RLJ Lodging Trust
Form 10-Q
August 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to

Commission File Number 001-35169

RLJ LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

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

(301) 280-7777

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

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

As of July 31, 2013, 122,735,453 common shares of beneficial interest of the Registrant, $0.01 par value per share, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

RLJ Lodging Trust

Combined Consolidated Balance Sheets

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

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Investment in hotel and other properties, net	$ 3,221,671	$ 3,073,483
Investment in loans	12,357	12,426
Cash and cash equivalents	262,897	115,861
Restricted cash reserves	65,088	64,787
Hotel and other receivables, net of allowance of $313 and $194, respectively	33,781	22,738
Deferred financing costs, net	9,619	11,131
Deferred income tax asset	2,381	2,206
Purchase deposits	7,233	9,910
Prepaid expense and other assets	38,822	33,843
Total assets	**$ 3,653,849**	**$ 3,346,385**
Liabilities and Equity		
Borrowings under revolving credit facility	$	$ 16,000
Mortgage loans	985,558	997,651
Term loans	400,000	400,000
Accounts payable and accrued expense	81,114	87,575
Deferred income tax liability	4,041	4,064
Advance deposits and deferred revenue	11,832	8,508
Accrued interest	2,093	2,284
Distributions payable	26,111	22,392
Total liabilities	**1,510,749**	**1,538,474**
Commitments and Contingencies (Note 10)		
Equity		
Shareholders equity:		
Preferred shares of beneficial interest, $0.01 par value, 50,000,000 shares authorized; zero shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively.		
Common shares of beneficial interest, $0.01 par value, 450,000,000 shares authorized; 122,735,453 and 106,565,516 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively.	1,227	1,066
Additional paid-in-capital	2,173,483	1,841,449
Accumulated other comprehensive income	4,527	
Distributions in excess of net earnings	(54,409)	(52,681)
Total shareholders equity	2,124,828	1,789,834

Noncontrolling interest		
Noncontrolling interest in joint venture	6,921	6,766
Noncontrolling interest in Operating Partnership	11,351	11,311
Total noncontrolling interest	18,272	18,077
Total equity	**2,143,100**	**1,807,911**
Total liabilities and equity	**$ 3,653,849**	**$ 3,346,385**

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

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RLJ Lodging Trust

Combined Consolidated Statements of Operations and Comprehensive Income

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

(unaudited)

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Revenue				
Operating revenue				
Room revenue	$ 229,111	$ 194,396	$ 415,098	$ 352,587
Food and beverage revenue	25,113	22,402	48,343	41,906
Other operating department revenue	7,351	6,003	13,569	11,105
Total revenue	**261,575**	**222,801**	**477,010**	**405,598**
Expense				
Operating expense				
Room expense	47,271	40,841	90,541	77,640
Food and beverage expense	17,246	15,508	33,823	29,948
Management fee expense	9,398	7,621	16,800	13,910
Other operating expense	73,384	64,961	140,083	123,332
Total property operating expense	147,299	128,931	281,247	244,830
Depreciation and amortization	31,910	31,428	63,321	65,099
Property tax, insurance and other	16,574	12,439	31,327	25,052
General and administrative	9,083	7,478	17,894	14,737
Transaction and pursuit costs	1,255	2,795	2,344	2,814
Total operating expense	206,121	183,071	396,133	352,532
Operating income	55,454	39,730	80,877	53,066
Other income	91	106	170	190
Interest income	240	418	536	837
Interest expense	(16,874)	(20,373)	(33,838)	(40,484)
Loss on disposal		(634)		(634)
Income before income tax expense	38,911	19,247	47,745	12,975
Income tax expense	(345)	(281)	(571)	(875)
Income from continuing operations	38,566	18,966	47,174	12,100
Income (loss) from discontinued operations	2,415	53	2,391	(2)
Net income	40,981	19,019	49,565	12,098
Net (income) loss attributable to non-controlling interests				
Noncontrolling interest in consolidated joint venture	(203)	38	(155)	408
Noncontrolling interest in common units of Operating Partnership	(268)	(172)	(407)	(134)
Net income attributable to common shareholders	$ 40,510	$ 18,885	$ 49,003	$ 12,372
Basic per common share data:				
Net income per share attributable to common shareholders before discontinued operations	$ 0.31	$ 0.18	$ 0.41	$ 0.11

Discontinued operations		0.02				0.02		
Net income per share attributable to common shareholders	$	0.33	$	0.18	$	0.43	$	0.11
Weighted-average number of common shares		121,520,253		105,388,743		114,208,435		105,360,778
Diluted per common share data:								
Net income per share attributable to common shareholders before discontinued operations	$	0.31	$	0.18	$	0.41	$	0.11
Discontinued operations		0.02				0.02		
Net income per share attributable to common shareholders	$	0.33	$	0.18	$	0.43	$	0.11
Weighted-average number of common shares		122,280,431		105,454,679		114,912,726		105,414,876
Amounts attributable to the Company s common shareholders:								
Income from continuing operations	$	38,112	$	18,832	$	46,629	$	12,374
Income from discontinued operations		2,398		53		2,374		(2)
Net income	$	40,510	$	18,885	$	49,003	$	12,372
Comprehensive income								
Net income attributable to the Company	$	40,510	$	18,885	$	49,003	$	12,372
Unrealized gain on interest rate derivatives		5,004		381		4,527		375
Comprehensive income attributable to the Company	$	45,514	$	19,266	$	53,530	$	12,747

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

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RLJ Lodging Trust

Combined Consolidated Statements of Changes in Equity

(Amounts in thousands, except share data)

(unaudited)

	Shareholders Equity: Common Stock Shares	Shareholders Equity: Common Stock Par Value	Shareholders Equity: Additional Paid-in-Capital	Distributions in excess of net earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests: Operating Partnership	Noncontrolling Interests: Consolidated Joint Venture	Noncontrolling Interests: Total Noncontrolling Interests	Total Equity
Balance at December 31, 2012	**106,565,516**	**$ 1,066**	**$ 1,841,449**	**$ (52,681)**	**$**	**$ 11,311**	**$ 6,766**	**$ 18,077**	**$ 1,807,911**
Net income				49,003		407	155	562	49,565
Unrealized gain on interest rate derivative					4,527				4,527
Proceeds from sale of common stock, net	15,870,000	159	327,386						327,545
Issuance of restricted stock	377,830	3	(3)						
Amortization of share based compensation			6,348						6,348
Share grants to trustees	3,005		68						68
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(78,628)	(1)	(1,765)						(1,766)
Forfeiture of restricted stock	(2,270)								
Distributions on common shares and units				(50,731)		(367)		(367)	(51,098)
Balance at June 30, 2013	**122,735,453**	**$ 1,227**	**$ 2,173,483**	**$ (54,409)**	**$ 4,527**	**$ 11,351**	**$ 6,921**	**$ 18,272**	**$ 2,143,100**

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

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	Shareholders Equity					Noncontrolling Interests			
	Common Stock				Accumulated Other			Total	
	Shares	Par Value	Additional Paid-in-Capital	Distributions in excess of net earnings	Comprehensive Loss	Operating Partnership	Consolidated Joint Venture	Noncontrolling Interests	Total Equity
Balance at December 31, 2011	**106,279,049**	**$ 1,063**	**$ 1,835,011**	**$ (18,960)**	**$ (1,782)**	**$ 11,486**	**$ 7,170**	**$ 18,656**	**$ 1,833,988**
Net income (loss)				12,372		134	(408)	(274)	12,098
Unrealized gain on interest rate derivative					375				375
Issuance of restricted stock	436,646	4	(4)						
Amortization of share based compensation			3,213						3,213
Share grants to trustees	4,352		80						80
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(59,465)		(1,069)						(1,069)
Forfeiture of restricted stock	(26,506)								
Distributions on common shares and units				(35,215)		(296)		(296)	(35,511)
Balance at June 30, 2012	**106,634,076**	**$ 1,067**	**$ 1,837,231**	**$ (41,803)**	**$ (1,407)**	**$ 11,324**	**$ 6,762**	**$ 18,086**	**$ 1,813,174**

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

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RLJ Lodging Trust

Combined Consolidated Statements of Cash Flows

(Amounts in thousands)

(unaudited)

	For the six months ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 49,565	$ 12,098
Adjustments to reconcile net income to cash flow provided by operating activities:		
Gain on extinguishment of indebtedness	(2,425)	
Depreciation and amortization	63,353	65,151
Amortization of deferred financing costs	1,588	2,062
Amortization of deferred management fees	500	500
Loss on disposal		634
Share grants to trustees	68	80
Amortization of share based compensation	6,348	3,213
Deferred income taxes	(198)	(279)
Changes in assets and liabilities:		
Hotel and other receivables, net	(10,335)	(9,136)
Prepaid expense and other assets	(5,805)	(5,629)
Accounts payable and accrued expense	(5,736)	(14,566)
Advance deposits and deferred revenue	3,011	3,838
Accrued interest	(191)	228
Net cash flow provided by operating activities	99,743	58,194
Cash flows from investing activities:		
Acquisition of hotel and other properties, net of cash acquired	(184,165)	(182,690)
Purchase deposits	2,677	
Proceeds from principal payments on investment in loans	69	102
Improvements and additions to hotel and other properties	(25,984)	(76,991)
Additions to property and equipment	(48)	(241)
(Funding of) releases from restricted cash reserves, net	(301)	5,203
Net cash flow used in investing activities	(207,752)	(254,617)
Cash flows from financing activities:		
Borrowings under revolving credit facility	83,000	85,000
Repayments under revolving credit facility	(99,000)	
Proceeds from mortgage loans		85,000
Payment of mortgage principal	(7,279)	(91,549)
Repurchase of common shares	(1,766)	(1,069)
Distributions on common shares	(47,012)	(33,563)
Distributions on Operating Partnership units	(367)	(282)
Payment of deferred financing costs	(76)	(1,750)
Proceeds from issuance of common shares	327,545	
Net cash flow provided by financing activities	255,045	41,787
Net change in cash and cash equivalents	147,036	(154,636)
Cash and cash equivalents, beginning of period	115,861	310,231
Cash and cash equivalents, end of period	**$ 262,897**	**$ 155,595**

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

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RLJ Lodging Trust

Notes to the Combined Consolidated Financial Statements

(unaudited)

1. Organization

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

Substantially all of the Company s assets are held by, and all of its operations are conducted through, RLJ Lodging Trust, L.P. (the Operating Partnership). The Company is the sole general partner of the Operating Partnership. As of June 30, 2013, there were 123,629,453 units of limited partnership interest in the Operating Partnership (OP units) outstanding and the Company owned, through a combination of direct and indirect interests, 99.3% of the outstanding OP units.

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

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

Reporting Periods

As of June 30, 2013, the Company owned five hotels that were managed by affiliates of Marriott International (Marriott). Beginning January 1, 2013, the Company s hotels managed by Marriott were accounted for on a calendar year basis. Prior to January 1, 2013, the Company s hotels managed by Marriott were accounted for on a fiscal year comprised of 52 or 53 weeks ending on the Friday closest to December 31. The Company s results for the three and six months ended June 30, 2012 include the results of operations for the Company s Marriott-managed hotels for the 24-week period ended June 15, 2012.

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Reclassifications

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

Use of Estimates

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

Revenue Recognition

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

Incentive payments received pursuant to entry into management agreements are deferred and amortized into income over the life of the respective agreements. In May 2012, the Company received an incentive payment of $4.0 million related to purchasing a hotel and entering into a franchise agreement, which is being recognized over the remaining term of the franchise agreement. As of June 30, 2013, there was approximately $3.9 million remaining to be recognized.

Investment in Hotel and Other Properties

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

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

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

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

The Company assesses the carrying values of each property whenever events or changes in circumstances indicate that the carrying amounts of these properties may not be fully recoverable. Recoverability of the property is measured by comparison of the carrying amount of the property to the estimated future undiscounted cash flows which take into account current market conditions and the Company s intent with respect to holding or disposing of the property. If the Company s analysis indicates that the carrying value of the property is not recoverable on an undiscounted cash flow basis, it recognizes an impairment charge for the amount by which the carrying value exceeds the fair value of the property. Fair value is

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determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third party appraisals, where considered necessary.

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

Franchise Agreements

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

Earnings Per Share

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

Share-based Compensation

From time to time, the Company may issue share-based awards under the 2011 Equity Incentive Plan (the 2011 Plan), as compensation to officers, employees and non-employee trustees (see Note 11). The vesting of awards issued to officers and employees is based on either continued employment (time-based) or based on the relative total shareholder returns of the Company and continued employment (performance-based), as determined by the Board of Trustees at the date of grant. For time-based awards, the Company recognizes compensation expense for non-vested shares on a straight-line basis over the vesting period based upon the fair market value of the shares on the date of grant, adjusted for forfeitures. For performance-based awards, the Company recognizes compensation expense over the requisite service period for each award, based on the fair market value of the shares on the date of grant, as determined using a Monte Carlo simulation, adjusted for forfeitures.

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3. Acquisition of Hotel and Other Properties

During the six months ended June 30, 2013, the Company acquired the following properties, which were funded through a combination of available cash and borrowings under its credit facility:

Courtyard Houston Downtown	Houston, TX	March 19, 2013	White Lodging Services	191	$ 34.3	million	100%
Residence Inn Houston Downtown	Houston, TX	March 19, 2013	White Lodging Services	171	29.4	million	100%
Humble Tower Apartments (1)	Houston, TX	March 19, 2013	The Sterling Group	82	15.6	million	100%
Courtyard Waikiki Beach	Honolulu, HI	June 17, 2013	Highgate Hotels	399	75.3	million	100%
Vantaggio Suites Cosmo (2)	San Francisco, CA	June 21, 2013	n/a	150	29.4	million	100%
				993	$ 184.0	million	

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

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

During the six months ended June 30, 2012, the Company acquired the following properties, which were funded through a combination of available cash and borrowings under its credit facility:

Residence Inn Bethesda	Bethesda, MD	May 29, 2012	Marriott International	187	$ 64.5	million	100%
Courtyard New York Manhattan/Upper East Side	New York, NY	May 30, 2012	Highgate Hotels	226	82.0	million	100%
Hilton Garden Inn San Francisco/Oakland Bay Bridge	Emeryville, CA	June 11, 2012	Davidson Hotels & Resorts	278	36.2	million	100%
				691	$ 182.7	million	

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

	June 30, 2013	June 30, 2012
Land and land improvements	$ 24,132	$ 40,711
Buildings and improvements	160,070	135,727
Furniture, fixtures and equipment	3,151	6,220
Lease intangibles	342	
Management agreement intangibles	(3,695)	
Total Purchase Price	**$ 184,000**	**$ 182,658**

The allocation of the purchase price for the Courtyard Waikiki Beach is preliminary due to certain market information not yet being available. See Note 14 for detail of other assets acquired and liabilities assumed in conjunction with the Company s acquisitions.

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

	2013 acquisitions			
	For the three months ended June 30, 2013		For the six months ended June 30,2013	
Revenue	$	5,868	$	6,561
Net income (loss)	$	319	$	(568)

	2012 acquisitions			
	For the three months ended June 30, 2012		For the six months ended June 30,2012	
Revenue	$	3,022	$	3,022
Net loss	$	(2,413)	$	(2,413)

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

	For the three months ended June 30,				For the six months ended June 30,			
	2013		2012		2013		2012	
Revenue	$	266,219	$	244,531	$	492,266	$	447,920
Net income	$	39,663	$	24,948	$	51,914	$	21,287
Net income per share attributable to common shareholders - basic	$	0.33	$	0.24	$	0.45	$	0.20
Net income per share attributable to common shareholders - diluted	$	0.32	$	0.24	$	0.45	$	0.20
Weighted average number of shares outstanding - basic		121,520,253		105,388,743		114,208,435		105,360,778
Weighted average number of shares outstanding - diluted		122,280,431		105,454,679		114,912,726		105,414,876

4. Discontinued Operations

In November 2011, the Company elected to cease the subsidization of debt service on the mortgage loan secured by the SpringHill Suites Southfield, Michigan. In January 2012, the Company received notice of an event of default for failure to

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make the required monthly payments. Under the terms of the mortgage loan, the lender received the monthly net cash from operations from the hotel. In December 2012, the Company entered into a deed in lieu of foreclosure agreement with the lender, providing for a consensual transfer of the property to the lender or its designee. On May 30, 2013, the Company transferred title to the hotel to the lenders pursuant to the deed in lieu of foreclosure arrangement. The Company removed the hotel s net assets and liabilities in its combined consolidated balance sheet in May 2013 and recorded a gain on extinguishment of indebtedness of approximately $2.4 million to discontinued operations at that time.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2013	**2012**	**2013**	**2012**
Operating revenues	$ 353	$ 454	$ 805	$ 852
Operating expenses	270	400	676	