments involve risks not otherwise present in a wholly-owned hotel or a redevelopment project, including the following:

- we may not have exclusive control over the development, financing, leasing, management and other aspects of the hotel or joint venture, which may prevent us from taking actions that are in our best interest but opposed by our partners;

- joint venture agreements often restrict the transfer of a partner's interest or may otherwise restrict our ability to sell the interest when we desire or on advantageous terms;

- joint venture agreements may contain buy-sell provisions pursuant to which one partner may initiate procedures requiring the other partner to choose between buying the other partner's interest or selling its interest to that partner;

- we may not be in a position to exercise sole decision-making authority regarding the hotel or joint venture, which could create the potential risk of creating impasses on decisions, such as acquisitions or sales;

- a partner may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;

- a partner may be in a position to take action contrary to our instructions, requests, policies or objectives, including our current policy with respect to maintaining our qualification as a REIT;

- a partner may fail to fund its share of required capital contributions or may become bankrupt, which would mean that we and any other remaining partners generally would remain liable for the joint venture's liabilities;

- relationships with joint-venture partners are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or assets underlying such relationship or may need to purchase such interests or assets at a premium to the market price to continue ownership;

- disputes between us and a partner may result in litigation or arbitration that would increase our expenses and prevent our officers and trustees from focusing their time and efforts on our business and could result in subjecting the hotels owned by the joint venture to additional risk; or

- we may, in certain circumstances, be liable for the actions of a partner, and the activities of a partner could adversely affect our ability to qualify as a REIT, even though we do not control the joint venture.

Any of the above might subject a hotel to liabilities in excess of those contemplated and adversely affect the value of our current and future joint venture investments.

Risks Related to the Lodging Industry

Our ability to make distributions to our shareholders may be adversely affected by various operating risks common to the lodging industry, including competition, over-building and dependence on business travel and tourism.

The hotels that we own have different economic characteristics than many other real estate assets. A typical office property, for example, has long-term leases with third-party tenants, which provides a relatively stable long-term stream of revenue. Hotels, on the other hand, generate revenue from guests that typically stay at the hotel for only a few nights, which causes the room rate and occupancy levels at each of our hotels to change every day, and results in earnings that can be highly volatile.

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In addition, our hotels are subject to various operating risks common to the lodging industry, many of which are beyond our control, including, among others, the following:

- competition from other hotels in the markets in which we operate;
- over-building of hotels in the markets in which we operate, which results in increased supply and will adversely affect occupancy and revenues at our hotels;
- dependence on business and commercial travelers and tourism;
- increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- requirements for periodic capital reinvestment to repair and upgrade hotels;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- changes in interest rates;
- changes in the availability, cost and terms of financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- adverse effects of international, national, regional and local economic and market conditions;
- unforeseen events beyond our control, such as terrorist attacks, travel-related health concerns, including pandemics and epidemics such as the H1N1 influenza, the avian bird influenza and SARS, imposition of taxes or surcharges by regulatory authorities, travel-related accidents and unusual weather patterns, including natural disasters such as hurricanes, tsunamis or earthquakes;
- adverse effects of continued or worsening conditions in the lodging industry; and
- risks generally associated with the ownership of hotels and real estate, as we discuss in detail below.

The occurrence of any of the foregoing could materially and adversely affect us.

The seasonality of the lodging industry could have a material adverse effect on us.

The lodging industry is seasonal in nature, which can be expected to cause quarterly fluctuations in our revenues. Our quarterly earnings may be adversely affected by factors outside our control, including weather conditions and poor economic factors in certain markets in which we operate. For example, our hotels in the Chicago, Illinois metropolitan area experience lower revenues and profits during the winter months of December through March while our hotels in Florida generally have higher revenues in the months of January through April. This seasonality can be expected to cause periodic fluctuations in a hotel's room revenues, occupancy levels, room rates and operating expenses. We can provide no assurances that our cash flows will be sufficient to offset any shortfalls that occur as a result of these fluctuations. As a result, we may have to enter into short-term borrowings in certain quarters in order to make distributions to our shareholders, and we can provide no assurances that such borrowings will be available on favorable terms, if at all. Consequently, volatility in our financial performance resulting from the seasonality of the lodging industry could have a material adverse effect on us.

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The cyclical nature of the lodging industry may cause fluctuations in our operating performance, which could have a material adverse effect on us.

The lodging industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the lodging industry's performance, and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will rebound or whether any such rebound will be sustained. An adverse change in lodging fundamentals could result in returns that are substantially below our expectations or result in losses, which could have a material adverse effect on us.

Our acquisition, redevelopment, repositioning, renovation and rebranding activities are subject to various risks, any of which could, among other things, result in disruptions to our hotel operations, strain management resources and materially and adversely affect our business.

We intend to continue to acquire, redevelop, reposition, renovate and rebrand hotels, subject to the availability of attractive hotels or projects and our ability to undertake such activities on satisfactory terms. In deciding whether to undertake such activities, we will make certain assumptions regarding the expected future performance of the hotel or project. However, newly acquired, redeveloped, renovated, repositioned or rebranded hotels may fail to perform as expected and the costs necessary to bring such hotels up to franchise standards may exceed our expectations, which may result in the hotels' failure to achieve projected returns.

In particular, to the extent that we engage in the activities described above, they could pose the following risks to our ongoing operations:

- we may abandon such activities and may be unable to recover expenses already incurred in connection with exploring such opportunities;
- acquired, redeveloped, renovated or rebranded hotels may not initially be accretive to our results of operations, and we and the hotel management companies may not successfully manage newly acquired, renovated, redeveloped, repositioned or rebranded hotels to meet our expectations;
- we may be unable to quickly, effectively and efficiently integrate new acquisitions, particularly acquisitions of portfolios of hotels, into our existing operations;
- our redevelopment, repositioning, renovation or rebranding activities may not be completed on schedule, which could result in increased debt service and other costs and lower revenues; and
- management attention may be diverted by our acquisition, redevelopment, repositioning or rebranding activities, which in some cases may turn out to be less compatible with our growth strategy than originally anticipated.

The occurrence of any of the foregoing events, among others, could materially and adversely affect our business.

As of the date of this prospectus, seven of our hotels are subject to ground leases; if we are found to be in breach of a ground lease or are unable to renew a ground lease, we could be materially and adversely affected.

As of the date of this prospectus, seven of our hotels are on land subject to ground leases. Accordingly, we only own a long-term leasehold or similar interest in those seven hotels. If we are found to be in breach of a ground lease, we could lose the right to use the hotel. In addition, unless we can purchase a fee interest in the underlying land and improvements or extend the terms of these leases before their expiration, as to which no assurance can be given, we will lose our right to operate these properties and our interest in the improvements upon expiration of the leases. Our ability to exercise any extension options relating to our ground leases is subject to the condition that we are not in default under the terms of the ground lease at the time that we exercise such options, and we can provide no assurances that we will be able to exercise any available options at such time. Furthermore, we can provide no assurances that we will be able to renew any ground lease upon its expiration. If we were to lose the right to use a hotel due to a breach or non-renewal of the ground lease, we would be unable to derive income from such hotel and would be required to purchase an interest in another hotel to attempt to replace that income, which could materially and adversely affect us.

We will not recognize any increase in the value of the land or improvements subject to our ground leases and may only receive a portion of compensation paid in any eminent domain proceeding with respect to the hotel.

Unless we purchase a fee interest in the land and improvements subject to our ground leases, we will not have any economic interest in the land or improvements at the expiration of our ground leases and therefore we will not share in any increase in value of the land or improvements beyond the term of a ground lease, notwithstanding our capital outlay to purchase our interest in the hotel or fund improvements thereon, and will lose our right to use the hotel. Furthermore, if the state or federal government seizes a hotel subject to a ground lease under its eminent domain power, we may only be entitled to a portion of any compensation awarded for the seizure.

The increasing use of Internet travel intermediaries by consumers may materially and adversely affect our profitability.

Although a majority of rooms sold on the Internet are sold through websites maintained by the hotel franchisors and managers, including Marriott and Hilton, some of our hotel rooms will be booked through Internet travel intermediaries. Typically, these Internet travel intermediaries purchase rooms at a negotiated discount from participating hotels, which could result in lower room rates than the franchisor or manager otherwise could have obtained. As these Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and any hotel management companies that we engage. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality, such as "three-star downtown hotel," at the expense of brand identification or quality of product or service. If consumers develop brand loyalties to Internet reservations systems rather than to the brands under which our hotels are franchised, the value of our hotels could deteriorate and our business could be materially and adversely affected. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of sales made through Internet intermediaries increases significantly, room revenues may flatten or decrease and our profitability may be materially and adversely affected.

The need for business-related travel and, thus, demand for rooms in our hotels may be materially and adversely affected by the increased use of business-related technology.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location, such as our hotels. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, demand for our hotel rooms may decrease and we could be materially and adversely affected.

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Future terrorist attacks or changes in terror alert levels could materially and adversely affect us.

Previous terrorist attacks and subsequent terrorist alerts have adversely affected the U.S. travel and hospitality industries over the past several years, often disproportionately to the effect on the overall economy. The extent of the impact that actual or threatened terrorist attacks in the U.S. or elsewhere could have on domestic and international travel and our business in particular cannot be determined, but any such attacks or the threat of such attacks could have a material adverse effect on travel and hotel demand and our ability to insure our hotels, which could materially and adversely affect us.

The outbreak of influenza or other widespread contagious disease could reduce travel and adversely affect hotel demand, which would have a material adverse effect on us.

The widespread outbreak of an infectious or contagious disease in the U.S., such as the H1N1 virus, could reduce travel and adversely affect demand within the lodging industry. If demand at our hotels decreases significantly or for a prolonged period of time as a result of an outbreak of an infectious or contagious disease, our revenue would be adversely affected, which could have a material adverse effect on us.

Risks Related to Our Organization and Structure

Our management has limited experience operating a public company, which may impede their ability to successfully manage our business.

Our management has limited experience operating a public company. We have developed and implemented control systems and procedures to assist us in qualifying and maintaining our qualification as a public REIT, satisfying our periodic and current reporting requirements under applicable SEC regulations and complying with NYSE listing standards. Substantial work on our part will be required to continue to implement and execute appropriate reporting and compliance processes and assess their design, remediate any deficiencies identified and test the operation of such processes. We have limited experience implementing and executing such processes in a public company, and this ongoing process is expected to be both costly and challenging. We cannot assure you that the systems and procedures that our management developed and implemented will be effective to operate our company successfully. Failure to effectively develop and implement such systems, policies and procedures could hinder our ability to operate as a public company and adversely affect our results of operations, cash flows and ability to make distributions to our shareholders.

The share ownership limits imposed by the Code for REITs and our declaration of trust may restrict share transfers and/or business combination opportunities, particularly if our management and board of trustees do not favor a combination proposal.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year following our first year. Our declaration of trust, with certain exceptions, authorizes our board of trustees to take the actions that are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of trustees, no person or entity (other than a person or entity who has been granted an exception) may directly or indirectly, beneficially or constructively, own more than 9.8% of the aggregate of our outstanding common shares, by value or by number of shares, whichever is more restrictive, or 9.8% of the aggregate of the outstanding preferred shares of any class or series, by value or by number of shares, whichever is more restrictive.

Our board may, in its sole discretion, grant an exemption to the share ownership limits, subject to certain conditions and the receipt by our board of certain representations and undertakings. Our board of trustees has granted an exemption from our ownership limits to two selling shareholders who received common shares in our formation transactions. During the time that such waiver is effective, the excepted holders will be subject to an increased ownership limit. As a condition to granting such excepted holder limit, the excepted holders were required to make representations and warranties to us, which are intended to ensure that we will continue to meet the REIT ownership requirements. The excepted holders must inform us if any of these representations becomes untrue or is violated, in which case such excepted holder will lose its exemption from the ownership limit.

In addition, our board of trustees may change the share ownership limits. Our declaration of trust also prohibits any person from (1) beneficially or constructively owning, as determined by applying certain attribution rules of the Code, our shares if that would result in us being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT, including, but not limited to, as a result of any "eligible independent contractor" that operates a "qualified lodging facility" (each as defined in the Code) on behalf of a TRS failing to qualify as such, or us having significant non-qualifying income from "related" parties, or (2) transferring shares if such transfer would result in our shares being owned by fewer than 100 persons. The share ownership limits contained in our declaration of trust key off the ownership at any time by any "person," which term includes entities, and take into account direct and indirect ownership as determined under various ownership attribution rules in the Code. The share ownership limits also might delay or prevent a transaction or a change in our control that might involve a premium price for our common shares or otherwise be in the best interests of our shareholders.

Our authorized but unissued common shares and preferred shares may prevent a change in our control that might involve a premium price for our common shares or otherwise be in the best interests of our shareholders.

Our declaration of trust authorizes us to issue additional authorized but unissued common or preferred shares. In addition, our board of trustees may, without shareholder approval, amend our declaration of trust to increase the aggregate number of our common shares or the number of shares of any class or series of preferred shares that we have authority to issue and classify or reclassify any unissued common shares or preferred shares and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of trustees may establish a series of common shares or preferred shares that could delay or prevent a transaction or a change in our control that might involve a premium price for our common shares or otherwise be in the best interests of our shareholders.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law, or MGCL, that are applicable to Maryland real estate investment trusts may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in our control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then-prevailing market price of our common shares, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested shareholder" (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of our voting shares or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting shares at any time within the two-year period immediately prior to the date in question) for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter impose fair price and/or supermajority and shareholder voting requirements on these combinations; and

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"control share" provisions that provide that "control shares" of our company (defined as voting shares that, when aggregated with other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares") have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

As permitted by Maryland law, we have elected, by resolution of our board of trustees, to opt out of the business combination provisions of the MGCL and, pursuant to a provision in our bylaws, to exempt any acquisition of our shares from the control share provisions of the MGCL. However, our board of trustees may by resolution elect to repeal the exemption from the business combination provisions of the MGCL and may by amendment to our bylaws opt into the control share provisions of the MGCL at any time in the future.

Certain provisions of the MGCL applicable to Maryland real estate investment trusts permit our board of trustees, without shareholder approval and regardless of what is currently provided in our declaration of trust or bylaws, to adopt certain mechanisms, some of which (for example, a classified board) we do not have. These provisions may have the effect of limiting or precluding a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in our control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then current market price. Our declaration of trust contains a provision whereby we will elect, at such time as we become eligible to do so, to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of trustees. See "Material Provisions of Maryland Law and of Our Declaration of Trust and Bylaws."

Conflicts of interest could arise between the interests of our shareholders and the interests of holders of OP units in our operating partnership, which may impede business decisions that could benefit our shareholders.

Conflicts of interest could arise as a result of the relationships between us, on the one hand, and our operating partnership or any limited partner thereof, on the other. Our trustees and officers have duties to us and our shareholders under applicable Maryland law in connection with their management of our company. At the same time, we, as general partner of our operating partnership, have fiduciary duties and obligations to our operating partnership and its limited partners under Delaware law and the partnership agreement of our operating partnership in connection with the management of our operating partnership. Our duties as general partner to our operating partnership and its partners may come into conflict with the duties of our trustees and officers to our company and our shareholders. These conflicts may be resolved in a manner that is not in the best interests of our shareholders.

Our conflict of interest policy may not be successful in eliminating the influence of future conflicts of interest that may arise between us and our trustees, officers and employees.

We have adopted a policy that any transaction, agreement or relationship in which any of our trustees, officers or employees has a material direct or indirect pecuniary interest must be approved by a majority of our disinterested trustees. Other than this policy, however, we may not adopt additional formal procedures for the review and approval of conflict of interest transactions generally. As such, our policies and procedures may not be successful in eliminating the influence of conflicts of interest. See "Investment Policies and Policies with Respect to Certain Activities Conflict of Interest Policies."

We may pursue less vigorous enforcement of terms of the merger and other agreements entered into in connection with our formation transactions because of conflicts of interest with certain of our officers and related parties.

Pursuant to the merger and other agreements entered into in connection with our formation transactions, Fund II, Fund III, the general partners of each of Fund II and Fund III and RLJ Development made limited representations and warranties to us regarding potential material adverse impacts on the hotels and other assets that were acquired by us in our formation transactions and agreed to a holdback of the total consideration paid in the form of common shares or OP units to such parties in our formation transactions with an initial aggregate value of approximately $22.5 million to indemnify us for breaches of such representations and warranties (approximately $10.6 million of which remains available as of the date of this prospectus to satisfy indemnification claims). In addition, we entered into an employment agreement with each of our executive officers. Because of our desire to maintain ongoing relationships with our executive officers and other contributors, we may choose not to enforce, or to enforce less vigorously, our rights under these agreements.

RLJ Acquisition, Inc., a special purpose acquisition company founded by Robert L. Johnson, our Executive Chairman, could acquire operating companies that may compete with us, which could have a material adverse effect on us.

Robert L. Johnson, our Executive Chairman, founded and serves as chairman of the board of directors of RLJ Acquisition, Inc., a special purpose acquisition company. In February 2011, RLJ Acquisition, Inc. raised approximately $143.8 million of equity proceeds in a blank-check public offering to acquire one or more operating businesses. As of September 30, 2011, RLJ Acquisition, Inc. had not invested any of the proceeds from the public offering. Although RLJ Acquisition, Inc. was not formed with the specific intent to acquire assets in the lodging industry, its organizational documents and investment guidelines do not preclude it from acquiring operating businesses that own and operate hotels, including premium-branded, focused-service and compact full-service hotels. As a result, until RLJ Acquisition, Inc. has fully invested the proceeds of its offering, it could acquire operating businesses that compete with us for investment opportunities. RLJ Acquisition, Inc. will be liquidated if it fails to consummate a business acquisition prior to November 22, 2013. Furthermore, if and to the extent that RLJ Acquisition, Inc. acquires one or more operating companies that compete with us, there could be conflicts of interest due to Mr. Johnson's roles with both RLJ Acquisition, Inc. and us, which could, among other things, result in us not being presented with certain investment opportunities and the diversion of Mr. Johnson's attention away from our business, either of which could have a material adverse effect on us.

Certain provisions in the partnership agreement for our operating partnership may delay or prevent unsolicited acquisitions of us.

Provisions in the partnership agreement for our operating partnership may delay or make more difficult unsolicited acquisitions of us or changes in our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or a change in our control, although some shareholders might consider such proposals, if made, desirable.

Our operating partnership may issue OP units to third parties without the consent of our shareholders, which would reduce our ownership percentage in our operating partnership and would have a dilutive effect on the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our shareholders.

As of the date of this prospectus, we own approximately 99.2% of the outstanding OP units in our operating partnership. We may, in connection with our acquisition of hotels or otherwise, issue OP units to third parties in the future. Such issuances would reduce our ownership percentage in our

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operating partnership and affect the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our shareholders. Because you will not directly own OP units, you will not have any voting rights with respect to any such issuances or other partnership level activities of our operating partnership.

Termination of the employment agreements with our executive officers could be costly and prevent a change in our control.

The employment agreements that we entered into with each of our executive officers provide that, if their employment with us terminates under certain circumstances (including upon a change in our control), we are required to pay them significant amounts of severance compensation, including accelerated vesting of equity awards, thereby making it costly to terminate their employment. Furthermore, these provisions could delay or prevent a transaction or a change in our control that might involve a premium paid for our common shares or otherwise be in the best interests of our shareholders.

Our declaration of trust contains provisions that make removal of our trustees difficult, which could make it difficult for our shareholders to effect changes to our management.

Our declaration of trust provides that, subject to the rights of holders of one or more classes or series of preferred shares to elect or remove one or more trustees, a trustee may be removed only for cause and only by the affirmative vote of holders of at least two-thirds of the votes entitled to be cast in the election of trustees and that our board of trustees has the exclusive power to fill vacant trusteeships, even if the remaining trustees do not constitute a quorum. These provisions make it more difficult to change our management by removing and replacing trustees and may delay or prevent a change in our control that is in the best interests of our shareholders.

We may change our operational policies, investment guidelines and our investment and growth strategies without shareholder consent, which may subject us to different and more significant risks in the future, which could materially and adversely affect us.

Our board of trustees determines our operational policies, investment guidelines and our investment and growth strategies. Our board of trustees may make changes to, or approve transactions that deviate from, those policies, guidelines and strategies without a vote of, or notice to, our shareholders. This could result in us conducting operational matters, making investments or pursuing different investment or growth strategies than those contemplated in this prospectus. Under any of these circumstances, we may expose ourselves to different and more significant risks in the future, which could materially and adversely affect us.

Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit our shareholders' recourse in the event of actions not in our shareholders' best interests.

Under Maryland law generally, a trustee is required to perform his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Under Maryland law, trustees are presumed to have acted with this standard of care. In addition, our declaration of trust limits the liability of our trustees and officers to us and our shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

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Our declaration of trust and bylaws obligate us, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any present or former trustee or officer who is made or threatened to be made a party to the proceeding by reason of his or her service to us in that capacity. In addition, we may be obligated to advance the defense costs incurred by our trustees and officers. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist absent the current provisions in our declaration of trust and bylaws or that might exist with other companies.

If we fail to maintain an effective system of integrated internal controls, we may not be able to accurately report our financial results.

In connection with operating as a public company, we are required to provide reliable financial statements and reports to our shareholders. To monitor the accuracy and reliability of our financial reporting, we have established an internal audit function that oversees our internal controls. We can provide no assurances that such procedures will be adequate to provide reasonable assurance to our shareholders regarding the reliability of our financial reporting and the preparation of our financial statements. In addition, we have developed policies and procedures with respect to company-wide business processes and cycles in order to implement effective internal control over financial reporting. We have established, or caused our third-party hotel management companies to establish, controls and procedures designed to ensure that hotel revenues and expenses are properly recorded at our hotels. While we have undertaken substantial work to comply with Section 404 of the Sarbanes-Oxley Act of 2002, we cannot be certain that we will be successful in maintaining effective internal control over our financial reporting and may determine in the future that our existing internal controls need improvement. If we fail to comply with proper overall controls, we could be materially harmed or we could fail to meet our reporting obligations. In addition, the existence of a material weakness or significant deficiency in our internal controls could result in errors in our financial statements that could require a restatement, cause us to fail to meet our reporting obligations, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits and cause investors to lose confidence in our reported financial information, leading to a substantial decline in the market price of our common shares.

Risks Related to the Real Estate Industry

The illiquidity of real estate investments could significantly impede our ability to respond to changing economic, financial, and investment conditions or changes in the operating performance of our properties, which could adversely affect our cash flows and results of operations.

Real estate investments, including the focused-service and compact full-service hotels in our portfolio, are relatively illiquid. As a result, we may not be able to sell a hotel or hotels quickly or on favorable terms in response to changing economic, financial and investment conditions or changes in the hotel's operating performance when it otherwise may be prudent to do so. Current conditions in the U.S. economy and stock and credit markets have made it difficult to sell hotels at attractive prices. We cannot predict whether we will be able to sell any hotel we desire to sell for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a hotel. We may be required to expend funds to correct defects or to make improvements before a hotel can be sold, and we cannot provide any assurances that we will have funds available to correct such defects or to make such improvements. Our inability to dispose of assets at opportune times or on favorable terms could adversely affect our cash flows and results of operations.

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Moreover, the Code imposes restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs require that we hold our hotels for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of hotels that otherwise would be in our best interests. Therefore, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may adversely affect our cash flows, our ability to make distributions to shareholders and the market price of our common shares.

In addition, our ability to dispose of some of our hotels could be constrained by their tax attributes. Hotels that we own for a significant period of time or that we acquire through tax deferred contribution transactions in exchange for OP units in our operating partnership may have low tax bases. If we dispose of these hotels outright in taxable transactions, we may be required to distribute the taxable gain to our shareholders under the requirements of the Code applicable to REITs or to pay tax on that gain, either of which, in turn, would impact our cash flow and increase our leverage. In some cases, we may be restricted from disposing of properties contributed to us in the future in exchange for our OP units under tax protection agreements with contributors unless we incur additional costs related to indemnifying those contributors. To dispose of low basis or tax-protected hotels efficiently, we may from time to time use like-kind exchanges, which qualify for non-recognition of taxable gain, but can be difficult to consummate and result in the hotel for which the disposed assets are exchanged inheriting their low tax bases and other tax attributes.

Many real estate costs are fixed, even if revenue from our hotels decreases.

Many costs, such as real estate taxes, insurance premiums and maintenance costs, generally are not reduced even when a hotel is not fully occupied, room rates decrease or other circumstances cause a reduction in revenues. In addition, newly acquired hotels may not produce the revenues we anticipate immediately, or at all, and the hotel's operating cash flow may be insufficient to pay the operating expenses and debt service associated with these new hotels. If we are unable to offset real estate costs with sufficient revenues across our portfolio, our financial performance and liquidity could be materially and adversely affected.

Uninsured and underinsured losses at our hotels could materially and adversely affect us.

We maintain comprehensive insurance on each of our hotels and intend to maintain comprehensive insurance on any hotels that we acquire, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained for or by hotel owners. There are no assurances that coverage will be available at reasonable rates. Various types of catastrophic losses, like windstorms, earthquakes and floods, losses from foreign terrorist activities such as those on September 11, 2001, or losses from domestic terrorist activities such as the Oklahoma City bombing on April 19, 1995, may not be insurable or may not be economically insurable. Even when insurable, these policies may have high deductibles and/or high premiums. Lenders may require such insurance and our failure to obtain such insurance could constitute a default under loan agreements, which could have a material adverse effect on us.

In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the hotel. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed hotel, which could have a material adverse effect on us.

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In addition, insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. With the enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, United States insurers cannot exclude conventional chemical, biological, nuclear and radiation terrorism losses. These insurers must make terrorism insurance available under their property and casualty insurance policies; however, this legislation does not regulate the pricing of such insurance. In many cases, mortgage lenders have begun to insist that commercial property owners purchase coverage against terrorism as a condition of providing mortgage loans. Such insurance policies may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our hotels. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate coverage for such losses, which could have a material adverse effect on us.

We may be subject to unknown or contingent liabilities related to recently acquired hotels and the hotels that we may acquire in the future, which could have a material adverse effect on us.

Our recently acquired hotels, and the hotels that we may acquire in the future, may be subject to unknown or contingent liabilities for which we may have no recourse, or only limited recourse, against the sellers. In general, the representations and warranties provided under the transaction agreements related to purchase of the hotels we acquire may not survive the completion of the transactions. Furthermore, indemnification under such agreements may be limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses. As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that may be incurred with respect to liabilities associated with these hotels may exceed our expectations, and we may experience other unanticipated adverse effects, all of which may materially and adversely affect us.

Compliance or failure to comply with the Americans with Disabilities Act and other safety regulations and requirements could result in substantial costs.

Under the Americans with Disabilities Act of 1990 and the Accessibility Guidelines promulgated thereunder, which we refer to collectively as the ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. Compliance with the ADA's requirements could require removal of access barriers, and non-compliance could result in the U.S. government imposing fines or in private litigants winning damages. In July 2010, the Department of Justice proposed a substantial number of changes to the ADA, which were published in September 2010. The new guidelines could cause some of our hotels to incur costly measures to become fully compliant. If we are required to make substantial modifications to the hotels that we acquire, whether to comply with the ADA or other changes in governmental rules and regulations, we could be materially and adversely affected.

Our hotels also are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements would require significant unanticipated expenditures that would affect our cash flow and results of operations. If we incur substantial costs to comply with the ADA or other safety regulations and requirements, our financial condition, results of operations, the market price of our common shares, cash flows and our ability to satisfy our debt obligations and to make distributions to our shareholders could be adversely affected.

We could incur significant, material costs related to government regulation and litigation with respect to environmental matters, which could have a material adverse effect on us.

Our hotels are subject to various U.S. federal, state and local environmental laws that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current owner of a hotel, to perform or pay for the clean up of contamination (including hazardous substances, asbestos and asbestos-containing materials, waste or petroleum products) at, on, under or emanating from the hotel and to pay for natural resource damages arising from such contamination. Such laws often impose liability without regard to whether the owner or operator or other responsible party knew of, or caused such contamination, and the liability may be joint and several. Because these laws also impose liability on persons who owned a property at the time it became contaminated, it is possible we could incur cleanup costs or other environmental liabilities even after we sell hotels. Contamination at, on, under or emanating from our hotels also may expose us to liability to private parties for costs of remediation and/or personal injury or property damage. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. If contamination is discovered on our properties, environmental laws also may impose restrictions on the manner in which the properties may be used or businesses may be operated, and these restrictions may require substantial expenditures. Moreover, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral or to sell the property on favorable terms or at all. Furthermore, persons who sent waste to a waste disposal facility, such as a landfill or an incinerator, may be liable for costs associated with cleanup of that facility.

In addition, our hotels are subject to various federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, lead-based paint, mold and mildew, and waste management. Some of our hotels routinely handle and use hazardous or regulated substances and wastes as part of their operations, which substances and wastes are subject to regulation (*e.g.*, swimming pool chemicals). Our hotels incur costs to comply with these environmental, health and safety laws and regulations and could be subject to fines and penalties for non-compliance with applicable requirements.

Certain of our hotels contain, and those that we acquire in the future may contain, or may have contained, asbestos-containing material, or ACM. Federal, state and local environmental, health and safety laws require that ACM be properly managed and maintained, and include requirements to undertake special precautions, such as removal or abatement, if ACM would be disturbed during maintenance, renovation or demolition of a building. Such laws regarding ACM may impose fines and penalties on building owners, employers and operators for failure to comply with these requirements. In addition, third parties may seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our hotels could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability to third parties if property damage or personal injury occurs.

Liabilities and costs associated with environmental contamination at, on, under or emanating from our properties, defending against claims related to alleged or actual environmental issues, or complying with environmental, health and safety laws could be material and could materially and adversely affect us. We can make no assurances that changes in current laws or regulations or future laws or regulations will not impose additional or new material environmental liabilities or that the current environmental condition of our hotels will not be affected by our operations, the condition of the properties in the vicinity of our hotels, or by third parties unrelated to us. The discovery of material environmental liabilities at our properties could subject us to unanticipated significant costs, which could significantly reduce or eliminate our profitability and the cash available for distribution to our shareholders.

We face possible risks associated with the physical effects of climate change.

We cannot predict with certainty whether climate change is occurring and, if so, at what rate. However, the physical effects of climate change could have a material adverse effect on us. For example, many of our properties are located along the Gulf and East coasts. To the extent climate change causes changes in weather patterns, our markets could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining hotel demand or our inability to operate the affected hotels at all. Climate change also may have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable, increasing the cost of energy and increasing the cost of snow removal at our properties. There can be no assurance that climate change will not have a material adverse effect on us.

We may incur significant costs complying with various regulatory requirements, which could materially and adversely affect us.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we could incur governmental fines or private damage awards. In addition, existing requirements could change and future requirements might require us to make significant unanticipated expenditures, which could materially and adversely affect us.

Risks Related to Our Status as a REIT

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Our qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Moreover, new legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Our ability to satisfy the REIT income and asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination and for which we will not obtain independent appraisals, and upon our ability to successfully manage the composition of our income and assets on an ongoing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

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Legislative or regulatory tax changes related to REITs could materially and adversely affect us.

There are a number of issues associated with an investment in a REIT that are related to the federal income tax laws, including, but not limited to, the consequences of a company's failing to qualify or to continue to qualify as a REIT and the tax rates applicable to REITs and their shareholders. At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended or modified. Any new laws or interpretations may take effect retroactively and could materially and adversely affect us.

If we do not qualify as a REIT or if we fail to remain qualified as a REIT, we will be subject to U.S. federal income tax and potentially state and local taxes, which would reduce our earnings and the amount of cash available for distribution to our shareholders.

We have been organized, operate, and intend to continue to operate, in a manner that will enable us to qualify as a REIT for U.S. federal income tax purposes commencing with the taxable year ending December 31, 2011. Although we do not intend to request a ruling from the IRS as to our REIT qualification, we have received an opinion of Hogan Lovells US LLP that our current organization, and current and intended method of operation (as described herein and in a letter that we have provided to Hogan Lovells US LLP), will enable us to meet the requirements for qualification and taxation as a REIT under the Code for our taxable year ending December 31, 2011, and thereafter. Investors should be aware, however, that opinions of counsel are not binding on the IRS or any court. The opinion of Hogan Lovells US LLP represents only the view of our counsel based on our counsel's review and analysis of existing law and on certain representations as to factual matters and covenants made by us, including representations relating to the values of our assets and the sources of our income. The opinion is expressed as of the date issued. Hogan Lovells US LLP will have no obligation to advise us or our common shareholders of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in applicable law. Furthermore, both the validity of the opinion of Hogan Lovells US LLP and our qualification as a REIT depend on our satisfaction of the requirements described above under " Qualifying as a REIT involves highly technical and complex provisions of the Code," the results of which will not be monitored by Hogan Lovells US LLP.

If we were to fail to qualify as a REIT in any taxable year and any available relief provisions do not apply, we would be subject to U.S. federal and state corporate income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our shareholders would not be deductible by us in computing our taxable income. Unless we were entitled to statutory relief under certain Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Any determination that we do not qualify as a REIT would have a material adverse effect on our results of operations and could materially reduce the value of our common shares. Our additional tax liability could be substantial and would reduce our net earnings available for investment, debt service or distributions to shareholders. Furthermore, we would no longer be required to make any distributions to shareholders as a condition to REIT qualification and all of our distributions to shareholders would be taxable as ordinary C corporation dividends to the extent of our current and accumulated earnings and profits. This means that our shareholders currently taxed as individuals would be taxed on those dividends at capital gain rates (through 2012, in the absence of legislative action) and our corporate shareholders generally would be entitled to the dividends received deduction with respect to such dividends, subject in each case, to applicable limitations under the Code. Our failure to qualify as a REIT also could cause an event of default under loan documents governing our debt.

REIT distribution requirements could adversely affect our ability to execute our business plan or cause us to finance our needs during unfavorable market conditions.

We generally must distribute annually at least 90% of our REIT taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to make distributions to our shareholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP. In addition, differences in timing between the recognition of taxable income and the actual receipt of cash may occur. As a result, we may find it difficult or impossible to meet distribution requirements in certain circumstances. In particular, where we experience differences in timing between the recognition of taxable income and the actual receipt of cash, the requirement to distribute a substantial portion of our taxable income could cause us to: (1) sell assets in adverse market conditions; (2) incur debt or issue additional equity on unfavorable terms; (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt; or (4) make a taxable distribution of our common shares as part of a distribution in which shareholders may elect to receive our common shares or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with REIT requirements. These alternatives could increase our costs or dilute our equity. In addition, because the REIT distribution requirement prevents us from retaining earnings, we generally will be required to refinance debt at its maturity with additional debt or equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the market price of our common shares.

We may in the future choose to pay dividends in the form of our own common shares, in which case shareholders may be required to pay income taxes in excess of the cash dividends they receive.

We may seek in the future to distribute taxable dividends that are payable in cash and our common shares, at the election of each shareholder. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, shareholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. shareholder sells the common shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common shares at the time of the sale. In addition, in such case, a U.S. shareholder could have a capital loss with respect to the common shares sold that could not be used to offset such dividend income. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common shares. In addition, such a taxable share dividend could be viewed as equivalent to a reduction in our cash distributions, and that factor, as well as the possibility that a significant number of our shareholders determine to sell our common shares in order to pay taxes owed on dividends, may put downward pressure on the market price of our common shares.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from "qualified dividends" payable to U.S. shareholders that are individuals, trusts and estates has been reduced by legislation to 15% (through 2012, after which time, in the absence of legislative action, they will be taxed at ordinary income rates).

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Dividends payable by REITs, however, generally are not eligible for the reduced rates and will continue to be subject to tax at rates applicable to ordinary income, which will be as high as 35% through 2012 (and in the absence of legislative action, as high as 39.6% starting in 2013). Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes, including payroll taxes, taxes on any undistributed income, taxes on income from some activities conducted as a result of a foreclosure, a 100% excise tax on any transactions with a TRS that are not conducted on an arm's-length basis, and state or local income, property and transfer taxes. In addition, we could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. In addition, our TRSs will be subject to U.S. federal, state and local corporate income taxes on their net taxable income, if any. To the extent that we conduct operations outside of the United States, our operations would subject us to applicable foreign taxes, as well. Any of these taxes would decrease cash available for the payment of our debt obligations and distributions to shareholders.

If our leases are not respected as true leases for federal income tax purposes, we would likely fail to qualify as a REIT.

To qualify as a REIT, we must satisfy two gross income tests, pursuant to which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with our TRSs, which we currently expect will continue to constitute substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and must not be treated as service contracts, joint ventures or some other type of arrangement. We believe that the leases will be respected as true leases for federal income tax purposes. There can be no assurance, however, that the IRS will agree with this characterization. If the leases were not respected as true leases for federal income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs and would likely lose our REIT status.

Rents paid to us by each of our TRSs may not be based on the net income or profits of any person, or they would not be treated as "rents from real property," in which case we would likely fail to qualify for taxation as a REIT. We receive "percentage rents" calculated based on the gross revenues of the hotels subject to leases with our TRSs, but not on net income or profits. We believe our leases have customary terms and rents, reflect normal business practices and do not provide for rent based on net income or profits, but there can be no assurance the IRS will agree.

If our TRSs fail to qualify as "taxable REIT subsidiaries" under the Code, we would likely fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" will not be qualifying income for purposes of the two gross income tests applicable to REITs. We lease and expect to continue to lease substantially all of our hotels to our TRSs, which will not be treated as "related party tenants" so long as they qualify as "taxable REIT subsidiaries" under the Code. To qualify as such, most significantly, a taxable REIT subsidiary cannot engage in the operation or management of hotels or health care properties. We believe that our TRSs will qualify to be treated as taxable REIT subsidiaries for federal income tax

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purposes. There can be no assurance, however, that the IRS will not challenge the status of a TRS for federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in disqualifying any of our TRSs from treatment as a taxable REIT subsidiary, it is likely that we would fail to meet the asset tests applicable to REITs and substantially all of our income would fail to qualify for the gross income tests. If we failed to meet either the asset tests or the gross income tests, we would likely lose our REIT status.

If any hotel management companies that we engage do not qualify as "eligible independent contractors," or if our hotels are not "qualified lodging facilities," we would likely fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" of ours generally will not be qualifying income for purposes of the two gross income tests applicable to REITs. An exception is provided, however, for leases of "qualified lodging facilities" to a TRS so long as the hotels are managed by an "eligible independent contractor" and certain other requirements are satisfied. We intend to take advantage of this exception. We lease and expect to lease all or substantially all of our hotels to TRS lessees, which are disregarded subsidiaries of the TRSs, and to engage hotel management companies that are intended to qualify as "eligible independent contractors." Among other requirements, in order to qualify as an eligible independent contractor, the hotel management company must not own, directly or through its shareholders, more than 35% of our outstanding shares, and no person or group of persons can own more than 35% of our outstanding shares and the shares (or ownership interest) of the hotel management company (taking into account certain ownership attribution rules and, with respect to our shares and the outstanding shares of any publicly traded hotel management company, only the shares owned by persons who own, directly or indirectly, more than 5% of a publicly traded class of shares). The ownership attribution rules that apply for purposes of these 35% thresholds are complex, and monitoring actual and constructive ownership of our shares by the hotel management companies and their owners may not be practical. Accordingly, there can be no assurance that these ownership levels will not be exceeded.

In addition, for a hotel management company to qualify as an eligible independent contractor, such company or a related person must be actively engaged in the trade or business of operating "qualified lodging facilities" (as defined below) for one or more persons not related to the REIT or its TRSs at each time that such company enters into a hotel management contract with a TRS or its TRS lessee. As of the date hereof, we believe the hotel management companies operate qualified lodging facilities for certain persons who are not related to us or our TRS. However, no assurances can be provided that this will continue to be the case or that any other hotel management companies that we may engage in the future will in fact comply with this requirement in the future. Failure to comply with this requirement would require us to find other managers for future contracts, and, if we hired a management company without knowledge of the failure, it could jeopardize our status as a REIT.

Finally, each hotel with respect to which our TRS lessees pay rent must be a "qualified lodging facility." A "qualified lodging facility" is a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis, including customary amenities and facilities, provided that no wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. As of the date hereof, we believe that all of the hotels leased to our TRS lessees will be qualified lodging facilities. Although we intend to monitor future acquisitions and improvements of hotels, the REIT provisions of the Code provide only limited guidance for making determinations under the requirements for qualified lodging facilities, and there can be no assurance that these requirements will be satisfied in all cases.

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Our ownership of taxable REIT subsidiaries is limited, and our transactions with our taxable REIT subsidiaries will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's length terms.

A REIT may own up to 100% of the stock of one or more taxable REIT subsidiaries. A taxable REIT subsidiary may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a taxable REIT subsidiary. A corporation of which a taxable REIT subsidiary directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a taxable REIT subsidiary. Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more taxable REIT subsidiaries. In addition, the rules applicable to taxable REIT subsidiaries limit the deductibility of interest paid or accrued by a taxable REIT subsidiary to its parent REIT to assure that the taxable REIT subsidiary is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on "redetermined rent" or "redetermined deductions" to the extent rent paid by a taxable REIT subsidiary exceeds an arm's-length amount.

Our TRSs will pay U.S. federal, state and local income taxes on their net taxable income, and their after-tax net income will be available for distribution to us but is not required to be distributed. We anticipate that the aggregate value of the stock and securities of our TRSs will be less than 25% of the value of our total assets (including the stock and securities of our TRSs). Furthermore, we will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with the ownership limitations applicable to taxable REIT subsidiaries. In addition, we will scrutinize all of our transactions with our TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% limitation discussed above or to avoid application of the 100% excise tax discussed above. While we believe our leases have customary terms and reflect normal business practices and that the rents paid thereto reflect market terms, there can be no assurance that the IRS will agree.

Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually and that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio, or contribute to a taxable REIT subsidiary, otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would otherwise be advantageous to us in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make, and, in certain cases, maintain ownership of, certain attractive investments.

If the IRS were to challenge successfully our operating partnership's status as a partnership for federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

Our operating partnership will be treated as a separate entity for federal income tax purposes, rather than as an entity that is disregarded as separate from us. We believe, and will take steps to structure any such ownership of OP units so that, our operating partnership will be treated as a partnership for federal income tax purposes, rather than as a corporation. As a partnership, it will not be subject to federal income tax on its income. Instead, each of its partners, including our company, will be required to pay tax on such partner's allocable share of its income. No assurance can be provided, however, that the IRS will not challenge our operating partnership's status as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our operating partnership as a corporation for federal income tax purposes, our company would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, would cease to qualify as a REIT.

As a result of our formation transactions, our TRSs may be limited in using certain tax benefits.

If a corporation undergoes an "ownership change" within the meaning of Section 382 of the Code and the Treasury Regulations thereunder, such corporation's ability to use net operating losses, or NOLs, generated prior to the time of that ownership change may be limited. To the extent the affected corporation's ability to use NOLs is limited, such corporation's taxable income may increase. As of December 31, 2010, we had approximately $28.5 million of NOLs (all of which are attributable to our TRSs) which will begin to expire in 2026 if not utilized. In general, an ownership change occurs if one or more large stockholders, known as "5% stockholders," including groups of stockholders that may be aggregated and treated as a single 5% stockholder, increase their aggregate percentage interest in a corporation by more than 50% over their lowest ownership percentage during the preceding three-year period. We believe that the formation transactions caused an ownership change within the meaning of Section 382 of the Code with respect to the TRSs of the REITs of Funds II and III. Accordingly, to the extent such TRSs have taxable income in future years, their ability to use NOLs incurred prior to our formation transactions in future years will be limited, and they may have greater taxable income as a result of such limitation.

Risks Related to Our Common Shares

Our cash available for distribution to shareholders may not be sufficient to pay distributions at expected or required levels, and we may need to borrow funds or rely on other external sources in order to make such distributions, or we may not be able to make such distributions at all, which could cause the market price of our common shares to decline significantly.

We intend to continue to pay regular quarterly distributions to holders of our common shares. All distributions will be made at the discretion of our board of trustees and will depend on our historical and projected results of operations, EBITDA, FFO, liquidity and financial condition, REIT qualification, debt service requirements, capital expenditures and operating expenses, prohibitions and other restrictions under financing arrangements and applicable law and other factors as our board of trustees may deem relevant from time to time. No assurance can be given that our projections will prove accurate or that any level of distributions or particular yield will be made or sustained. We may not be able to make distributions in the future or may need to fund such distributions through borrowings or other external financing sources, which may be available only at commercially unattractive terms, if at all. Any of the foregoing could cause the market price of our common shares to decline significantly.

Future issuances of debt securities, which would rank senior to our common shares upon our liquidation, and future issuances of equity securities (including OP units), which would dilute the holdings of our existing common shareholders and may be senior to our common shares for the purposes of making distributions, periodically or upon liquidation, may negatively affect the market price of our common shares.

In the future, we may issue debt or equity securities or incur other borrowings. Upon our liquidation, holders of our debt securities and other loans and preferred shares will receive a distribution of our available assets before common shareholders. If we incur debt in the future, our future interest costs could increase, and adversely affect our liquidity, FFO and results of operations. We are not required to offer any additional equity securities to existing common shareholders on a preemptive basis. Therefore, additional common share issuances, directly or through convertible or exchangeable securities (including OP units), warrants or options, will dilute the holdings of our existing common shareholders and such issuances or the perception of such issuances may reduce the market price of our common shares. Our preferred shares, if issued, would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common shareholders. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of our future capital raising efforts. Thus, common shareholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the market price of our common shares.

The number of common shares available for future issuance or sale could adversely affect the per share trading price of our common shares.

As of the date of this prospectus, we have 106,276,673 common shares outstanding. In addition, as of the date of this prospectus, 894,000 OP units in our operating partnership are outstanding, which are redeemable for cash, or at our option, for a like number of our common shares beginning in May 2012. Upon effectiveness of the registration statement of which this prospectus forms a part, 102,547,147 common shares will be freely tradeable without restriction or further registration under the Securities Act (including the 65,457,064 common shares offered by the selling shareholders in this prospectus), subject to the limitations on ownership set forth in our declaration of trust, and except for any common shares held by our "affiliates," as that term is defined in Rule 144 under the Securities, or Rule 144. In addition, 665,141 common shares may be sold subject to applicable restrictions on sale under Rule 144. We cannot predict the effect, if any, of future resales of our common shares or OP units, or the perception of such resales, on the market price of our common shares. Any such future resales, or the perception that such resales might occur, could adversely affect the market price of our common shares and may also make it more difficult for us to sell equity or equity-related securities in the future at times and upon terms that we deem appropriate.

In addition, subject to applicable law, our board of trustees has the authority, without further shareholder approval, to issue additional common shares and preferred shares on the terms and for the consideration it deems appropriate. We may issue from time to time additional common shares or OP units in connection with hotel acquisitions and may grant registration rights in connection with such issuances, pursuant to which we would agree to register the resale of such securities under the Securities Act. Furthermore, in the future we may issue common shares and securities convertible into, or exchangeable or exercisable for, our common shares under our equity incentive plan. The market price of our common shares may decline significantly upon future issuances of equity under our equity incentive plan or in connection with hotel acquisitions.

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The trading volume and market price of our common shares may be volatile and could decline substantially in the future.

The market price of our common shares may be volatile in the future. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common shares will not fluctuate or decline significantly in the future, including as a result of factors unrelated to our operating performance or prospects. In particular, the market price of our common shares could be subject to wide fluctuations in response to a number of factors, including, among others, the following:

- actual or anticipated differences in our operating results, liquidity, or financial condition;
- changes in our revenues, EBITDA, FFO or earnings estimates;
- publication of research reports about us, our hotels or the lodging or overall real estate industry;
- additions and departures of key personnel;
- the performance and market valuations of other similar companies;
- the passage of legislation or other regulatory developments that adversely affect us or our industry;
- the realization of any of the other risk factors presented in this prospectus;
- speculation in the press or investment community;
- changes in accounting principles;
- terrorist acts; and
- general market and economic conditions, including factors unrelated to our operating performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of their common shares. If the market price of our common shares is volatile and this type of litigation is brought against us, it could result in substantial costs and divert our management's attention and resources, which could have a material adverse effect on us.

Increases in market interest rates may reduce demand for our common shares and result in a decline in the market price of our common shares.

The market price of our common shares may be influenced by the distribution yield on our common shares (i.e., the amount of our annual distributions as a percentage of the market price of our common shares) relative to market interest rates. An increase in market interest rates, which are currently low compared to historical levels, may lead prospective purchasers of our common shares to expect a higher distribution yield, which we may not be able, or may choose not, to provide. Higher interest rates would also likely increase our borrowing costs and decrease our operating results and cash available for distribution. Thus, higher market interest rates could cause the market price of our common shares to decline.

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, cash flows, EBITDA, FFO, results of operations, and plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- the state of the U.S. economy generally or in specific geographic regions in which we operate, and the effect of general economic conditions on the lodging industry in particular;
- market trends in our industry, interest rates, real estate values and the capital markets;
- our investment and growth strategies and, particularly, our ability to identify and complete hotel acquisitions;
- our branding or rebranding initiatives with respect to five of our hotels;
- our projected operating results and cash available for distribution;
- actions and initiatives of the U.S. government and changes to U.S. government policies and the execution and impact of these actions, initiatives and policies;
- our ability to manage our relationships with our management companies, as well as franchisors;
- the expected opening date of our hotel under renovation;
- our ability to obtain and maintain financing arrangements on attractive terms;
- changes in the value of our hotels;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to satisfy the requirements for qualification as a REIT under the Code;
- changes in personnel and availability of qualified personnel;
- general volatility and liquidity of the market price of our common shares; and
- degree and nature of our competition.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future events, taking into account all information currently available to us. Forward-looking statements are not predictions of future events. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these events and factors are described in this prospectus under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Our Business and Properties." If a change occurs, our business, financial condition, liquidity, cash flows and results of operations may vary materially from those expressed in or implied by our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict the occurrence of those matters or the manner in which they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

We will not receive any proceeds from the sale of our common shares by the selling shareholders from time to time pursuant to this prospectus. The proceeds from the offering are solely for the account of the selling shareholders. We have agreed, however, to pay certain expenses relating to the registration of the common shares under applicable securities laws.

DISTRIBUTION POLICY

We intend over time to make regular quarterly distributions to our common shareholders. In order to qualify and maintain our qualification for taxation as a REIT, we intend to make annual distributions to our shareholders of at least 90% of our taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. On June 20, 2011, we declared a pro-rated cash dividend of $0.08 per common share, which was paid on July 15, 2011 to shareholders of record as of June 30, 2011. On September 19, 2011, we declared a cash dividend of $0.15 per common share, which was paid on October 14, 2011 to shareholders of record as of September 30, 2011. On December 15, 2011, we declared a cash dividend of $0.15 per common share, which will be paid on January 13, 2012 to shareholders of record as of December 31, 2011.

Any future distributions will be at the sole discretion of our board of trustees, and their form, timing and amount, if any, will depend upon a number of factors, including our actual and projected financial condition, liquidity, EBITDA, FFO and results of operations, the revenue we actually receive from our properties, our operating expenses, our debt service requirements, our capital expenditures, prohibitions and other limitations under our financing arrangements, our REIT taxable income, the annual REIT distribution requirements, applicable law and such other factors as our board of trustees deems relevant. To the extent that our cash available for distribution is less than 90% of our REIT taxable income, we may consider various means to cover any such shortfall, including borrowing under our revolving credit facility or other loans, selling certain of our assets or using a portion of the net proceeds we receive from offerings of equity, equity-related or debt securities or declaring taxable share dividends.

MARKET PRICE OF COMMON SHARES AND DIVIDENDS

Our common shares have been listed on the NYSE since May 11, 2011 and are traded under the symbol "RLJ." The following table sets forth, for the periods indicated, the high, low and last sale prices in dollars on the NYSE for our common shares and the distributions we declared with respect to the periods indicated.

	High	Low	Last	Distributions
Second quarter(1)	$ 18.38	$ 16.65	$ 17.37	$ 0.08
Third quarter	$ 17.89	$ 11.70	$ 12.77	$ 0.15
Fourth quarter (through December 19, 2011)	$ 17.35	$ 11.66	$ 16.98	$ 0.15

(1) Information is provided only for the period from May 11, 2011 to June 30, 2011, as our common shares did not begin trading publicly until May 11, 2011.

On December 19, 2011, the closing sale price for our common shares, as reported on the NYSE, was $16.98 and there were 101 holders of record of our common shares. This figure does not reflect the beneficial ownership of shares held in nominee name.

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SELECTED FINANCIAL AND OPERATING DATA

You should read the following selected historical and pro forma combined financial and operating data, together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical and pro forma combined consolidated financial statements and related notes included elsewhere in this prospectus.

We completed our initial public offering, or the IPO, on May 16, 2011. Due to the timing of the IPO, we present herein certain combined consolidated historical financial data for us and our predecessor. Our predecessor was not a legal entity, but rather a combination of the real estate hospitality assets, liabilities and operations of Fund II and Fund III and substantially all of the assets, liabilities and operations of RLJ Development. The historical combined consolidated financial data for our predecessor is not necessarily indicative of our results of operations, cash flows or financial position following the completion of the IPO.

The historical combined consolidated balance sheet information as of December 31, 2010 and 2009 of our predecessor and the combined consolidated statements of operations information for each of the years ended December 31, 2010, 2009 and 2008 of our predecessor have been derived from the audited historical combined consolidated financial statements included elsewhere in this prospectus.

The historical combined consolidated balance sheet information as of September 30, 2011 of our company and the combined consolidated statements of operations information for the nine months ended September 30, 2011 and 2010 have been derived from the historical unaudited combined consolidated financial statements included elsewhere in this prospectus and include all adjustments, consisting of normal recurring adjustments, which management considers necessary for a fair presentation of the historical financial statements for such periods. Due to the timing of the IPO, the results of operations for the nine months ended September 30, 2010 reflect the financial condition and results of operations of our predecessor. The results of operations for the nine months ended September 30, 2011 reflect the financial condition and results of operations of our predecessor together with our company. Results for the nine months ended September 30, 2011 are not necessarily indicative of our actual results for the year ending December 31, 2011.

The historical combined consolidated balance sheet information as of December 31, 2008 and 2007 of our predecessor have been derived from the audited historical combined consolidated financial statements of our predecessor that are not included in this prospectus.

The selected historical financial information as of December 31, 2006 and for the years ended December 31, 2007 and 2006, have been derived from the unaudited financial statements of our predecessor that are not included in this prospectus.

Our summary unaudited condensed pro forma combined consolidated financial and operating data for the year ended December 31, 2010 and as of and for the nine months ended September 30, 2011 assume the completion of our formation transactions as of January 1, 2010 for the operating data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

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	Nine Months Ended September 30, 2011		Year Ended December 31,					
	Pro Forma Combined Consolidated	Historical Combined Consolidated	Pro Forma Combined Consolidated	Historical Combined Consolidated				
	2011	2011	2010	2010	2009	2008	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)				(Unaudited)	(Unaudited)
	(In thousands, except share, per share and property data)							
Statement of Operations Data:								
Room revenue	$ 501,097	$ 495,217	$ 613,019	$ 445,630	$ 389,622	$ 438,388	$ 374,833	$ 171,213
Other hotel revenue	75,405	74,474	100,950	71,036	66,139	79,114	70,335	33,997
Total revenue	576,502	569,691	713,969	516,666	455,761	517,502	445,168	205,210
Expenses:								
Room expense	112,126	110,753	138,840	96,389	84,131	90,475	78,427	36,006
Other hotel expense	237,343	234,030	300,981	215,438	195,268	215,290	185,349	86,948
Total hotel operating expense	349,469	344,783	439,821	311,827	279,399	305,765	263,776	122,954
Depreciation and amortization	92,565	91,479	120,626	96,940	91,503	80,105	56,833	23,244
Property tax, ground rent and insurance	36,882	35,951	46,978	32,500	33,191	32,002	28,686	10,924
Impairment loss					61,426	21,472		
General and administrative(1)	21,825	17,504	25,302	19,542	18,208	18,784	9,780	5,806
Transaction, pursuit and organization costs	704	3,614	1,447	14,345	8,665	2,100	500	675
IPO Costs	10,333	10,333						
Total operating expenses	511,778	503,664	634,174	475,154	492,392	460,228	359,575	163,603
Operating income / (loss)	64,724	66,027	79,795	41,512	(36,631)	57,274	85,593	41,607
Interest and other income	2,006	2,006	3,985	3,981	1,573	2,303	2,950	1,161
Interest expense	(62,274)	(75,415)	(80,728)	(86,735)	(87,849)	(88,656)	(74,917)	(35,225)
Income (loss) before provision for income tax (expense)/ benefit	4,456	(7,382)	3,052	(41,242)	(122,907)	(29,079)	13,626	7,543
Income tax (expense) / benefit	(1,546)	(1,546)	(1,608)	(945)	(1,801)	945	(1,317)	(658)
Net income (loss) from continuing operations	2,910	(8,928)	1,444	(42,187)	(124,708)	(28,134)	12,309	6,885
Net (income) loss attributable to noncontrolling interests								
Noncontrolling interest in joint venture	55	55	(8)	213				
Noncontrolling interest in Operating Partnership	(285)	(285)						
Distributions to preferred shareholders	(61)	(61)		(62)	(62)	(61)	(31)	(6)
Net income (loss)from continuing operations available to owners	$ 2,619	$ (9,219)	$ 1,436	$ (42,036)	$ (124,770)	$ (28,195)	$ 12,278	$ 6,879
Balance Sheet Data (at period end):								

Cash and cash equivalents	$ 329,558	$ 368,461		$ 267,454	$ 151,382	$ 156,181	$ 83,897	$ 63,290
Investment in hotels, net	2,802,784	2,760,784		2,626,690	1,877,583	1,905,653	1,801,189	1,404,900
Total assets	3,300,859	3,298,630		3,045,824	2,202,865	2,213,108	2,032,470	1,704,618
Total debt	1,344,817	1,342,817		1,747,077	1,598,991	1,448,872	1,340,574	1,009,680
Total liabilities	1,450,093	1,447,864		1,822,091	1,717,118	1,592,376	1,470,251	1,213,745
Total owners' equity	1,850,766	1,850,766		1,223,733	485,747	620,732	562,219	490,873
Total liabilities and owners' equity	3,300,859	3,298,630		3,045,824	2,202,865	2,213,108	2,032,470	1,704,618
Per Share Data:								
Pro forma basic and diluted earnings per share(2)	$ 0.00							
Pro forma weighted average shares outstanding basic and diluted(2)	98,338,387							
Other Data:								
Number of properties at period end(3)	141	140	140	132	117	115	106	88
Pro forma Adjusted EBITDA	$ 174,150		$ 210,956					
Pro forma Adjusted FFO	111,640		131,663					
Cash flows from:								
Operating activities		$ 90,573		$ 63,663	$ 28,852	$ 76,978	$ 93,999	$ 43,752
Investing activities		(265,826)		(786,193)	(198,025)	(130,400)	(204,795)	(1,208,658)
Financing activities		276,260		838,602	164,374	125,706	131,403	1,217,569

(1) The pro forma general and administrative expense includes non cash share compensation expense amortization for restricted share grants of $3,994 and $5,325 for the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively.

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(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, for the purpose of calculating diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact.

(3) The historical combined consolidated number of properties includes our hotels and the New York LaGuardia Airport Marriott and excludes the Courtyard Charleston Historic District. The pro forma combined consolidated number of properties excludes the New York LaGuardia Airport Marriott, which was transferred to a third party on August 5, 2011, and includes the Courtyard Charleston Historic District, which was purchased on October 27, 2011.

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	Pro Forma Nine Months Ended September 30, 2011	Pro Forma Year Ended December 31, 2010
	(In thousands)	
Reconciliation of FFO(1), Adjusted FFO(1), EBITDA(2) and Adjusted EBITDA(2) to Net Income from Continuing Operations		
Net income from continuing operations	$ 2,910	$ 1,444
Add (deduct):		
Depreciation and amortization	92,565	120,626
Distributions to preferred unitholders	(61)	
Noncontrolling interest in joint venture	55	(8)
Adjustments related to joint venture(3)	(222)	(297)
FFO	95,247	121,765
Add:		
Transaction and pursuit costs	704	1,447
IPO costs(4)	10,333	
Amortization of share based compensation	3,994	5,325
Other expenses(5)	1,362	3,126
Adjusted FFO	$ 111,640	$ 131,663
Net income from continuing operations	$ 2,910	$ 1,444
Add (deduct):		
Depreciation and amortization	92,565	120,626
Distributions to preferred unitholders	(61)	
Interest expense, net	62,274	80,728
Interest and other income(6)	(786)	(2,398)
Income tax expense	1,546	1,608
Noncontrolling interest in joint venture	55	(8)
Adjustments related to joint venture(7)	(746)	(942)
EBITDA	157,757	201,058
Add:		
Transaction and pursuit costs	704	1,447
IPO costs(4)	10,333	
Amortization of share based compensation	3,994	5,325
Other expenses(5)	1,362	3,126
Adjusted EBITDA	$ 174,150	$ 210,956

(1) We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or NAREIT, which defines FFO as net income or loss (calculated in accordance with GAAP), excluding gains or losses from sales of real estate, items classified by GAAP as extraordinary and the cumulative effect of changes in accounting principles, plus depreciation and amortization, and adjustments for unconsolidated partnerships and joint ventures. 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 added to net income in NAREIT's definition of FFO, such as hotel transaction and pursuit costs, amortization of share based compensation and other expenses that were the result of the IPO and related formation transactions. Hotel transaction and pursuit costs, which are costs associated with our acquisition activity, do not relate to the operating performance at our hotels. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs.

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(2) EBITDA is defined as net income or loss excluding: (a) interest expense; (b) provision for income taxes, including income taxes applicable to sale of assets; and (c) 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.

We further adjust EBITDA for certain additional items such as hotel transaction and pursuit costs, amortization of restricted share based compensation and other expenses that were the result of the IPO and related formation transactions. Hotel transaction and pursuit costs, which are costs associated with our acquisition activity, do not relate to the operating performance at our hotels. We believe that Adjusted EBITDA provides investors with another financial measure that can facilitate comparisons of operating performance between periods and between REITs. 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.

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

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

(5) Includes certain compensation obligations of our predecessor.

(6) Excludes contractual interest income of $1,220 and $1,587, respectively, associated with two owned mortgage loans collateralized by hotels.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the "Selected Financial and Operating Data," the historical combined consolidated financial statements and related notes of our predecessor, "Risk Factors," and "Our Business and Properties" included elsewhere in this prospectus. As used in this section, unless the context otherwise requires, "we," "us," "our" and "our company" mean our predecessor for 2008, 2009 and 2010, and RLJ Lodging Trust and its consolidated subsidiaries for 2011.

Overview

We are a self-advised and self-administered Maryland real estate investment trust, which invests primarily in premium-branded, focused-service and compact full-service hotels. As of September 30, 2011, we owned 140 hotels in 19 states and the District of Columbia comprising 20,488 rooms. In addition, on October 27, 2011, we acquired the 176-room Courtyard Charleston Historic District in Charleston, South Carolina. We are one of the largest U.S. publicly-traded lodging REITs in terms of both number of hotels and number of rooms. Our hotels are concentrated in urban and dense suburban markets that we believe generally exhibit multiple demand generators and high barriers to entry.

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

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

Furthermore, we believe that attractive acquisition opportunities that meet our investment profile remain available in the market. We believe our expected access to capital (including availability under our revolving credit facility) along with our senior management team's experience, extensive industry relationships and asset management expertise, will enable us to compete effectively for such acquisitions and enable us to generate additional internal and external growth.

Our Customers

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

Group business is typically defined as a minimum of 10 guestrooms booked together as part of the same piece of business. Group business may or may not use the meeting space at any given hotel.

Given the limited meeting space at the majority of our hotels, group business represents a smaller component of our customer base.

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

Our Revenues and Expenses

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

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

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 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.

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.

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 do not have a substantial 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 86.9% of our total revenue for the nine months ended September 30, 2011 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 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 nine months ended September 30, 2011, the portfolio wide RevPAR penetration index of our hotels was 113.5, which indicates that, on average, our hotels maintained a market share premium of approximately 13.5% in relation to its competitive set.

We also use FFO, Adjusted FFO, EBITDA and Adjusted EBITDA as 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, personal income and corporate earnings, office vacancy rates and business relocation decisions, airport and other business and leisure travel, 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 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 Principal Agreements Hotel Management Agreements."

Other hotel expenses These expenses include labor and other costs associated with the other operating department revenues, as well as labor and other costs associated with administrative departments, franchise fees, sales and marketing, repairs and maintenance and utility costs.

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.

Critical Accounting Policies

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

Investment in Hotel Properties

Hotel acquisitions consist almost exclusively of land, land improvements, buildings, furniture, fixtures and equipment and inventory. We record the purchase price among these asset classes based on their respective fair values. When we acquire hotels, we acquire them for use. Generally, we do not acquire any significant in-place leases or other intangible assets (e.g., management agreements, franchise agreements or trademarks) when hotels are acquired. The only intangible assets acquired through September 30, 2011 consist of favorable tenant lease agreements and miscellaneous operating agreements, which are short-term in nature and at market rates. In conjunction with the acquisition of a hotel, we typically negotiate new franchise and management agreements with the selected brand and manager.

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

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

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

Results of Operations

At September 30, 2011 and 2010, we owned 140 and 121 hotels, respectively. All hotels owned during these periods, excluding discontinued operations of seven hotels, have been included in our results of operations during those respective periods or since their date of acquisition. At December 31, 2010, 2009 and 2008, we owned 132, 117 and 115 hotels, respectively. All hotels owned during these periods, excluding discontinued operations of seven hotels, have been included in our results of operations during those respective periods or since their date of acquisition.

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Comparison of the Nine Months Ended September 30, 2011 to the Nine Months Ended September 30, 2010

Net loss from continuing operations for the nine months ended September 30, 2011 was $8.9 million compared to a net loss from continuing operations of $31.1 million for the nine months ended September 30, 2010, representing a decrease of $22.2 million. This improved performance was primarily due to a $190.9 million, or 50.4%, increase in total revenue (including $164.5 million attributable to hotels acquired during the periods), partially offset by a $156.1 million, or 44.9%, increase in operating expenses (including $103.1 million attributable to hotels acquired during the periods and nonrecurring IPO costs of $10.3 million), an increase in interest expense of $10.7 million, which was primarily the result of additional indebtedness incurred related to hotel acquisitions during the nine months ended September 30, 2011 as compared to the same period in the prior year and a decrease in interest income of $1.6 million, which was primarily the result of interest income related to our investment in loans which were brought current during the nine months ended September 30, 2010.

	For the nine months ended September 30,			
	2011	**2010**	**$ change**	**% change**
Revenue				
Hotel operating revenue				
Room revenue	$ 495,217	$ 327,672	$ 167,545	51.1%
Food and beverage revenue	59,664	41,749	17,915	42.9%
Other operating department revenue	14,810	9,394	5,416	57.7%
Total revenue	**569,691**	**378,815**	**190,876**	50.4%
Expense				
Hotel operating expense				
Room	110,753	70,278	40,475	57.6%
Food and beverage	41,767	28,016	13,751	49.1%
Management fees	19,519	13,497	6,022	44.6%
Other hotel expenses	172,744	115,948	56,796	49.0%
Total hotel operating expense	344,783	227,739	117,044	51.4%
Depreciation and amortization	91,479	70,465	21,014	29.8%
Property tax, insurance and other	35,951	27,417	8,534	31.1%
General and administrative	17,504	14,547	2,957	20.3%
Transaction and pursuit costs	3,614	7,438	(3,824)	(51.4)%
IPO Costs	10,333		10,333	0.0%
Total operating expense	503,664	347,606	156,058	44.9%
Operating income	66,027	31,209	34,818	111.6%
Other income	742	411	331	80.5%
Interest income	1,264	2,889	(1,625)	(56.2)%
Interest expense	(75,415)	(64,760)	(10,655)	16.5%
Income (Loss) from continuing operations before income taxes	(7,382)	(30,251)	22,869	(75.6)%
Income tax expense	(1,546)	(898)	(648)	72.2%
Income (Loss) from continuing operations	(8,928)	(31,149)	22,221	(71.3)%
Income (loss) from discontinued operations	21,838	19,034	2,804	14.7%
Net income (loss)	12,910	(12,115)	25,025	(206.6)%
Net loss (income) attributable to non-controlling interests				

Noncontrolling interest in joint venture	55		55	0.0%
Noncontrolling interest in common units of Operating Partnership	(285)		(285)	0.0%
Net income (loss) attributable to the Company	12,680	(12,115)	24,795	(204.7)%
Distributions to preferred unitholders	(61)	(48)	(13)	27.1%
Net income (loss) attributable to common shareholders	**$ 12,619**	**$ (12,163)**	**$ 24,782**	(203.7)%

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Revenue

Total revenue increased $190.9 million, or 50.4%, to $569.7 million for the nine months ended September 30, 2011 from $378.8 million for the nine months ended September 30, 2010. The increase was a result of $164.5 million in revenue attributable to nine hotels that were acquired in 2011 and fifteen hotels that were acquired in 2010 and the effects of improving economic conditions as demonstrated by an 8.0% increase in RevPAR for properties held during the entirety of both periods.

The following are the key hotel operating statistics for hotels owned at September 30, 2011 and 2010, respectively, for our ownership period:

	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010	% Change
Number of hotels (at end of period)	140	121	15.7%
Occupancy %	73.2%	69.2%	5.8%
ADR	$ 123.28	$ 109.64	12.4%
RevPAR	$ 90.24	$ 75.84	19.0%

Portfolio RevPAR increased to $90.24 from $75.84, a 19.0% increase. For the 116 properties owned for the entirety of both periods, RevPAR increased 8.0% and was driven by a 4.0% increase in occupancy and a 3.8% increase in ADR. The addition of new hotels to the portfolio drove occupancy up by 1.2% and ADR by $10.22 for a total RevPAR impact of $8.85.

Room Revenue

Our portfolio consists primarily of premium-branded focused-service and compact full-service hotels that generate the majority of their revenues through room sales. Room revenue increased $167.5 million, or 51.1%, to $495.2 million for the nine months ended September 30, 2011 from $327.7 million for the nine months ended September 30, 2010. This increase was primarily a result of $142.2 million of room revenue from hotels acquired during the periods. The remaining amount came from an 8.0% RevPAR growth in properties owned for the entirety of both periods.

Food and Beverage Revenue

Food and beverage revenue increased $17.9 million, or 42.9%, to $59.7 million for the nine months ended September 30, 2011 from $41.7 million for the nine months ended September 30, 2010. The increase includes $16.7 million in food and beverage revenue arising from hotels acquired during the periods.

Other Operating Department Revenue

Other operating department revenue, which includes revenue derived from ancillary sources, increased $5.4 million, or 57.7%, to $14.8 million for the nine months ended September 30, 2011 from $9.4 million for the nine months ended September 30, 2010 primarily due to hotels acquired during the periods.

Hotel Operating Expense

Hotel operating expense increased $117.0 million, or 51.4%, to $344.8 million for the nine months ended September 30, 2011 from $227.7 million for the nine months ended September 30, 2010. This increase includes $103.1 million in hotel operating expense attributable to hotels acquired during the periods. The remaining increase was primarily attributable to variable costs associated with increases in business activity.

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Depreciation and Amortization

Depreciation and amortization expense increased $21.0 million, or 29.8%, to $91.5 million for the nine months ended September 30, 2011 from $70.5 million for the nine months ended September 30, 2010. The increase reflects a $22.1 million increase in depreciation and amortization expense attributable to hotels acquired during the periods. The remaining decrease is the net impact of declines in depreciation expense due to assets being fully depreciated less any increases in depreciation expense due to capital expenditures.

Property Tax, Insurance and Other

Property tax, insurance and other expense increased $8.5 million, or 31.1%, to $36.0 million for the nine months ended September 30, 2011 from $27.4 million for the nine months ended September 30, 2010. The increase includes $10.1 million in property tax, insurance and other expense attributable to hotels acquired during the periods.

General and Administrative

General and administrative expense increased $3.0 million, or 20.3%, to $17.5 million for the nine months ended September 30, 2011 from $14.5 million for the nine months ended September 30, 2010. The increase in general and administrative expense is primarily attributable to an increase in accrued bonuses of $1.9 million, amortization of restricted share awards of $1.9 million and an increase in professional fees of $0.2 million, offset by a decrease in legal fees of $0.7 million.

Transaction and Pursuit costs

Transaction and pursuit costs decreased $3.8 million to $3.6 million for the nine months ended September 30, 2011 from $7.4 million for the nine months ended September 30, 2010. There were nine acquisitions during the nine months ended September 30, 2011 resulting in transaction costs of $3.4 million for the period compared to five acquisitions during the nine months ended September 30, 2010 resulting in transaction costs of $6.6 million. The period-over-period increase in transaction costs was partially offset by a net decrease of $0.7 million of costs associated with unsuccessful acquisition efforts during the periods.

IPO Costs

In connection with the IPO and related formation transactions, for the nine months ended September 30, 2011, we incurred $10.3 million in non-recurring expenses for the transfer and assumption of indebtedness and other contractual obligations of our predecessor.

Interest Income

Interest income decreased $1.6 million to $1.3 million for the nine months ended September 30, 2011 from $2.9 million for the nine months ended September 30, 2010. This decrease was primarily due to a $1.4 million decline in interest income from our investment in two mortgage loans secured by hotels between the two periods which were brought current during the nine months ended September 30, 2010.

Interest Expense

Interest expense increased $10.7 million, or 16.5%, to $75.4 million for the nine months ended September 30, 2011 from $64.8 million for the nine months ended September 30, 2010. Interest expense increased as a result of $13.2 million in additional interest expense arising from debt incurred related to hotel acquisitions during the periods, $2.9 million of expenses related to the payoff of

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variable rate indebtedness, $5.1 million of interest expense related to borrowings on the term loan, an increase in deferred financing fee amortization of $1.1 million and an increase in unused fee incurred on the $300.0 million line of credit of $0.3 million. The offsetting decrease was primarily due to the expiration of unfavorable interest rate hedges resulting in a decrease in interest expense of $8.0 million and a decrease in interest expense of $4.3 million due to the payoff of variable rate indebtedness.

Income Taxes

As part of our corporate structure, we own TRSs that are subject to federal and state income taxes. The TRSs' effective tax rates were 37.07% and 0.0% for the nine months ended September 30, 2011 and September 30, 2010, respectively. The change in rate is primarily due to recent acquisitions generating income affecting both our federal income tax rate and state apportionment factor. We recorded tax expense of $1.5 million and $0.9 million for the nine months ended September 30, 2011 and September 30, 2010, respectively, primarily as a result of state taxes based on revenues.

Income from Discontinued Operations

Net income from discontinued operations increased $2.8 million, or 14.7% to $21.8 million for the nine months ended September 30, 2011 from $19.0 million for the nine months ended September 30, 2010. The increase in net income from discontinued operations arose from the August 5, 2011 transfer of title to the New York LaGuardia Airport Marriott to the former lenders pursuant to a deed in lieu of foreclosure arrangement.

Comparison of the Year Ended December 31, 2010 to the Year Ended December 31, 2009

Net loss from continuing operations for the year ended December 31, 2010 was $42.2 million compared to a net loss from continuing operations of $124.7 million for the year ended December 31, 2009, representing a decrease of $82.5 million. This improved performance was primarily due to a $60.9 million, or 13.4%, increase in total revenue (including $39.9 million arising from the net impact of acquisitions) and a decrease in impairment charges of $61.4 million, partially offset by a

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$32.4 million, or 11.6%, increase in hotel operating expenses and an increase in transaction and pursuit costs of $5.7 million.

	For the years ended December 31,			
	2010	**2009**	**$ change**	**% change**
Revenue				
Hotel operating revenue				
Room revenue	$ 445,630	$ 389,622	$ 56,008	14.4%
Food and beverage revenue	57,710	54,806	2,904	5.3%
Other operating department revenue	13,326	11,333	1,993	17.6%
Total revenue	**516,666**	**455,761**	**60,905**	**13.4%**
Expense				
Hotel operating expense				
Room	96,389	84,131	12,258	14.6%
Food and beverage	37,798	35,379	2,419	6.8%
Management fees	18,373	16,510	1,863	11.3%
Other hotel expenses	159,267	143,379	15,888	11.1%
Total hotel operating expense	311,827	279,399	32,428	11.6%
Depreciation	96,940	91,503	5,437	5.9%
Impairment loss		61,426	(61,426)	(100.0)%
Property tax, ground rent and insurance	32,500	33,191	(691)	(2.1)%
General and administrative	19,542	18,208	1,334	7.3%
Transaction and pursuit costs	14,345	8,665	5,680	65.6%
Total operating expense	475,154	492,392	(17,238)	(3.5)%
Operating income / (loss)	41,512	(36,631)	78,143	(213.3)%
Other income	629	955	(326)	(34.1)%
Interest income	3,352	618	2,734	442.4%
Interest expense	(86,735)	(87,849)	1,114	(1.3)%
Loss from continuing operations before income taxes	(41,242)	(122,907)	81,665	(66.4)%
Income tax expense	(945)	(1,801)	856	(47.5)%
Loss from continuing operations	(42,187)	(124,708)	82,521	(66.2)%
Income (loss) from discontinued operations	19,571	(43,290)	62,861	(145.2)%
Net loss	(22,616)	(167,998)	145,382	(86.5)%
Net loss attributable to the noncontrolling interest	213		213	0.0%
Net loss attributable to the Company	(22,403)	(167,998)	145,595	(86.7)%
Distributions to preferred unitholders	(62)	(62)		0.0%
Net loss available to owners	**$ (22,465)**	**$ (168,060)**	**$ 145,595**	**(86.6)%**

Revenue

Total revenue increased $60.9 million, or 13.4%, to $516.7 million for the year ended December 31, 2010 from $455.8 million for the year ended December 31, 2009, reflecting improvement in U.S. lodging fundamentals. Comparability of the annual periods was impacted by an increase of $39.9 million in revenue arising from the net impact of acquisitions during the periods.

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The following are the key hotel operating statistics for hotels owned at December 31, 2010 and 2009, respectively:

	For the Year Ended December 31,		
	2010	2009	% Change
Number of hotels (at end of period)	131	116	12.9%
Occupancy %	68.0%	63.5%	7.1%
ADR	$ 110.98	$ 109.52	1.4%
RevPAR	$ 75.43	$ 69.53	8.5%

Portfolio RevPAR increased to $75.43 from $69.53, an 8.5% increase. Comparability of the annual periods is impacted by increases of 0.5%, $5.08 and $4.03 in occupancy, ADR and RevPAR, respectively, arising from the net impact of acquisitions during the periods. For the 116 properties owned for the entirety of both periods, RevPAR growth of 2.4% was driven by a 6.2% increase in occupancy offset by a 3.6% decline in ADR.

Room Revenue Room revenue increased $56.0 million, or 14.4%, to $445.6 million for the year ended December 31, 2010 from $389.6 million for the year ended December 31, 2009. The increase in room revenue was primarily due to an 8.5% increase in RevPAR, driven by a 7.1% increase in occupancy and a 1.4% increase in ADR. Comparability of the annual periods is impacted by an increase of $35.7 million in room revenue arising from the net impact of acquisitions during the periods.

Food and Beverage Revenue Food and beverage revenue increased $2.9 million, or 5.3%, to $57.7 million for the year ended December 31, 2010 from $54.8 million for the year ended December 31, 2009. However, comparability of the annual periods was impacted by an increase of $2.6 million in food and beverage revenue arising from the net impact of acquisitions during the periods.

Other Operating Department Revenue Other operating department revenue, which includes revenue derived from ancillary sources, increased $2.0 million, or 17.6%, to $13.3 million for the year ended December 31, 2010 from $11.3 million for the year ended December 31, 2009. Comparability of the annual periods is impacted by an increase of $1.7 million in other operating department revenue arising from the net impact of acquisitions during the periods. The majority of the remaining increase was a result of portfolio-wide increase in parking revenue of $0.4 million, which was partially offset by continuing declines in telephone revenue of $0.3 million as guests reduced their usage of in-room telephone equipment.

Hotel Operating Expense

Hotel operating expense increased $32.4 million, or 11.6%, to $311.8 million for the year ended December 31, 2010 from $279.4 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by an increase of $23.7 million in hotel operating expense arising from the net impact of acquisitions during the periods. The remaining increase was primarily attributable to increases in occupancy as a result of the improving economy.

Depreciation

Depreciation expense increased $5.4 million, or 5.9%, to $96.9 million for the year ended December 31, 2010 from $91.5 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by a $6.1 million increase in depreciation expense arising from the net impact of acquisitions during the periods and a $1.7 million increase in depreciation on building and furniture, fixtures and equipment for capital expenditures made during 2010. The partially offsetting

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decrease was primarily due to a reduction in fixed asset bases at certain hotels due to impairment charges recognized in prior years.

Impairment Loss

No impairment losses were recognized during 2010. During the year ended December 31, 2009, 16 of our hotels were deemed to have carrying values that were not fully recoverable based on changes in the capital markets and the overall decline in lodging demand, and, as a result, we recognized an impairment loss of $61.4 million. This excludes one hotel that was deemed to have a carrying value that was not fully recoverable based on changes in the capital markets and the overall decline in lodging demand, and, as a result, we recognized an impairment loss of $37.0 million which is included in discontinued operations for 2009.

Property Tax, Ground Rent and Insurance

Property tax, ground rent and insurance expense decreased $0.7 million, or 2.1%, to $32.5 million for the year ended December 31, 2010 from $33.2 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by an increase of $3.4 million in property tax, ground rent and insurance expense arising from the net impact of acquisitions during the periods. Property tax, ground rent and insurance expense for the remainder of the portfolio decreased $4.1 million due to a combination of declines in assessed property values due to the recession and our efforts to aggressively challenge real estate tax assessments and manage our insurance premiums.

General and Administrative

General and administrative expense increased $1.3 million, or 7.3%, to $19.5 million for the year ended December 31, 2010 from $18.2 million for the year ended December 31, 2009. The majority of the increase in general and administrative expense is attributable to an increase in legal fees of $0.9 million, primarily related to our investment in loans and an increase in management advisory services of $0.5 million.

Transaction and Pursuit costs

Transaction and pursuit costs increased $5.7 million to $14.3 million for the year ended December 31, 2010 from $8.7 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by an increase of $10.3 million in transaction costs arising from the net impact of acquisitions during the periods. There were 24 acquisitions in 2010 and the first quarter of 2011, which resulted in transaction costs of $13.2 million in 2010, compared to two acquisitions in 2009 resulting in transaction costs of $2.9 million. The period-over-period increase in transaction costs was partially offset by a net decrease of $4.6 million of costs associated with unsuccessful acquisition efforts during the periods. Unsuccessful acquisition costs totaled $1.2 million in 2010 and $5.8 million in 2009, with the 2009 charge arising primarily from a $5.6 million fee paid in 2009 in order to terminate an obligation to purchase two hotels under a purchase and sale agreement. The purchase and sale agreement was terminated due to an overall decline in the economy, which resulted in our deciding not to continue to pursue this acquisition opportunity.

Interest Income

Interest income increased $2.7 million to $3.4 million for the year ended December 31, 2010 from $0.6 million for the year ended December 31, 2009. This increase was primarily due to $3.1 million of interest income recognized for the year ended December 31, 2010 arising from our investment in loans that were acquired at the end of 2009. This was partially offset by a decrease in interest income earned on escrowed monies received in 2009 of $0.2 million.

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Interest Expense

Interest expense decreased $1.1 million, or 1.3%, to $86.7 million for the year ended December 31, 2010 from $87.8 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by an increase of $3.5 million in interest expense arising from the net impact of debt incurred related to acquisitions during the periods. The decrease was primarily due to the expiration of unfavorable interest rate hedges resulting in a decrease in hedge driven interest expense of $9.7 million and a $0.5 million decrease in amortization of deferred financing fees, partially offset by an increase in interest expense of $5.9 million from rising interest rates as well as higher interest rates on $311.1 million of debt obligations that were modified and extended.

Income Tax Expense

Income tax expense decreased $0.9 million, or 47.5%, to $0.9 million for the year ended December 31, 2010 from $1.8 million for the year ended December 31, 2009. Tax expense incurred for 2010 was less than 2009 due to expense incurred in 2009 for an immaterial out-of-period adjustment for previously unrecorded state taxes. As part of our structure, we own TRSs that are subject to federal and state income taxes. The TRSs' 2010 and 2009 income tax expense were calculated using an effective tax rate of 37.8% for both years.

Income from Discontinued Operations

Net income from discontinued operations increased $62.9 million to $19.6 million for the year ended December 31, 2010 from a net loss of $43.3 million for the year ended December 31, 2009. The increase in net income from discontinued operations is primarily the result of the increase in net income of $21.7 million from the six hotels sold in 2010 (including $23.7 million gain on sale), and an increase in net income of $41.1 million from the New York LaGuardia Airport Marriott. Included in the 2009 net loss from discontinued operations is a $36.9 million impairment charge for the New York LaGuardia Airport Marriott.

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

Net loss from continuing operations for the year ended December 31, 2009 was $124.7 million compared to a net loss from continuing operations of $28.1 million for the year ended December 31, 2008, representing a decline of $96.6 million. This decline was primarily due to a $61.7 million, or 11.9%, decrease in total revenue as a result of weakness in the U.S. lodging market caused by the

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economic recession and an increase in impairment loss of $40.0 million arising from the write down of 16 hotels to fair value.

	For the years ended December 31, 2009	2008	$ change	% change
Revenue				
Hotel operating revenue				
Room revenue	$ 389,622	$ 438,388	$ (48,766)	(11.1)%
Food and beverage revenue	54,806	63,660	(8,854)	(13.9)%
Other operating department revenue	11,333	15,454	(4,121)	(26.7)%
Total revenue	**455,761**	**517,502**	**(61,741)**	**(11.9)%**
Expense				
Hotel operating expense				
Room	84,131	90,475	(6,344)	(7.0)%
Food and beverage	35,379	41,496	(6,117)	(14.7)%
Management fees	16,510	19,184	(2,674)	(13.9)%
Other hotel expenses	143,379	154,610	(11,231)	(7.3)%
Total hotel operating expense	279,399	305,765	(26,366)	(8.6)%
Depreciation	91,503	80,105	11,398	14.2%
Impairment loss	61,426	21,472	39,954	186.1%
Property tax, ground rent and insurance	33,191	32,002	1,189	3.7%
General and administrative	18,208	18,784	(576)	(3.1)%
Transaction and pursuit costs	8,665	1,955	6,710	343.2%
Organization costs		145	(145)	(100.0)%
Total operating expense	492,392	460,228	32,164	7.0%
Operating income / (loss)	(36,631)	57,274	(93,905)	(164.0)%
Other income	955	745	210	28.2%
Interest income	618	1,558	(940)	(60.3)%
Interest expense	(87,849)	(88,656)	807	(0.9)%
Loss from continuing operations before income taxes	(122,907)	(29,079)	(93,828)	322.7%
Income tax (expense) / benefit	(1,801)	945	(2,746)	(290.6)%
Loss from continuing operations	(124,708)	(28,134)	(96,574)	343.3%
Loss from discontinued operations	(43,290)	(1,187)	(42,103)	3547.0%
Net loss	(167,998)	(29,321)	(138,677)	473.0%
Distributions to preferred unitholders	(62)	(61)	(1)	1.6%
Net loss available to owners	**$ (168,060)**	**$ (29,382)**	**$ (138,678)**	**472.0%**

Revenue

Total revenue declined $61.7 million, or 11.9%, to $455.8 million for the year ended December 31, 2009 from $517.5 million for the year ended December 31, 2008, reflecting the continued weakness in U.S. lodging fundamentals and impact of the economic recession in all of our markets. Comparability of the annual periods was impacted by an increase of $35.9 million in total revenue arising from the net impact of acquisitions during the periods. When excluding non-comparable hotels, total revenue from hotels owned for the duration of both periods declined $97.4 million. The continued decline in

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group bookings, as both businesses and associations cancelled non-essential meetings, adversely affected ADR and food and beverage revenue.

The following were the key hotel operating statistics for the hotels owned at December 31, 2009 and 2008, respectively:

	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008	% Change
Number of hotels (at end of period)	116	114	1.8%
Occupancy %	63.5%	67.9%	(6.5)%
ADR	$ 109.52	$ 123.00	(11.0)%
RevPAR	$ 69.53	$ 83.57	(16.8)%

Most of the decline in RevPAR reflected a number of negative trends within primary customer segments, including decreases in demand, length of stay, booking pace, and business travel, as well as declines in ADR reflecting discounted pricing.

Room Revenue Room revenue decreased $48.8 million, or 11.1%, to $389.6 million for the year ended December 31, 2009 from $438.4 million for the year ended December 31, 2008. The decrease in room revenue was due to a 16.8% decline in RevPAR, driven by a 11.0% decrease in ADR and a 6.5% decrease in occupancy. Comparability of the annual periods was impacted by a $33.5 million increase in revenues arising from the net impact of acquisitions during the periods.

Food and Beverage Revenue Food and beverage revenue decreased $8.9 million, or 13.9%, to $54.8 million for the year ended December 31, 2009 from $63.7 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $1.7 million in food and beverage revenues arising from the net impact of acquisitions during the periods. The primary driver of the decreases in food and beverage revenue for the remainder of the portfolio was a $7.3 million decline in event catering revenues at the hotels. The remaining $3.3 million decline in food and beverage revenue was the result of guests limiting their expenditures as a result of the recession.

Other Operating Department Revenue Other operating department revenue, which includes revenue derived from ancillary sources, decreased $4.1 million, or 26.7%, to $11.3 million for the year ended December 31, 2009 from $15.5 million for the year ended December 31, 2008, primarily as a result of guests continuing to limit expenditures in all areas, including these ancillary sources. Comparability of the annual periods was impacted by an increase of $0.6 million in other operating department revenue arising from the net impact of acquisitions during the periods.

Hotel Operating Expense

Hotel operating expense decreased $26.4 million, or 8.6%, to $279.4 million for the year ended December 31, 2009 from $305.8 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $18.6 million in hotel operating expense arising from the net impact of acquisitions during the periods. Excluding the impact of acquisitions during the periods, hotel operating expense decreased $45.0 million primarily as a result of lower occupancy across our portfolio.

Depreciation

Depreciation expense increased $11.4 million, or 14.2%, to $91.5 million for the year ended December 31, 2009 from $80.1 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $7.2 million in depreciation expense arising from the net impact of acquisitions during the periods. The remaining increase was primarily due to depreciation on building and furniture, fixtures and equipment related to $17.2 million of capital expenditures made during 2009, partially offset by a reduction of the furniture, fixtures and equipment basis at certain hotels due to impairment charges of $21.5 million in 2008.

Impairment Loss

Impairment loss increased $40.0 million to $61.4 million for the year ended December 31, 2009 from $21.5 million for the year ended December 31, 2008. The increase was due to our determination that the carrying values for 16 of our hotels were not fully recoverable, which resulted in us recording impairment charges related to such hotels in 2009. This excludes one hotel that was deemed to have a carrying value that was not fully recoverable and, as a result, we recognized an impairment loss of $37.0 million which is included in discontinued operations for 2009. At December 31, 2008, five of our hotels were deemed to have carrying values that were not fully recoverable. For both 2009 and 2008, the determination that carrying values for certain of our hotels were not fully recoverable was made based on changes in the capital markets and the overall decline in lodging demand.

Property Tax, Ground Rent and Insurance

Property tax, ground rent and insurance expense increased $1.2 million, or 3.7%, to $33.2 million for the year ended December 31, 2009 from $32.0 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $2.0 million in property tax, ground rent and insurance expense arising from the net impact of acquisitions during the periods. Property tax, ground rent and insurance expense for the remainder of the portfolio decreased $0.8 million mainly due to a combination of declines in assessed property values due to the recession and our efforts to aggressively challenge real estate tax assessments and manage our insurance premiums.

General and Administrative

General and administrative expense decreased $0.6 million, or 3.1%, to $18.2 million for the year ended December 31, 2009 from $18.8 million for the year ended December 31, 2008.

Transaction and Pursuit Costs

Transaction and pursuit costs increased $6.7 million to $8.7 million for the year ended December 31, 2009 from $2.0 million for the year ended December 31, 2008, primarily as a result of a $5.6 million fee paid in 2009 in order to terminate an obligation to purchase two hotels under a purchase and sale agreement. The purchase and sale agreement was terminated due to an overall decline in the economy, which resulted in our deciding not to continue to pursue this acquisition opportunity. This payment resulted in a year-over-year increase in costs associated with unsuccessful acquisition efforts of $4.6 million. Additionally, transaction costs increased $2.1 million year-over-year due to the size and complexity of the transactions that occurred during 2009 versus 2008.

Interest Income

Interest income decreased $1.0 million, or 60.3%, to $0.6 million for the year ended December 31, 2009 from $1.6 million for the year ended December 31, 2008. This decrease was primarily due to declines in interest rates on demand deposits.

Interest Expense

Interest expense decreased $0.8 million, or 0.9%, to $87.8 million for the year ended December 31, 2009 from $88.7 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $5.2 million in interest expense arising from the net impact of acquisitions during the periods. Excluding the impact of acquisitions during the periods, interest expense decreased $4.4 million. This $4.4 million decrease was primarily due to a decline in interest rates as a result of the downturn in the economy, which caused mortgage interest expense to decrease $4.1 million with the remaining reduction resulting from a decrease in average outstanding balances.

Income Tax Expense

Income tax expense increased $2.7 million to $1.8 million for the year ended December 31, 2009 from a $0.9 million income tax benefit for the year ended December 31, 2008. The increase in income tax expense was due to an immaterial out-of-period adjustment for previously unrecorded state taxes in the State of Texas. As part of our structure, we own TRSs that are subject to federal and state income taxes. The TRSs' combined effective tax rates of 37.8% did not change significantly for the year ended December 31, 2009.

Income from Discontinued Operations

Net loss from discontinued operations increased $42.1 million to $43.3 million for the year ended December 31, 2009 from $1.2 million for the year ended December 31, 2008. Included in the 2009 net loss from discontinued operations is a $36.9 million impairment charge for the New York LaGuardia Airport Marriott. The remaining increase in net loss from discontinued operations is primarily the result of the downturn in the overall economy, which resulted in an 8.7% decline in occupancy and a 3.4% decline in ADR for the six hotels sold in 2010 and a 8.6% decline in occupancy and a 15.0% decline in ADR for 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, 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 NAREIT which defines FFO as net income or loss (calculated in accordance with GAAP), excluding gains or losses from sales of real estate, items classified by GAAP as extraordinary, the cumulative effect of changes in accounting principles, impairment write-downs of depreciable real estate, plus depreciation and amortization, and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most real estate industry investors consider FFO to be helpful in evaluating a real estate company's operations. We believe that the presentation of FFO provides useful information to investors regarding our operating performance by excluding the effect of depreciation and amortization, gains or losses from sales of real estate, impairment write-downs of depreciable real estate, extraordinary items and the portion of items related to unconsolidated entities, all of which are based on historical cost accounting, and that FFO can facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common shareholders. Our calculation of FFO may not be comparable to measures calculated by other companies who do not use the NAREIT definition of FFO or do not calculate FFO per diluted share in accordance with NAREIT guidance. Additionally, FFO may not be helpful when comparing us to non-REITs. We present FFO attributable

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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 other expenses that were the result of the IPO and related formation transactions. Impairment losses are non-cash expenses that are generally non-recurring in nature and relate to the operating performance of our hotels. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs.

The following is a reconciliation of our GAAP net income (loss) to FFO and Adjusted FFO for the nine months ended September 30, 2011 and 2010, and for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	For the nine months ended September 30,		For the year ended December 31,		
	2011	**2010**	**2010**	**2009**	**2008**
Net income (loss)	$ 12,910	$ (12,115)	$ (22,616)	$ (167,998)	$ (29,321)
Depreciation and amortization	91,479	70,465	96,940	91,503	80,105
Depreciation and amortization, discontinued operations	2,602	2,870	3,853	7,270	6,766
Distributions to preferred unitholders	(61)	(48)	(62)	(62)	(61)
Gain on sale of properties	(23,515)	(23,711)	(23,710)		
Impairment loss				61,426	21,472
Impairment loss, discontinued operations				36,946	
Noncontrolling interest in joint venture	55		213		
Adjustments related to joint venture(1)	(222)		(30)		
FFO	**83,248**	**37,461**	**54,588**	**29,085**	**78,961**
Transaction and pursuit costs	3,614	7,438	14,345	8,665	1,955
IPO costs(2)	10,333				
Amortization of share based compensation	1,962				
Other expenses(3)(4)	5,665	2,345	3,126	2,626	2,626
Organization costs					145
Adjusted FFO	**$ 104,822**	**$ 47,244**	**$ 72,059**	**$ 40,376**	**$ 83,687**

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

(2) Includes formation expenses related to the IPO for the transfer and assumption of indebtedness and other contractual obligations of the RLJ Predecessor.

(3) Includes $4.3 million, for the nine months ended September 30, 2011, of incremental interest expense related to the accelerated payoff of mortgage indebtedness.

(4) Includes certain compensation obligations of the RLJ Predecessor.

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Earnings Before Interest, Taxes, Depreciation and Amortization

EBITDA is defined as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; and (3) depreciation and amortization. We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. In addition, EBITDA is used as one measure in determining the value of hotel acquisitions and dispositions.

We further adjust EBITDA for certain additional items such as discontinued operations, hotel transaction and pursuit costs, the amortization of share based compensation and other expenses that were the result of the IPO and related formation transactions. We believe that Adjusted EBITDA provides investors with another financial measure that can facilitate comparisons of operating performance between periods and between REITs. 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.

The following is a reconciliation of our GAAP net income (loss) to EBITDA and Adjusted EBITDA for the nine months ended September 30, 2011 and 2010, and for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	For the nine months ended September 30,		For the year ended December 31,		
	2011	**2010**	**2010**	**2009**	**2008**
Net income (loss)	$ 12,910	$ (12,115)	$ (22,616)	$ (167,998)	$ (29,321)
Depreciation and amortization	91,479	70,465	96,940	91,503	80,105
Depreciation and amortization, discontinued operations	2,602	2,870	3,853	7,270	6,766
Distributions to preferred unitholders	(61)	(48)	(62)	(62)	(61)
Interest expense, net(1)	75,371	64,489	84,970	87,287	87,098
Interest expense, discontinued operations, net	488	4,703	5,646	7,898	7,830
Income tax expense (benefit)	1,546	898	945	1,801	(945)
Noncontrolling interest in joint venture	55		213		
Adjustments related to joint venture(2)	(746)		(45)		
EBITDA	**183,644**	**131,262**	**169,844**	**27,699**	**151,472**
Transaction and pursuit costs	3,614	7,438	14,345	8,665	1,955
IPO Costs(3)	10,333				
Gain on sale of properties	(23,515)	(23,711)	(23,710)		
Amortization of share based compensation	1,962				
Other expenses(4)	1,363	2,345	3,126	2,626	2,626
Impairment loss				61,426	21,472
Impairment loss, discontinued operations				36,946	
Organization costs					145
Adjusted EBITDA	**$ 177,401**	**$ 117,334**	**$ 163,605**	**$ 137,362**	**$ 177,670**

(1) Excludes amounts attributable to investment in loans of $1.2 million and $2.6 million for the nine months ended September 30, 2011 and 2010, respectively, and $1.6 million, $56,000 and zero for the years ended December 31, 2010, 2009 and 2008, respectively.

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

(3) Includes formation expenses related to the IPO for the transfer and assumption of indebtedness and other contractual obligations of the RLJ Predecessor.

(4) Includes certain compensation obligations of the RLJ Predecessor.

Liquidity and Capital Resources

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

- recurring maintenance and capital expenditures necessary to maintain our hotels in accordance with brand standards (see " Capital Expenditures and Reserve Funds");
- interest expense and scheduled principal payments on outstanding indebtedness (see " Contractual Obligations");
- distributions necessary to qualify for taxation as a REIT; and
- capital expenditures to improve our hotels, including capital expenditures required by our franchisors in connection with our formation transactions, recent hotel acquisitions and the rebranding of five of our hotels (see " Capital Expenditures and Reserve Funds").

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our revolving credit facility.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional hotels and redevelopments, renovations, expansions and other capital expenditures that need to be made periodically with respect to our hotels and scheduled debt payments. We expect to meet our long-term liquidity requirements through various sources of capital, including our revolving credit facility 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 hotels will require periodic capital expenditures and renovation to remain competitive. In addition, acquisitions, redevelopments or expansions of hotels will require significant capital outlays. We may not be able to fund such capital improvements solely from net cash provided by operations because we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gains, to qualify and maintain our qualification as a REIT, and we are subject to tax on any retained income and gains. As a result, our ability to fund capital expenditures, acquisitions or hotel redevelopment through retained earnings is very limited. Consequently, we expect to rely heavily upon the availability of debt or equity capital for these purposes. If we are unable to obtain the necessary capital on favorable terms, or at all, our financial condition, liquidity, results of operations and prospects could be materially and adversely affected.

On November 4, 2011, our board of trustees authorized a share repurchase program pursuant to which we may acquire up to $100.0 million of our common shares from time to time, subject to market

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conditions and other considerations. We are not obligated to acquire any specified amount of common shares and we may modify or suspend the share repurchase program at any time. As of the date of this prospectus, we have not repurchased any common shares under the share repurchase program.

Our Revolving Credit Facility

We, through our operating partnership, have an unsecured revolving credit facility that provides for maximum borrowings of up to $300 million. The credit facility requires that a group of no less than fifteen of our hotel properties remain unencumbered by outstanding indebtedness. The credit facility contains certain financial covenants relating to maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum secured indebtedness. If an event of default exists, under the terms of the credit facility, we are not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. The credit facility matures on June 20, 2014 and may be extended for an additional year, at our option.

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

We did not incur any interest expense on the credit facility for the nine months ended September 30, 2011. For the nine months ended September 30, 2011, the Company incurred an unused commitment fee of approximately $343,000. There were no borrowings outstanding under the revolving credit facility at September 30, 2011.

Our Outstanding Mortgage Indebtedness

As of September 30, 2011 and December 31, 2010, we were subject to the following mortgage loans (in thousands):

				Principal balance at	
Lender	**Number of Assets Encumbered**	**Interest rate at September 30, 2011(1)**	**Maturity Date**	**September 30, 2011**	**December 31, 2010**
Keybank(2)	6	1.47%(3)	April 2012	$ 48,000	$ 48,000
State Street Bank(2)		2.98%(3)	April 2012	37,000	37,000
Wells Fargo	1	4.25%(4)	June 2013(5)	60,000	60,000
Wells Fargo	1	5.50%(4)	Oct 2013(5)	40,000	40,000
Wells Fargo	1	5.50%(4)	Oct 2013(5)	31,000	31,000
Wells Fargo(6)					