

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2021

OR

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 001-32514

DIAMONDROCK HOSPITALITY COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State of Incorporation)

20-1180098
(I.R.S. Employer Identification No.)

2 Bethesda Metro Center, Suite 1400, Bethesda, Maryland
(Address of Principal Executive Offices)

20814
(Zip Code)

(240) 744-1150

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value per share	DRH	New York Stock Exchange
8.250% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share	DRH Pr A	New York Stock Exchange

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. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

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

The registrant had 210,619,840 shares of its \$0.01 par value common stock outstanding as of November 5, 2021.

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PART I. FINANCIAL INFORMATION**Item I. Financial Statements****DIAMONDROCK HOSPITALITY COMPANY****CONSOLIDATED BALANCE SHEETS**
(in thousands, except share and per share amounts)

	September 30, 2021	December 31, 2020
	(unaudited)	
ASSETS		
Property and equipment, net	\$ 2,544,486	\$ 2,817,356
Right-of-use assets	100,499	96,673
Restricted cash	31,333	23,050
Due from hotel managers	109,500	69,495
Prepaid and other assets	19,335	28,403
Cash and cash equivalents	66,499	111,796
Total assets	<u>\$ 2,871,652</u>	<u>\$ 3,146,773</u>
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage and other debt, net of unamortized debt issuance costs	\$ 584,365	\$ 595,149
Unsecured term loans, net of unamortized debt issuance costs	398,423	398,550
Senior unsecured credit facility	—	55,000
Total debt	<u>982,788</u>	<u>1,048,699</u>
Lease liabilities	107,939	104,973
Deferred rent	58,770	56,344
Due to hotel managers	84,464	95,548
Unfavorable contract liabilities, net	63,340	64,796
Accounts payable and accrued expenses	42,324	46,542
Deferred income related to key money, net	7,753	10,946
Total liabilities	<u>1,347,378</u>	<u>1,427,848</u>
Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized: 8.250% Series A Cumulative Redeemable Preferred Stock (liquidation preference \$25.00 per share), 4,760,000 shares issued and outstanding at September 30, 2021 and December 31, 2020	48	48
Common stock, \$0.01 par value; 400,000,000 shares authorized; 210,619,840 and 210,073,514 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	2,106	2,101
Additional paid-in capital	2,292,180	2,285,491
Accumulated deficit	(775,537)	(576,531)
Total stockholders' equity	<u>1,518,797</u>	<u>1,711,109</u>
Noncontrolling interests	5,477	7,816
Total equity	<u>1,524,274</u>	<u>1,718,925</u>
Total liabilities and equity	<u>\$ 2,871,652</u>	<u>\$ 3,146,773</u>

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

DIAMONDROCK HOSPITALITY COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenues:				
Rooms	\$ 128,743	\$ 33,166	\$ 266,051	\$ 158,066
Food and beverage	36,513	9,586	76,052	56,529
Other	14,216	7,315	35,097	25,846
Total revenues	179,472	50,067	377,200	240,441
Operating Expenses:				
Rooms	32,442	11,792	67,736	54,588
Food and beverage	26,957	10,043	58,091	45,845
Management fees	3,104	(755)	6,514	2,644
Franchise fees	6,011	1,813	12,193	8,402
Other hotel expenses	66,399	53,196	167,208	171,759
Depreciation and amortization	25,555	28,514	77,209	87,397
Impairment losses	—	—	126,697	—
Corporate expenses	8,341	7,267	23,790	19,650
Total operating expenses, net	168,809	111,870	539,438	390,285
Interest and other expense (income), net	11	(191)	(460)	58
Interest expense	10,052	10,818	29,246	43,665
Total other expenses, net	10,063	10,627	28,786	43,723
Income (loss) before income taxes	600	(72,430)	(191,024)	(193,567)
Income tax (expense) benefit	(2,371)	(7,205)	(1,433)	5,853
Net loss	(1,771)	(79,635)	(192,457)	(187,714)
Less: Net loss attributable to noncontrolling interests	6	43	812	781
Net loss attributable to the Company	(1,765)	(79,592)	(191,645)	(186,933)
Distributions to preferred stockholders	(2,454)	(845)	(7,362)	(845)
Net loss attributable to common stockholders	\$ (4,219)	\$ (80,437)	\$ (199,007)	\$ (187,778)
Loss per share:				
Net loss per share available to common stockholders—basic	\$ (0.02)	\$ (0.40)	\$ (0.94)	\$ (0.93)
Net loss per share available to common stockholders—diluted	\$ (0.02)	\$ (0.40)	\$ (0.94)	\$ (0.93)

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

DIAMONDROCK HOSPITALITY COMPANY

CONSOLIDATED STATEMENTS OF EQUITY
(in thousands, except share and per share amounts)
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Par Value	Shares	Par Value					
Balance at December 31, 2020	4,760,000	\$ 48	210,073,514	\$ 2,101	\$ 2,285,491	\$ (576,531)	\$ 1,711,109	\$ 7,816	\$ 1,718,925
Distributions on preferred stock (\$0.5156 per preferred share)	—	—	—	—	—	(2,454)	(2,454)	—	(2,454)
Share-based compensation	—	—	170,251	2	18	—	20	281	301
Net loss	—	—	—	—	—	(170,847)	(170,847)	(720)	(171,567)
Balance at March 31, 2021	<u>4,760,000</u>	<u>\$ 48</u>	<u>210,243,765</u>	<u>\$ 2,103</u>	<u>\$ 2,285,509</u>	<u>\$ (749,832)</u>	<u>\$ 1,537,828</u>	<u>\$ 7,377</u>	<u>\$ 1,545,205</u>
Distributions on preferred stock (\$0.5156 per preferred share)	—	—	—	—	—	(2,454)	(2,454)	—	(2,454)
Share-based compensation	—	—	52,085	—	2,502	1	2,503	280	2,783
Redemption of Operating Partnership units	—	—	8,000	—	59	—	59	(59)	—
Net loss	—	—	—	—	—	(19,033)	(19,033)	(86)	(19,119)
Balance at June 30, 2021	<u>4,760,000</u>	<u>\$ 48</u>	<u>210,303,850</u>	<u>\$ 2,103</u>	<u>\$ 2,288,070</u>	<u>\$ (771,318)</u>	<u>\$ 1,518,903</u>	<u>\$ 7,512</u>	<u>\$ 1,526,415</u>
Distributions on preferred stock (\$0.5156 per preferred share)	—	—	—	—	—	(2,454)	(2,454)	—	(2,454)
Share-based compensation	—	—	—	—	1,802	—	1,802	282	2,084
Redemption of Operating Partnership units	—	—	315,990	3	2,308	—	2,311	(2,311)	—
Net loss	—	—	—	—	—	(1,765)	(1,765)	(6)	(1,771)
Balance at September 30, 2021	<u>4,760,000</u>	<u>\$ 48</u>	<u>210,619,840</u>	<u>\$ 2,106</u>	<u>\$ 2,292,180</u>	<u>\$ (775,537)</u>	<u>\$ 1,518,797</u>	<u>\$ 5,477</u>	<u>\$ 1,524,274</u>

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	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Par Value	Shares	Par Value					
Balance at December 31, 2019	—	—	200,207,795	\$ 2,002	\$ 2,089,349	\$ (178,861)	\$ 1,912,490	\$ 8,572	\$ 1,921,062
Share-based compensation	—	—	154,981	1	189	—	190	238	428
Redemption of Operating Partnership units	—	—	—	—	(15)	—	(15)	(186)	(201)
Common stock repurchased and retired	—	—	(1,119,438)	(11)	(9,989)	—	(10,000)	—	(10,000)
Net loss	—	—	—	—	—	(34,559)	(34,559)	(133)	(34,692)
Balance at March 31, 2020	—	\$ —	199,243,338	\$ 1,992	\$ 2,079,534	\$ (213,420)	\$ 1,868,106	\$ 8,491	\$ 1,876,597
Share-based compensation	—	—	137,616	2	2,054	4	2,060	281	2,341
Sale of common stock in follow-on offerings, net of placement fees and expenses of \$10	—	—	135,481	1	1,013	—	1,014	—	1,014
Net loss	—	—	—	—	—	(72,782)	(72,782)	(605)	(73,387)
Balance at June 30, 2020	—	\$ —	199,516,435	\$ 1,995	\$ 2,082,601	\$ (286,198)	\$ 1,798,398	\$ 8,167	\$ 1,806,565
Distributions on preferred stock (\$0.5156 per preferred share)	—	—	—	—	—	(845)	(845)	—	(845)
Share-based compensation	—	—	2,445	—	1,352	—	1,352	281	1,633
Sale of preferred stock, net of placement fees and expenses of \$4,529	4,760,000	48	—	—	114,423	—	114,471	—	114,471
Net loss	—	—	—	—	—	(79,592)	(79,592)	(43)	(79,635)
Balance at September 30, 2020	4,760,000	\$ 48	199,518,880	\$ 1,995	\$ 2,198,376	\$ (366,635)	\$ 1,833,784	\$ 8,405	\$ 1,842,189

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

DIAMONDROCK HOSPITALITY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (192,457)	\$ (187,714)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	77,209	87,397
Corporate asset depreciation as corporate expenses	169	174
Non-cash lease expense and other amortization	5,007	3,744
Non-cash interest rate swap fair value adjustment	4,488	11,329
Amortization of debt issuance costs	1,902	1,480
Impairment losses	126,697	—
Amortization of deferred income related to key money	(255)	(297)
Share-based compensation	6,652	5,536
Changes in assets and liabilities:		
Prepaid expenses and other assets	3,461	(13,927)
Due to/from hotel managers	(49,952)	45,084
Accounts payable and accrued expenses	(5,258)	(7,509)
Net cash used in operating activities	(22,337)	(54,703)
Cash flows from investing activities:		
Capital expenditures for operating hotels	(30,076)	(39,916)
Capital expenditures for Frenchman's Reef reconstruction	(2,673)	(38,312)
Acquisition of interest in the land underlying the Kimpton Shorebreak Resort	—	(1,585)
Extension of the Salt Lake City Marriott Downtown ground lease	(2,781)	—
Hotel acquisitions	(116,490)	—
Net proceeds from sale of hotel properties	213,817	—
Proceeds from property insurance	—	10,663
Net cash provided by (used in) investing activities	61,797	(69,150)
Cash flows from financing activities:		
Scheduled mortgage debt principal payments	(11,361)	(10,594)
Proceeds from sale of common stock, net	—	1,015
Proceeds from sale of preferred stock, net	—	114,471
Proceeds from mortgage debt	—	48,000
Repayments of mortgage debt	—	(52,517)
Draws on senior unsecured credit facility	115,500	400,000
Repayments of senior unsecured credit facility	(170,500)	(375,015)
Payment of debt financing costs	(1,150)	(1,410)
Distributions on common stock and units	(119)	(25,557)
Distributions on preferred stock	(7,362)	(845)
Repurchase of common stock	—	(10,000)
Redemption of Operating Partnership units	—	(201)
Shares redeemed to satisfy tax withholdings on vested share-based compensation	(1,482)	(1,253)
Net cash (used in) provided by financing activities	(76,474)	86,094
Net decrease in cash, cash equivalents, and restricted cash	(37,014)	(37,759)
Cash, cash equivalents, and restricted cash at beginning of period	134,846	179,792
Cash, cash equivalents, and restricted cash at end of period	\$ 97,832	\$ 142,033

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

DIAMONDROCK HOSPITALITY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS - (CONTINUED)
(in thousands)
(unaudited)

Supplemental Disclosure of Cash Flow Information:

	Nine Months Ended September 30,	
	2021	2020
Cash paid for interest	\$ 32,214	\$ 33,017
Cash paid for income taxes, net	\$ 1,169	\$ 32
Capitalized interest	\$ —	\$ 2,136
Non-cash investing and financing activities:		
Unpaid dividends and distributions declared	\$ 19	\$ 138
Accrued capital expenditures	\$ 2,075	\$ 8,941
Transfer of land interest in consideration for extension of ground lease (see Note 4)	\$ 855	\$ —
Redemption of Operating Partnership units for common stock	\$ 2,370	\$ —

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets to the amount shown within the consolidated statements of cash flows:

	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 66,499	\$ 111,796
Restricted cash	31,333	23,050
Total cash, cash equivalents and restricted cash	\$ 97,832	\$ 134,846

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

DIAMONDROCK HOSPITALITY COMPANY

Notes to the Consolidated Financial Statements (Unaudited)

1. Organization

DiamondRock Hospitality Company (the “Company” or “we”) is a lodging-focused real estate company that owns a portfolio of premium hotels and resorts. Our hotels are concentrated in key gateway cities and in destination resort locations, and the majority of our hotels are operated under a brand owned by one of the leading global lodging brand companies (Marriott International, Inc. or Hilton Worldwide). We are an owner, as opposed to an operator, of the hotels in our portfolio. As an owner, we receive all of the operating profits or losses generated by our hotels after we pay fees to the hotel managers and hotel brands, which are based on the revenues and profitability of the hotels.

As of September 30, 2021, we owned 31 hotels with 9,133 guest rooms, located in the following markets: Atlanta, Georgia; Boston, Massachusetts (2); Burlington, Vermont; Charleston, South Carolina; Chicago, Illinois (2); Denver, Colorado (2); Destin, Florida; Fort Lauderdale, Florida; Fort Worth, Texas; Huntington Beach, California; Key West, Florida (2); New Orleans, Louisiana; New York, New York (3); Phoenix, Arizona; Salt Lake City, Utah; San Diego, California; San Francisco, California (2); Sedona, Arizona (2); Sonoma, California; South Lake Tahoe, California; Washington, D.C. (2) and Vail, Colorado.

During the three months ended June 30, 2021, we sold the Frenchman's Reef & Morning Star Marriott Beach Resort (“Frenchman's Reef”), located in St. Thomas, U.S. Virgin Islands, and The Lexington Hotel, located in New York, New York. See Note 9 for further discussion of these sales. During the three months ended September 30, 2021, we acquired the Bourbon Orleans Hotel, located in New Orleans, Louisiana, and the Henderson Park Inn, located in Destin, Florida. See Note 10 for further discussion of these acquisitions.

We conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT, in which our hotel properties are owned by our operating partnership, DiamondRock Hospitality Limited Partnership, or subsidiaries of our operating partnership. The Company is the sole general partner of our operating partnership and owns 99.7% of the limited partnership units (“common OP units”) of our operating partnership as of September 30, 2021. The remaining 0.3% of the common OP units are held by third parties and executive officers of the Company. See Note 5 for additional disclosures related to common OP units.

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus, or COVID-19, a global pandemic. The virus spread throughout the United States and globally. As a result of the pandemic, government mandates and health official recommendations, the overall demand for lodging materially decreased. We suspended operations at 20 of our 30 previously operating hotels for a portion of 2020. For a portion of the nine months ended September 30, 2021, four of our previously operating hotels were closed. As of September 30, 2021, and for the three months then ended, all of our owned hotels were open.

We have taken aggressive steps to mitigate the COVID-19 pandemic's operational and financial impacts on our business, as described in our consolidated financial statements contained within our Annual Report on Form 10-K filed on March 1, 2021. The COVID-19 pandemic has had a material adverse impact on our operations and financial results for the three and nine months ended September 30, 2021. The COVID-19 pandemic showed signs of moderating in the first half of 2021; however, given the emergence of variant strains, case counts increased in the third quarter of 2021. Currently, case counts are declining; however, the severity and duration of the pandemic cannot be reasonably estimated at this time. We expect the COVID-19 pandemic will continue to have a material adverse impact on our results of operations, financial position and cash flow in the fourth quarter of 2021.

Demand at our leisure-focused hotels improved in the latter part of 2020 and into the third quarter of 2021. Demand at our other hotels, however, remains at historically low levels. Several markets throughout the country experienced a resurgence of COVID-19 case counts during certain periods in 2021 and reimplemented or strengthened closures, quarantines, and social distancing requirements. The effectiveness and wide distribution of COVID-19 vaccines, as well as other public health and geopolitical factors, have generally reduced COVID-19 case counts. We believe that these factors, coupled with improved global distribution of the vaccine and the potential approval of vaccines for children and booster shots for the general population, are likely to positively impact the timing, pace, and extent of a lodging demand recovery. The emergence of new

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variant strains of COVID-19, however, has the potential to slow or reverse these positive trends in the fourth quarter of 2021 and beyond.

2. Summary of Significant Accounting Policies

Basis of Presentation

Our financial statements include all of the accounts of the Company and its subsidiaries in accordance with U.S. GAAP. All intercompany accounts and transactions have been eliminated in consolidation. If the Company determines that it has an interest in a variable interest entity within the meaning of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, *Consolidation*, the Company will consolidate the entity when it is determined to be the primary beneficiary of the entity. Our operating partnership meets the criteria of a variable interest entity. The Company is the primary beneficiary and, accordingly, we consolidate our operating partnership.

In our opinion, the accompanying unaudited consolidated financial statements reflect all adjustments necessary to present fairly our financial position, the results of our operations, the statements of equity, and cash flows. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations. We believe the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2020, included in our Annual Report on Form 10-K filed on March 1, 2021.

Use of Estimates

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

Risks and Uncertainties

The state of the overall economy can significantly impact hotel operational performance and thus, impact our financial position. Should any of our hotels experience a significant decline in operational performance, it may affect our ability to make distributions to our stockholders and service debt or meet other financial obligations.

Currently, one of the most significant risks and uncertainties is the potential length and severity of the ongoing COVID-19 pandemic. The COVID-19 pandemic has reduced travel and adversely affected the hospitality industry in general. We believe that the actual and threatened spread of COVID-19 globally or in the regions in which we operate, or the future widespread outbreak of infectious or contagious disease, has impeded and may continue to impede national and international travel in general compared to pre-pandemic levels. The extent to which our business will continue to be affected by COVID-19 will largely depend on future developments, which we cannot predict with a high degree of confidence, including the duration of the outbreak, the continued spread and treatment of COVID-19, new information and developments that may emerge concerning the severity of COVID-19 or its variant strains and the actions of governments and individuals to contain COVID-19 or mitigate its impact, as well as the effect of any relaxation of current restrictions, among others. To the extent that travel activity in the U.S. continues to be materially and adversely affected by COVID-19, the overall business and financial results of the hospitality industry, as well as the business and financial results of the Company, would similarly continue to be materially and adversely impacted. See Note 1 for additional disclosures related to COVID-19 and its impact on the Company.

Going Concern

Under the accounting guidance related to the presentation of financial statements, when preparing financial statements for each annual and interim reporting period, our management has the responsibility to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within 12 months after the date that the financial statements are issued. In making our evaluation, we considered our financial position and liquidity sources, including forecasted future cash flows and our ability to meet contractual obligations that are due or may become due over the next 12 months. We determined that there is not substantial doubt about our ability to continue as a going concern for the next 12 months as of November 5, 2021.

Fair Value Measurements

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In evaluating fair value, U.S. GAAP outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and a reporting entity's own assumptions about market data (unobservable inputs). The hierarchy ranks the observability of inputs used to determine fair value, which are then classified and disclosed in one of the three categories. The three levels are as follows:

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets in markets that are not active and model-derived valuations whose inputs are observable
- Level 3 - Model-derived valuations with unobservable inputs

Property and Equipment

Investment purchases of hotel properties, land, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets that are not businesses are accounted for as asset acquisitions and recorded at relative fair value based upon total accumulated cost of the acquisition. Direct acquisition-related costs are capitalized as a component of the acquired assets. Property and equipment purchased after the hotel acquisition date is recorded at cost. Replacements and improvements are capitalized, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of a fixed asset, the cost and related accumulated depreciation are removed from the Company's accounts and any resulting gain or loss is included in the statements of operations.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 40 years for buildings, land improvements, and building improvements and 1 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets.

We review our investments in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying amount of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties, current or projected losses from operations, and an expectation that the property is more likely than not to be sold significantly before the end of its useful life. Management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel, less costs to sell, exceed its carrying amount. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel's estimated fair market value is recorded and an impairment loss is recognized.

We will classify a hotel as held for sale in the period that we have made the decision to dispose of the hotel, a binding agreement to purchase the property has been signed under which the buyer has committed a significant amount of nonrefundable cash and no significant financing or other contingencies exist which could cause the transaction to not be completed in a timely manner. If these criteria are met, we will record an impairment loss if the fair value less costs to sell is lower than the carrying amount of the hotel and related assets and will cease recording depreciation expense. We will classify the assets and related liabilities as held for sale on the balance sheet.

As discussed in Note 9, we recorded impairment losses on The Lexington Hotel and Frenchman's Reef during the nine months ended September 30, 2021.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

Revenues from hotel operations are recognized when the goods or services are provided. Revenues consist of room sales, food and beverage sales, and other hotel department revenues, such as telephone, parking, gift shop sales and resort fees. Rooms revenue is recognized over the length of stay that the hotel room is occupied by the customer. Food and beverage revenue is recognized at the point in time in which the goods and/or services are rendered to the customer, such as for restaurant dining services or banquet services. Other revenues are recognized at the point in time or over the time period that goods or services are provided to the customer. Certain ancillary services are provided by third parties and we assess whether we are the principal or agent in these arrangements. If we are the agent, revenue is recognized based upon the commission earned from the third party. If we are the principal, we recognize revenue based upon the gross sales price.

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Advance deposits are recorded as liabilities when a customer or group of customers provides a deposit for a future stay or banquet event at our hotels. Advance deposits are converted to revenue when the services are provided to the customer or when a customer with a noncancelable reservation fails to arrive for part or all of the reservation. Conversely, advance deposits are generally refundable upon guest cancellation of the related reservation within an established period of time prior to the reservation.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings during the period in which the new rate is enacted. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of all available evidence, including the future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of September 30, 2021 and December 31, 2020, we had a valuation allowance of \$13.5 million and \$25.6 million, respectively, on our deferred tax assets. The decrease in the valuation allowance is primarily due to the sale of Frenchman's Reef, along with a commensurate decrease in the associated deferred tax assets.

We have elected to be treated as a real estate investment trust ("REIT") under the provisions of the Internal Revenue Code of 1986, as amended, which requires that we distribute at least 90% of our taxable income annually to our stockholders and comply with certain other requirements. In addition to paying federal and state taxes on any retained income, we may be subject to taxes on "built-in gains" on sales of certain assets. Our taxable REIT subsidiaries will generally be subject to federal, state, local and/or foreign income taxes.

In order for the income from our hotel property investments to constitute "rents from real properties" for purposes of the gross income tests required for REIT qualification, the income we earn cannot be derived from the operation of any of our hotels. Therefore, we lease each of our hotel properties to a wholly owned subsidiary of Bloodstone TRS, Inc., our existing taxable REIT subsidiary, or TRS, except for Frenchman's Reef, which, prior to its sale, was owned by a Virgin Islands corporation, which we had elected to be treated as a TRS, and Cavallo Point, The Lodge at the Golden Gate ("Cavallo Point"), which is leased to a wholly owned subsidiary of the Company, which we have elected to be treated as a TRS.

We had no accruals for tax uncertainties as of September 30, 2021 and December 31, 2020.

Intangible Assets and Liabilities

Intangible assets and liabilities are recorded out-of-market contracts assumed as part of the acquisition of certain hotels. We review the terms of agreements assumed in conjunction with the purchase of a hotel to determine if the terms are favorable or unfavorable compared to an estimated market agreement at the acquisition date. Favorable contract assets or unfavorable contract liabilities are recorded at the acquisition date and amortized using the straight-line method over the term of the agreement. We do not amortize intangible assets with indefinite useful lives, but we review these assets for impairment annually or at interim periods if events or circumstances indicate that the asset may be impaired.

Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period plus other potentially dilutive securities such as stock grants. No adjustment is made for shares that are anti-dilutive during a period.

Share-based Compensation

We account for share-based employee compensation using the fair value based method of accounting. We record the cost of awards with service or market conditions based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

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Comprehensive Income

We do not have any comprehensive income other than net income. If we have any comprehensive income in future periods, such that a statement of comprehensive income would be necessary, such statement will be reported as one statement with the consolidated statement of operations.

Derivative Instruments

In the normal course of business, we are exposed to the effects of interest rate changes. We may enter into derivative instruments, including interest rate swaps and caps, to manage or hedge interest rate risk. Derivative instruments are recorded at fair value on the balance sheet date. We have not elected hedge accounting treatment for the changes in the fair value of derivatives. Changes in the fair value of derivatives are recorded each period and are included in interest expense in the consolidated statements of operations.

Noncontrolling Interests

The noncontrolling interest is the portion of equity in our consolidated operating partnership not attributable, directly or indirectly, to the Company. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. On the consolidated statements of operations, revenues, expenses and net income or loss from our less-than-wholly-owned operating partnership are reported within the consolidated amounts, including both the amounts attributable to the Company and noncontrolling interests. Income or loss is allocated to noncontrolling interests based on their weighted average ownership percentage for the applicable period. Consolidated statements of equity include beginning balances, activity for the period and ending balances for stockholders' equity, noncontrolling interests and total equity.

Restricted Cash

Restricted cash primarily consists of reserves for replacement of furniture and fixtures generally held by our hotel managers and cash held in escrow pursuant to lender requirements.

Debt Issuance Costs

Financing costs are recorded at cost as a component of the debt carrying amount and consist of loan fees and other costs incurred in connection with the issuance of debt. Amortization of debt issuance costs is computed using a method that approximates the effective interest method over the remaining life of the debt and is included in interest expense in the accompanying consolidated statements of operations. Debt issuance costs related to our Revolving Credit Facility (defined in Note 8) are included within prepaid and other assets on the accompanying consolidated balance sheets. These debt issuance costs are amortized ratably over the term of the Revolving Credit Facility, regardless of whether there are any outstanding borrowings, and the amortization is included in interest expense in the accompanying consolidated statements of operations.

Due to/from Hotel Managers

The due from hotel managers consists of hotel level accounts receivable, periodic hotel operating distributions receivable from managers and prepaid and other assets held by the hotel managers on our behalf. The due to hotel managers represents liabilities incurred by the hotel on behalf of us in conjunction with the operation of our hotels which are legal obligations of the Company.

Key Money

Key money received in conjunction with entering into hotel management or franchise agreements or completing specific capital projects is deferred and amortized over the term of the hotel management agreement, the term of the franchise agreement, or other systematic and rational period, if appropriate. Key money is classified as deferred income in the accompanying consolidated balance sheets and amortized as an offset to management fees or franchise fees.

Leases

We determine if an arrangement is a lease or contains an embedded lease at inception. For agreements with both lease and nonlease components (e.g., common-area maintenance costs), we do not separate the nonlease components from the lease

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components, but account for these components as one. We determine the lease classification (operating or finance) at lease inception.

Right-of-use assets and lease liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. The discount rate used to determine the present value of the lease payments is our incremental borrowing rate as of the lease commencement date, as the implicit rate is not readily determinable. The right-of-use assets also include any initial direct costs and any lease payments made at or before the commencement date, and is reduced for any unrestricted incentives received at or before the commencement date.

Options to extend or terminate the lease are included in the recognition of our right-of-use assets and lease liabilities when it is reasonably certain that we will exercise the option. Variable payments that are based on an index or a rate are included in the recognition of our right-of-use assets and lease liabilities using the index or rate at lease commencement; however, changes to these lease payments due to rate or index updates are recorded as rent expense in the period incurred. Contingent rentals based on a percentage of sales in excess of stipulated amounts are not included in the measurement of the lease liability and right-of-use asset but will be recognized as variable lease expense when they are incurred. Leases that contain provisions that increase the fixed minimum lease payments based on previously incurred variable lease payments related to performance will be remeasured, as these payments now represent an increase in the fixed minimum payments for the remainder of the lease term. However, leases with provisions that increase minimum lease payments based on changes in a reference index or rate (e.g. Consumer Price Index) will not be remeasured as such changes do not constitute a resolution of a contingency.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of our cash and cash equivalents. We maintain cash and cash equivalents with various financial institutions. We perform periodic evaluations of the relative credit standing of these financial institutions and limit the amount of credit exposure with any one institution.

Segment Reporting

Each one of our hotels is an operating segment. We evaluate each of our properties on an individual basis to assess performance, the level of capital expenditures, and acquisition or disposition transactions. Our evaluation of individual properties is not focused on property type (e.g. urban, suburban, or resort), brand, geographic location, or industry classification.

We aggregate our operating segments using the criteria established by U.S. GAAP, including the similarities of our product offering, types of customers and method of providing service. All of our properties react similarly to economic stimulus, such as business investment, changes in Gross Domestic Product, and changes in travel patterns. As such, all our operating segments meet the aggregation criteria, resulting in a single reportable segment represented by our consolidated financial results.

3. Property and Equipment

Property and equipment as of September 30, 2021 and December 31, 2020 consists of the following (in thousands):

	September 30, 2021	December 31, 2020
Land	\$ 536,682	\$ 618,210
Land improvements	7,994	7,994
Buildings and site improvements	2,559,791	2,724,277
Furniture, fixtures and equipment	484,763	539,729
Construction in progress	15,809	37,481
	<u>3,605,039</u>	<u>3,927,691</u>
Less: accumulated depreciation	<u>(1,060,553)</u>	<u>(1,110,335)</u>
	<u>\$ 2,544,486</u>	<u>\$ 2,817,356</u>

As of September 30, 2021 and December 31, 2020, we had accrued capital expenditures of \$2.1 million and \$3.9 million, respectively.

4. Leases

We are subject to operating leases, the most significant of which are ground leases. We are the lessee to ground leases under eight of our hotels and two parking garages as of September 30, 2021. The lease liabilities for our operating leases assume the exercise of all available extension options, as we believe they are reasonably certain to be exercised. As of September 30, 2021, our operating leases have a weighted-average remaining lease term of 66 years and a weighted-average discount rate of 5.77%.

The components of operating lease expense, which is included in other hotel expenses in our consolidated statements of operations, and cash paid for amounts included in the measurement of lease liabilities, are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating lease cost	\$ 2,781	\$ 2,760	\$ 8,315	\$ 8,331
Variable lease payments	\$ 251	\$ 17	\$ 416	\$ 256
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 884	\$ 802	\$ 2,628	\$ 2,412

Maturities of lease liabilities as of September 30, 2021 are as follows (in thousands):

Year Ending December 31,	
2021 (excluding the nine months ended September 30, 2021)	\$ 887
2022	3,976
2023	4,033
2024	4,012
2025	4,072
Thereafter	764,477
Total lease payments	781,457
Less imputed interest	(673,518)
Total lease liabilities	\$ 107,939

The Salt Lake City Marriott Downtown at City Creek is subject to a ground lease. On April 1, 2021, we completed a transaction to extend the lease term by 50 years to December 31, 2106. In consideration for the extension, we transferred our 21.25% interest in the land to the majority ground lessors and provided a cash payment of \$2.8 million.

5. Equity

Common Shares

We are authorized to issue up to 400 million shares of common stock, \$0.01 par value per share. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Holders of our common stock are entitled to receive dividends out of assets legally available for the payment of dividends when authorized by our board of directors.

In August 2021, our board of directors approved an “at-the-market” equity offering program (the “Current ATM Program”), pursuant to which we may issue and sell shares of our common stock from time to time, having an aggregate offering price of up to \$200.0 million. We have not sold any shares under the Current ATM Program. Prior to the implementation of the Current ATM Program, we had a \$200.0 million ATM program (the “Prior ATM Program”), which is no longer active. No shares under the Prior ATM Program were sold during the three and nine months ended September 30, 2021.

Preferred Shares

We are authorized to issue up to 10,000,000 shares of preferred stock, \$0.01 par value per share. Our board of directors is required to set for each class or series of preferred stock the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption.

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As of September 30, 2021 and December 31, 2020, there were 4,760,000 shares of Series A Preferred Stock issued and outstanding with a liquidation preference each of \$25.00 per share. On or after August 31, 2025, the Series A Preferred Stock will be redeemable at the Company's option, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date.

Operating Partnership Units

In connection with our acquisition of Cavallo Point in December 2018, we issued 796,684 common OP units to third parties, otherwise unaffiliated with the Company, at \$11.76 per unit. Each common OP unit is redeemable at the option of the holder. Holders of common OP units have certain redemption rights, which enable them to cause our operating partnership to redeem their units in exchange for cash per unit equal to the market price of our common stock, at the time of redemption, or, at our option, for shares of our common stock on a one-for-one basis, subject to adjustment upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions.

Long-Term Incentive Partnership units ("LTIP units"), which are also referred to as profits interest units, may be issued to eligible participants under the 2016 Plan (as defined in Note 6 below) for the performance of services to or for the benefit of our operating partnership. LTIP units are a class of partnership unit in our operating partnership and will receive, whether vested or not, the same per-unit distributions as the outstanding common OP units, which equal per-share dividends on shares of our common stock. Initially, LTIP units have a capital account balance of zero, do not receive an allocation of operating income (loss), and do not have full parity with common OP units with respect to liquidating distributions. If such parity is reached, vested LTIP units are converted into an equal number of common OP units, and thereafter will possess all of the rights and interests of common OP units, including the right to exchange the common OP units for cash per unit equal to the market price of our common stock, at the time of redemption, or, at our option, for shares of our common stock on a one-for-one basis, subject to adjustment upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions. See Note 6 for additional disclosures related to LTIP units.

There were 639,622 and 855,191 common OP units held by unaffiliated third parties and executive officers of the Company as of September 30, 2021 and December 31, 2020, respectively. There were 135,388 and 243,809 LTIP units outstanding as of September 30, 2021 and December 31, 2020, respectively. All vested LTIP units have reached economic parity with common OP units and have been converted into common OP units.

Dividends and Distributions

Our board of directors suspended our quarterly common dividend commencing with the first quarter dividend that would have been paid in April 2020. The payment of future dividends, including a quarterly common dividend, will be determined by our board of directors after considering our projected taxable income, obligations under our financing agreements, expected capital requirements, and risks affecting our business.

We have paid the following dividends to holders of our Series A Preferred Stock during 2021:

Payment Date	Record Date	Dividend per Share
March 31, 2021	March 18, 2021	\$ 0.515625
June 30, 2021	June 18, 2021	\$ 0.515625
September 30, 2021	September 17, 2021	\$ 0.515625

6. Stock Incentive Plans

We are authorized to issue up to 6,082,664 shares of our common stock under our 2016 Equity Incentive Plan (the "2016 Plan"), of which we have issued or committed to issue 4,409,225 shares as of September 30, 2021. In addition to these shares, additional shares of common stock may be issued from time to time in connection with the performance stock unit awards as further described below.

Restricted Stock Awards

Restricted stock awards issued to our officers and employees generally vest over a three-year period from the date of the grant based on continued employment. We measure compensation expense for the restricted stock awards based upon the fair

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market value of our common stock at the date of grant. Compensation expense is recognized on a straight-line basis over the vesting period and is included in corporate expenses in the accompanying consolidated statements of operations. A summary of our restricted stock awards from January 1, 2021 to September 30, 2021 is as follows:

	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested balance at January 1, 2021	557,273	\$ 9.83
Granted	1,177,537	9.32
Vested	(236,288)	9.93
Forfeited	(47,025)	9.21
Unvested balance at September 30, 2021	1,451,497	\$ 9.46

In March 2021, our board of directors granted 691,490 restricted shares of common stock as special retention awards (the “Special Retention Awards”) for certain executives, including our named executive officers. The Special Retention Awards generally vest over a five-year period from the date of their grant based on continued employment. Vesting occurs on the following schedule:

- 0% for the first three years,
- 25% on the third anniversary of the grant,
- 25% on the fourth anniversary of the grant, and
- 50% on the fifth anniversary of the grant.

The total unvested share awards as of September 30, 2021 are expected to vest as follows: 8,202 shares during 2021, 268,882 shares during 2022, 306,183 shares during 2023, 381,527 shares during 2024, 162,234 shares during 2025 and 324,469 shares during 2026. As of September 30, 2021, the unrecognized compensation cost related to restricted stock awards was \$11.0 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 39 months. We recorded \$1.0 million and \$0.7 million of compensation expense related to restricted stock awards for the three months ended September 30, 2021 and 2020, respectively. We recorded \$2.8 million and \$2.0 million of compensation expense related to restricted stock awards for the nine months ended September 30, 2021 and 2020, respectively.

Performance Stock Units

Performance stock units (“PSUs”) are restricted stock units that vest three years from the date of grant. Each executive officer is granted a target number of PSUs (the “PSU Target Award”). The actual number of shares of common stock issued to each executive officer is based on the Company's achievement of certain performance targets. Under this framework, 50% of the PSUs are based on relative total stockholder return and 50% on hotel market share improvement. The achievement of certain levels of total stockholder return relative to the total stockholder return of a peer group of publicly-traded lodging REITs is measured over a three-year performance period. There is no payout of shares of our common stock if our total stockholder return falls below the 30th percentile of the total stockholder returns of the peer group. The maximum number of shares of common stock issued to an executive officer is equal to 150% of the PSU Target Award and is earned if our total stockholder return is equal to or greater than the 75th percentile of the total stockholder returns of the peer group. The number of PSUs earned is limited to 100% of the PSU Target Award if the Company's total stockholder return is negative for the three-year performance period. The improvement in market share for each of our hotels is measured over a three-year performance period based on a report prepared for each hotel by STR Global, a well-recognized benchmarking service for the hospitality industry. There is no payout of shares of our common stock if the percentage of our hotels with market share improvements is less than 30%. The maximum number of shares of common stock issued to an executive officer is equal to 150% of the PSU Target Award and is earned if the percentage of our hotels with market share improvements is greater than or equal to 75%. For the PSUs granted on March 2, 2021, the improvement in market share for each of our hotels will be measured over a two-year performance period starting on January 1, 2022, which is when we anticipate most major hotels will be open within our competitive sets.

We measure compensation expense for the PSUs based upon the fair market value of the award at the grant date. Compensation expense is recognized on a straight-line basis over the three-year performance period and is included in corporate expenses in the accompanying consolidated statements of operations. The grant date fair value of the portion of the PSUs based on our relative total stockholder return is determined using a Monte Carlo simulation performed by a third-party valuation firm.

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The grant date fair value of the portion of the PSUs based on hotel market share improvement is the closing price of our common stock on the grant date.

On March 2, 2021, our board of directors granted 347,981 PSUs to our executive officers. The grant date fair value of the portion of the PSUs based on our relative total stockholder return was \$9.28 using the assumptions of volatility of 68.8% and a risk-free rate of 0.26%. The grant date fair value of the portion of the PSUs based on hotel market share was \$9.40, which was the closing stock price of our common stock on such date.

A summary of our PSUs from January 1, 2021 to September 30, 2021 is as follows:

	Number of Target Units	Weighted- Average Grant Date Fair Value
Unvested balance at January 1, 2021	912,186	\$ 9.63
Granted	347,981	9.34
Vested ⁽¹⁾	(290,927)	9.90
Unvested balance at September 30, 2021	<u>969,240</u>	<u>\$ 9.45</u>

(1) The number of shares of common stock earned for the PSUs vested in 2021 was equal to 100.0% of the PSU Target Award.

The total unvested PSUs as of September 30, 2021 are expected to vest as follows: 269,224 units during 2022, 352,035 units during 2023 and 347,981 units during 2024. The number of shares earned upon vesting is subject to the attainment of the performance goals described above. As of September 30, 2021, the unrecognized compensation cost related to the PSUs was \$4.5 million and is expected to be recognized on a straight-line basis over a weighted average period of 23 months. We recorded \$0.8 million and \$0.7 million of compensation expense related to the PSUs for the three months ended September 30, 2021 and 2020, respectively. We recorded \$2.2 million and \$2.0 million of compensation expense related to the PSUs for the nine months ended September 30, 2021 and 2020, respectively.

LTIP Units

LTIP units are designed to offer executives a long-term incentive comparable to restricted stock, while allowing them to enjoy a more favorable income tax treatment. Each LTIP unit awarded is deemed equivalent to an award of one share of common stock reserved under the 2016 Plan. At the time of award, LTIP units do not have full economic parity with common OP units, but can achieve such parity over time upon the occurrence of specified events in accordance with partnership tax rules.

A summary of our LTIP units from January 1, 2021 to September 30, 2021 is as follows:

	Number of Units	Weighted- Average Grant Date Fair Value
Unvested balance at January 1, 2021	243,809	\$ 10.29
Vested ⁽¹⁾	(108,421)	10.38
Unvested balance at September 30, 2021	<u>135,388</u>	<u>\$ 10.22</u>

(1) As of September 30, 2021, all vested LTIP units have achieved economic parity with common OP units and have been converted to common OP units.

The total unvested LTIP units as of September 30, 2021 are expected to vest as follows: 108,422 units during 2022 and 26,966 units during 2023. As of September 30, 2021, of the 325,264 LTIP units granted, 189,876 LTIP units have vested.

As of September 30, 2021, the unrecognized compensation cost related to LTIP unit awards was \$0.7 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 14 months. We recorded \$0.3 million of compensation expense related to LTIP unit awards for each of the three months ended September 30, 2021 and 2020, respectively. We recorded \$0.8 million of compensation expense related to LTIP unit awards for each of the nine months ended September 30, 2021 and 2020.

7. Earnings (Loss) Per Share

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Basic EPS is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is calculated by dividing net income (loss) available to common stockholders that has been adjusted for dilutive securities, by the weighted-average number of common shares outstanding including dilutive securities.

Unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of EPS pursuant to the two-class method. Accordingly, distributed and undistributed earnings attributable to unvested share-based compensation (participating securities) have been excluded, as applicable, from net income or loss available to common stockholders used in the basic and diluted EPS calculations.

The following is a reconciliation of the calculation of basic and diluted EPS (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net loss attributable to common stockholders	(4,219)	\$ (80,437)	(199,007)	\$ (187,778)
Dividends declared on unvested share-based compensation	—	—	—	—
Net loss available to common stockholders	<u>\$ (4,219)</u>	<u>\$ (80,437)</u>	<u>\$ (199,007)</u>	<u>\$ (187,778)</u>
Denominator:				
Weighted-average number of common shares outstanding—basic	212,256,590	200,978,327	211,966,969	200,994,434
Effect of dilutive securities:				
Unvested restricted common stock	—	—	—	—
Shares related to unvested PSUs	—	—	—	—
Weighted-average number of common shares outstanding—diluted	<u>212,256,590</u>	<u>200,978,327</u>	<u>211,966,969</u>	<u>200,994,434</u>
Earnings (loss) per share:				
Net loss per share available to common stockholders—basic	<u>\$ (0.02)</u>	<u>\$ (0.40)</u>	<u>\$ (0.94)</u>	<u>\$ (0.93)</u>
Net loss per share available to common stockholders—diluted	<u>\$ (0.02)</u>	<u>\$ (0.40)</u>	<u>\$ (0.94)</u>	<u>\$ (0.93)</u>

For the three and nine months ended September 30, 2021, 190,554 and 399,605 unvested restricted common shares, respectively, were excluded from diluted weighted-average common shares outstanding, as their effect would be anti-dilutive. For the three and nine months ended September 30, 2021, 254,684 and 279,755 unvested PSUs, respectively, were excluded from the diluted weighted-average common shares outstanding, as their effect would be anti-dilutive. For the three and nine months ended September 30, 2020, there were no unvested restricted common shares or unvested PSUs excluded from the diluted weighted-average common shares outstanding.

The common OP units held by the noncontrolling interest holders have been excluded from the denominator of the diluted earnings (loss) per share calculation as there would be no effect on the amounts since the common OP units' share of income or loss would also be added or subtracted to derive net income (loss) available to common stockholders.

8. Debt

The following table sets forth information regarding the Company's debt as of September 30, 2021 and December 31, 2020 (dollars in thousands):

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Loan	Interest Rate as of September 30, 2021	Maturity Date	Principal Balance as of	
			September 30, 2021	December 31, 2020
Salt Lake City Marriott Downtown at City Creek mortgage loan	LIBOR + 3.25% ⁽¹⁾	January 2022 ⁽²⁾	\$ 45,900	\$ 47,250
Westin Washington, D.C. City Center mortgage loan	3.99%	January 2023	56,516	58,282
The Lodge at Sonoma Resort mortgage loan	3.96%	April 2023	25,786	26,268
Westin San Diego Downtown mortgage loan	3.94%	April 2023	59,023	60,261
Courtyard New York Manhattan/Midtown East mortgage loan	4.40%	August 2024	78,305	79,535
Worthington Renaissance Fort Worth Hotel mortgage loan	3.66%	May 2025	77,901	79,214
JW Marriott Denver at Cherry Creek mortgage loan	4.33%	July 2025	59,112	60,052
Westin Boston Seaport District mortgage loan	4.36%	November 2025	183,799	186,840
Unamortized debt issuance costs			(1,977)	(2,553)
Total mortgage debt, net of unamortized debt issuance costs			584,365	595,149
Unsecured term loan	LIBOR + 2.40% ⁽³⁾	October 2023	50,000	50,000
Unsecured term loan	LIBOR + 2.40% ⁽⁴⁾	July 2024	350,000	350,000
Unamortized debt issuance costs			(1,577)	(1,450)
Unsecured term loans, net of unamortized debt issuance costs			398,423	398,550
Senior unsecured credit facility	LIBOR + 2.55% ⁽⁵⁾	July 2023 ⁽⁶⁾	—	55,000
Total debt, net of unamortized debt issuance costs			\$ 982,788	\$ 1,048,699
Weighted-Average Interest Rate	3.97%			

(1) LIBOR is subject to a floor of 1.0%.

(2) The loan may be extended for an additional year upon satisfaction of certain conditions.

(3) We are party to an interest rate swap agreement that fixes LIBOR at 2.41% through October 2023.

(4) We are party to an interest rate swap agreement that fixes LIBOR at 1.70% through July 2024 for \$175 million of the loan. LIBOR is subject to a floor of 0.25%.

(5) LIBOR is subject to a floor of 0.25%.

(6) The credit facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions.

Mortgage and Other Debt

We have incurred limited recourse, property specific mortgage debt secured by certain of our hotels. In the event of default, the lender may only foreclose on the secured assets; however, in the event of fraud, misapplication of funds or other customary recourse provisions, the lender may seek payment from us. As of September 30, 2021, eight of our 31 hotels were secured by mortgage debt.

Our mortgage debt contains certain property specific covenants and restrictions, including minimum debt service coverage ratios or debt yields that trigger “cash trap” provisions, as well as restrictions on incurring additional debt without lender consent. Such cash trap provisions are triggered when the hotel’s operating results fall below a certain debt service coverage ratio or debt yield. When these cash trap provisions are triggered, all of the excess cash flow generated by the hotel is deposited directly into cash management accounts for the benefit of our lenders until a specified debt service coverage ratio or debt yield is reached and maintained for a certain period of time. Such provisions do not provide the lender the right to accelerate repayment of the underlying debt. As of September 30, 2021, the debt service coverage ratios or debt yields for all of our mortgage loans with cash trap provisions were below the minimum thresholds such that the cash trap provision of each

respective loan was triggered. We do not expect that such cash traps will affect our ability to satisfy our short-term liquidity requirements.

Senior Unsecured Credit Facility and Unsecured Term Loans

We are party to credit agreements (the “Credit Agreements”) that provide for a \$400 million senior unsecured credit facility (the “Revolving Credit Facility”), which matures in July 2023, a \$350 million unsecured term loan maturing in July 2024 (the “Facility Term Loan”) and a \$50 million unsecured term loan maturing in October 2023 (the “2023 Term Loan”). The maturity date for the Revolving Credit Facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions. The interest rate on the Revolving Credit Facility is based upon LIBOR, plus an applicable margin based upon the Company’s leverage ratio. In addition to the interest payable on amounts outstanding under the Revolving Credit Facility, we are required to pay an amount equal to 0.20% of the unused portion of the Revolving Credit Facility if the average usage is greater than 50% or 0.30% of the unused portion of the Revolving Credit Facility if the average usage is less than or equal to 50%. As of September 30, 2021, we had no borrowings outstanding under the Revolving Credit Facility.

We incurred interest and unused fees on the Revolving Credit Facility of \$0.3 million and \$1.1 million for the three months ended September 30, 2021 and 2020, respectively. We incurred interest and unused fees on the Revolving Credit Facility of \$2.0 million and \$3.6 million for the nine months ended September 30, 2021 and 2020, respectively. We incurred interest on the unsecured term loans of \$3.8 million and \$3.7 million for the three months ended September 30, 2021 and 2020, respectively. We incurred interest on the unsecured term loans of \$11.1 million and \$9.8 million for the nine months ended September 30, 2021 and 2020, respectively.

On June 9, 2020, we entered into amendments to the Credit Agreements (the “Amended Credit Agreements”). The Amended Credit Agreements waived the quarterly tested financial covenants from June 9, 2020 through the first quarter of 2021 (the “Covenant Relief Period”). During the Covenant Relief Period and until the date we have demonstrated compliance with the financial covenants for the fiscal quarter following the end of the Covenant Relief Period (the “Restriction Period”), (i) the Amended Credit Agreements require that the net cash proceeds from certain incurrences of indebtedness, equity issuances and asset dispositions will, subject to various exceptions, be applied as a mandatory prepayment of the amounts outstanding under the Amended Credit Agreements, (ii) the Amended Credit Agreements impose an additional covenant that we and our subsidiaries maintain minimum liquidity, defined as unrestricted cash plus available capacity on the Revolving Credit Facility, of at least \$100 million, and (iii) the Amended Credit Agreements impose additional negative covenants that will limit our ability to incur additional indebtedness, pay dividends and distributions (except to the extent required to maintain REIT status), repurchase shares, make prepayments of other indebtedness, make capital expenditures, conduct asset dispositions or transfers and make investments, in each case subject to various exceptions. During the Restriction Period, acquisitions of encumbered hotels are permitted, subject to a \$300 million limitation, and acquisitions of unencumbered hotels are permitted subject to a partial repayment of the outstanding balance on the Revolving Credit Facility or funded with junior capital.

Following the end of the Covenant Relief Period, the Amended Credit Agreements modify certain financial covenants until January 1, 2022 or unless we elect to terminate the period on an earlier date (the “Ratio Adjustment Period”), as follows:

- Maximum Leverage Ratio is increased from 60% to 65%;
- Unencumbered Leverage Ratio is increased from 60% to 65%; and
- Unencumbered Implied Debt Service Coverage Ratio may not be less than 1.00 to 1.00 for the first two testing periods in the Ratio Adjustment Period, not less than 1.10 to 1.00 for the third testing period in the Ratio Adjustment Period and not less than 1.20 to 1.00 for all testing periods thereafter.

During the Covenant Relief Period and until the earlier of (i) January 1, 2022 and (ii) the date on which we have demonstrated compliance with the financial covenants, without giving effect to the modifications imposed during the Ratio Adjustment Period for two consecutive quarters following the Covenant Relief Period, the equity interests of certain of our subsidiaries that own unencumbered properties are required to be pledged to secure the obligations owing under the Amended Credit Agreements.

During the Covenant Relief Period and the Ratio Adjustment Period, the Amended Credit Agreements also set the applicable interest rate to LIBOR plus a margin of 2.40% for the Revolving Credit Facility and LIBOR plus a margin of 2.35% for the Facility Term Loan and 2023 Term Loan. The Amended Credit Agreements also add a LIBOR floor of 0.25% to the variable interest rate calculation. On August 14, 2020, we entered into an additional amendment to the Amended Credit Agreements that permits us to pay preferred dividends up to \$17.5 million annually.

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On January 20, 2021, we entered into third amendments to the Amended Credit Agreements that provide for the following modifications:

- Extends the Covenant Relief Period through the fourth quarter of 2021, unless we elect to terminate the period on an earlier date;
- Extends the Ratio Adjustment Period until April 1, 2023, unless we elect to terminate the period on an earlier date, and further modifies certain financial covenants, as follows:
 - Maximum Leverage Ratio is increased from 60% to 65%;
 - Unencumbered Leverage Ratio is increased from 60% to 65%; and
 - Unencumbered Implied Debt Service Coverage Ratio may not be less than 1.00 to 1.00
- Increases the applicable interest rate as follows: (i) for all revolving loans outstanding, LIBOR plus a margin of 2.55% per annum, and (ii) for all term loans outstanding, LIBOR plus a margin of 2.40% per annum;
- Increases the minimum liquidity covenant to \$125.0 million; and
- Increases our ability to pay dividends on preferred stock up to \$25.0 million annually.

9. Hotel Dispositions

On April 30, 2021, we sold a wholly owned subsidiary of the Company that owns Frenchman's Reef to an unaffiliated third party pursuant to a share purchase agreement (the "Purchase Agreement") dated April 27, 2021. Pursuant to the Purchase Agreement, the Company received \$35.0 million in cash upon closing, as well as a participation right in the future profits of the hotel once certain return metrics are achieved. Although we expect the profit participation could be meaningful, there can be no assurance that the property will satisfy such return metrics. The Purchase Agreement was a recognized subsequent event to the first quarter of 2021 in accordance with FASB ASC 855, *Subsequent Events*. As a result, we recorded an impairment loss of \$10.8 million during the first quarter of 2021 to adjust the hotel's carrying amount to the contractual consideration. The fair value was determined based on the contractual sales price pursuant to an executed purchase and sale agreement (a Level 2 measurement in the fair value hierarchy). Upon classifying Frenchman's Reef as held for sale, we recognized an additional impairment loss of approximately \$0.7 million in the second quarter of 2021.

On June 30, 2021, we sold The Lexington Hotel to an unaffiliated third party for \$185.3 million. During the first quarter of 2021, we evaluated the recoverability of the carrying amount of The Lexington Hotel as a result of our assessment in the first quarter of 2021 that it was more likely than not that the hotel would be sold significantly before the end of its previously estimated useful life. As a result, we recorded an impairment loss of \$111.7 million during the first quarter of 2021 to adjust the hotel's carrying amount to its estimated fair value. The fair value was determined based on the contractual sales price pursuant to an executed purchase and sale agreement (a Level 2 measurement in the fair value hierarchy). Upon classifying The Lexington Hotel as held for sale, we recognized an additional impairment loss of approximately \$3.5 million in the second quarter of 2021.

10. Acquisitions

On July 29, 2021, we acquired the 218-room Bourbon Orleans Hotel located in New Orleans, Louisiana, for net consideration of \$90.1 million, including prorations. The acquisition was funded with corporate cash. Upon acquisition of the hotel, we entered into a five-year management agreement with Evolution Hospitality. The management agreement provides for a base management fee of 2.5% of gross revenues for the first year of the agreement and 2.0% of gross revenues thereafter. The management agreement also provides for an incentive management fee of 15% of hotel operating profit above an owner's priority, determined in accordance with the terms of the management agreement. The incentive management fee is capped at 1% of gross revenues for each year.

On July 30, 2021, we acquired the 37-room Henderson Park Inn located in Destin, Florida, for net consideration of \$26.4 million, including prorations. The acquisition was funded with corporate cash. Upon acquisition of the hotel, we entered into a five-year management agreement with Aimbridge Hospitality. The management agreement provides for a base management fee of 2.5% of gross revenues. The management agreement also provides for an incentive management fee of 15% of hotel operating profit above an owner's priority, determined in accordance with the terms of the management agreement. The incentive management fee is capped at 1% of gross revenues for each year.

11. Fair Value Measurements and Interest Rate Swaps

The fair value of certain financial assets and liabilities and other financial instruments as of September 30, 2021 and December 31, 2020, in thousands, is as follows:

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	September 30, 2021		December 31, 2020	
	Carrying Amount ⁽¹⁾	Fair Value	Carrying Amount ⁽¹⁾	Fair Value
Debt	\$ 982,788	\$ 986,850	\$ 1,048,699	\$ 1,078,900

(1) The carrying amount of debt is net of unamortized debt issuance costs.

The fair value of our debt is a Level 2 measurement under the fair value hierarchy (see Note 2). We estimate the fair value of our debt by discounting the future cash flows of each instrument at estimated market rates.

The Company's interest rate derivatives, which are not designated or accounted for as cash flow hedges, consisted of the following as of September 30, 2021 and December 31, 2020, in thousands:

Hedged Debt	Type	Rate Fixed	Index	Effective Date	Maturity Date	Notional Amount	Fair Value of Assets (Liabilities)	
							September 30, 2021	December 31, 2020
\$50 million term loan	Swap	2.41 %	1-Month LIBOR	January 7, 2019	October 18, 2023	\$ 50,000	\$ (2,219)	\$ (3,231)
\$350 million term loan	Swap	1.70 %	1-Month LIBOR	July 25, 2019	July 25, 2024	\$ 175,000	(5,910)	(9,386)
							<u>\$ (8,129)</u>	<u>\$ (12,617)</u>

The fair values of the interest rate swap agreements are included in accounts payable and accrued expenses on the accompanying consolidated balance sheets as of September 30, 2021 and December 31, 2020. The fair value of our interest rate swaps is a Level 2 measurement under the fair value hierarchy. We estimate the fair value of the interest rate swap based on the interest rate yield curve and implied market volatility as inputs and adjusted for the counterparty's credit risk. We concluded the inputs for the credit risk valuation adjustment are Level 3 inputs, however these inputs are not significant to the fair value measurement in its entirety.

The carrying amount of our other financial instruments approximate fair value due to the short-term nature of these financial instruments.

12. Commitments and Contingencies

Litigation

We are subject to various claims, lawsuits and legal proceedings, including routine litigation arising in the ordinary course of business, regarding the operation of our hotels and Company matters. While it is not possible to ascertain the ultimate outcome of such matters, management believes that the aggregate amount of such liabilities, if any, in excess of amounts covered by insurance will not have a material adverse impact on our financial condition or results of operations. The outcome of claims, lawsuits and legal proceedings brought against the Company, however, is subject to significant uncertainties.

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

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of complying with these safe harbor provisions. These forward-looking statements are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions, whether in the negative or affirmative. Forward-looking statements are based on management's current expectations and assumptions and are not guarantees of future performance. Factors that may cause actual results to differ materially from current expectations include, but are not limited to, the risks discussed herein and the risk factors discussed from time to time in our periodic filings with the Securities and Exchange Commission, including in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020 as updated by our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Accordingly, there is no assurance that the Company's expectations will be realized. Except as otherwise required by the federal securities laws, the Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this report to reflect events, circumstances or changes in expectations after the date of this report.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- negative developments in the economy, including, but not limited to, job loss or growth trends, an increase in unemployment or a decrease in corporate earnings and investment;
- increased competition in the lodging industry and from alternative lodging channels or third party internet intermediaries in the markets in which we own properties;
- failure to effectively execute our long-term business strategy and successfully identify and complete acquisitions and dispositions;
- risks and uncertainties affecting hotel management, operations and renovations (including, without limitation, construction delays, increased construction costs, disruption in hotel operations and the risks associated with our management and franchise agreements);
- risks associated with the availability and terms of financing and the use of debt to fund acquisitions and renovations or refinance existing indebtedness, including the impact of higher interest rates on the cost and/or availability of financing;
- risks associated with our level of indebtedness and our ability to satisfy our obligations under our debt agreements;
- risks associated with the lodging industry overall, including, without limitation, decreases in the frequency of travel and increases in operating costs;
- risks and uncertainties associated with our obligations under our management agreements;
- risks associated with natural disasters and other unforeseen catastrophic events, including the emergence of a pandemic or other widespread health emergency;
- the adverse impact of COVID-19 on the U.S., regional and global economies, travel, the hospitality industry, and on our financial condition and results of operations and our hotels;
- costs of compliance with government regulations, including, without limitation, the Americans with Disabilities Act;
- potential liability for uninsured losses and environmental contamination;
- risks associated with security breaches through cyber-attacks or otherwise, as well as other significant disruptions of our and our hotel managers' information technologies and systems, which support our operations and those of our hotel managers;
- risks associated with our potential failure to maintain our qualification as a REIT (as defined below) under the Internal Revenue Code of 1986, as amended (the "Code");
- possible adverse changes in tax and environmental laws; and
- risks associated with our dependence on key personnel whose continued service is not guaranteed.

Overview

DiamondRock Hospitality Company is a lodging-focused Maryland corporation operating as a real estate investment trust ("REIT"). As of September 30, 2021, we owned a portfolio of 31 premium hotels and resorts that contain 9,133 guest rooms located in 22 different markets in North America.

As an owner, rather than an operator, of lodging properties, we receive all of the operating profits or losses generated by our hotels after the payment of fees due to hotel managers and hotel brands, which are calculated based on the revenues and profitability of each hotel.

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Our strategy is to apply aggressive asset management, prudent financial strategy, and disciplined capital allocation to high quality lodging properties in North American urban and resort markets with superior growth prospects and high barriers-to-entry. Our goal is to deliver long-term stockholder returns that exceed those generated by our peers through a combination of dividends and enduring capital appreciation.

Our primary business is to acquire, own, asset manage and renovate premium hotel properties in the United States. Our portfolio is concentrated in key gateway cities and destination resort locations. Each of our hotels is managed by a third party—either an independent operator or a brand operator, such as Marriott International, Inc.

We critically evaluate each of our hotels to ensure that we own a portfolio of hotels that conforms to our vision, supports our mission and corresponds with our strategy. On a regular basis, we analyze our portfolio to identify opportunities to invest capital in certain projects or market non-core assets for sale in order to increase our portfolio quality. We are committed to a conservative capital structure with prudent leverage. We regularly assess the availability and affordability of capital in order to maximize stockholder value and minimize enterprise risk. In addition, we are committed to following sound corporate governance practices and to being open and transparent in our communications with our stockholders.

Key Indicators of Financial Condition and Operating Performance

We use a variety of operating and other information to evaluate the financial condition and operating performance of our business. These key indicators include financial information that is prepared in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”), as well as other financial information that is not prepared in accordance with U.S. GAAP. 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 performance of individual hotels, groups of hotels and/or our business as a whole. We periodically compare historical information to our internal budgets as well as industry-wide information. These key indicators include:

- Occupancy percentage;
- Average Daily Rate (or ADR);
- Revenue per Available Room (or RevPAR);
- Earnings Before Interest, Income Taxes, Depreciation and Amortization (or EBITDA), Earnings Before Interest, Income Taxes, Depreciation and Amortization for real estate (or EBITDA_{re}), and Adjusted EBITDA; and
- Funds From Operations (or FFO) and Adjusted FFO.

Occupancy, ADR and RevPAR are commonly used measures within the hotel industry to evaluate operating performance. RevPAR, which is calculated as the product of ADR and occupancy percentage, is an important statistic for monitoring operating performance at the individual hotel level and across our business as a whole. We evaluate individual hotel RevPAR performance on an absolute basis with comparisons to budget and prior periods, as well as on a company-wide and regional basis. ADR and RevPAR include only room revenue. Room revenue comprised approximately 71% of our total revenues for the nine months ended September 30, 2021 and is dictated by demand, as measured by occupancy percentage, pricing, as measured by ADR, and our available supply of hotel rooms.

Our ADR, occupancy percentage and RevPAR performance may be impacted by macroeconomic factors such as U.S. economic conditions generally, regional and local employment growth, personal income and corporate earnings, office vacancy rates and business relocation decisions, airport and other business and leisure travel, increased use of lodging alternatives, new hotel construction and the pricing strategies of our competitors. In addition, our ADR, occupancy percentage and RevPAR performance is dependent on the continued success of our hotels' global brands.

We also use EBITDA, EBITDA_{re}, Adjusted EBITDA, FFO and Adjusted FFO as measures of the financial performance of our business. See “Non-GAAP Financial Measures.”

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus, or COVID-19, a global pandemic. The virus spread throughout the United States and globally. As a result of the pandemic, government mandates and health official

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recommendations, the overall demand for lodging materially decreased. We suspended operations at 20 of our 30 previously operating hotels for a portion of 2020. For a portion of the nine months ended September 30, 2021, four of our previously operating hotels were closed. As of September 30, 2021, and for the three months then ended, all of our owned hotels were open.

We have taken aggressive steps to mitigate the COVID-19 pandemic's operational and financial impacts on our business, as described in our consolidated financial statements contained within our Annual Report on Form 10-K filed on March 1, 2021. The COVID-19 pandemic has had a material adverse impact on our operations and financial results for the three and nine months ended September 30, 2021. The COVID-19 pandemic showed signs of moderating in the first half of 2021, however, given the emergence of variant strains, case counts increased in the third quarter of 2021. Currently, case counts are declining, however, the severity and duration of the pandemic cannot be reasonably estimated at this time. We expect the COVID-19 pandemic will continue to have a material adverse impact on our results of operations, financial position and cash flow in the fourth quarter of 2021.

Demand at our leisure-focused hotels improved in the latter part of 2020 and into the third quarter of 2021. Demand at our other hotels, however, remains at historically low levels. Several markets throughout the country experienced a resurgence of COVID-19 case counts during certain periods in 2021 and reimplemented or strengthened closures, quarantines, and social distancing requirements. The effectiveness and wide distribution of COVID-19 vaccines, as well as other public health and geopolitical factors, have generally reduced COVID-19 case counts. We believe that these factors, coupled with improved global distribution of the vaccine and the potential approval of vaccines for children and booster shots for the general population, are likely to positively impact the timing, pace, and extent of a lodging demand recovery. The emergence of new variant strains of COVID-19, however, has the potential to slow or reverse these positive trends in the fourth quarter of 2021 and beyond. We will continue to aggressively asset manage our hotels and carefully assess staffing needs, cleanliness and safety protocols, business mix, and other initiatives. We expect that the COVID-19 pandemic has decreased the pipeline of supply of new hotel rooms within the markets we operate, which would further stabilize RevPAR and profitability.

Our Hotels

The following tables set forth certain operating information for the nine months ended September 30, 2021 for each of our hotels owned during the period. The table indicates the operating status of each hotel and the occupancy percentage, ADR and RevPAR for each hotel for the portion that it was open during the nine months ended September 30, 2021.

Hotels Open for the Company's Period of Ownership during the Nine Months Ended September 30, 2021

Property	Location	Number of Rooms	Occupancy (%)	ADR (\$)	RevPAR(\$)	% Change from 2020 RevPAR
Westin Boston Seaport District ⁽¹⁾	Boston, Massachusetts	793	38.6 %	\$ 180.87	\$ 69.80	70.4 %
Salt Lake City Marriott Downtown at City Creek	Salt Lake City, Utah	510	43.3 %	141.35	61.25	68.3 %
Worthington Renaissance Fort Worth Hotel	Fort Worth, Texas	504	51.2 %	148.82	76.19	49.1 %
Westin San Diego Downtown	San Diego, California	436	51.3 %	157.46	80.71	17.6 %
Westin Fort Lauderdale Beach Resort	Fort Lauderdale, Florida	433	60.2 %	236.88	142.53	48.3 %
Westin Washington, D.C. City Center	Washington, D.C.	410	25.8 %	139.24	35.88	(16.9)%
Hilton Boston Downtown/Faneuil Hall ⁽¹⁾	Boston, Massachusetts	403	52.9 %	193.40	102.27	114.9 %
Vail Marriott Mountain Resort ⁽¹⁾	Vail, Colorado	344	46.0 %	317.33	145.93	16.8 %
Courtyard New York Manhattan/Midtown East	New York, New York	321	75.4 %	171.24	129.17	35.1 %
Atlanta Marriott Alpharetta	Atlanta, Georgia	318	45.3 %	109.44	49.60	35.1 %
The Gwen Hotel ⁽¹⁾	Chicago, Illinois	311	48.7 %	244.80	119.29	118.7 %
Bethesda Marriott Suites	Bethesda, Maryland	272	30.6 %	111.73	34.20	(3.9)%
Hilton Burlington Lake Champlain ⁽¹⁾	Burlington, Vermont	258	59.4 %	230.48	136.85	344.3 %
Hotel Palomar Phoenix ⁽¹⁾	Phoenix, Arizona	242	55.6 %	158.13	87.86	30.1 %
Bourbon Orleans Hotel ⁽²⁾	New Orleans, Louisiana	218	55.9 %	189.19	105.73	N/A

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JW Marriott Denver Cherry Creek ⁽¹⁾	Denver, Colorado	199	61.9 %	256.72	158.94	111.9 %
Barbary Beach House Key West ⁽¹⁾	Key West, Florida	186	85.2 %	384.06	327.16	173.7 %
The Lodge at Sonoma Resort ⁽¹⁾	Sonoma, California	182	56.7 %	345.68	195.99	172.4 %
Courtyard Denver Downtown ⁽¹⁾	Denver, Colorado	177	59.5 %	152.90	91.05	136.7 %
Renaissance Charleston Historic District Hotel	Charleston, South Carolina	167	79.2 %	299.52	237.18	174.7 %
Kimpton Shorebreak Resort	Huntington Beach, California	157	66.0 %	322.91	213.24	64.3 %
Cavallo Point, The Lodge at the Golden Gate ⁽¹⁾	Sausalito, California	142	41.3 %	634.83	262.11	129.6 %
Havana Cabana Key West ⁽¹⁾	Key West, Florida	106	91.1 %	284.07	258.91	110.3 %
Hotel Emblem San Francisco ⁽¹⁾	San Francisco, California	96	38.3 %	152.78	58.49	(8.9)%
L'Auberge de Sedona	Sedona, Arizona	88	80.9 %	855.47	692.17	100.1 %
The Landing Lake Tahoe Resort & Spa ⁽¹⁾	South Lake Tahoe, California	82	50.0 %	486.70	243.57	24.2 %
Orchards Inn Sedona ⁽¹⁾	Sedona, Arizona	70	69.9 %	287.73	201.15	120.5 %
Henderson Park Inn ⁽³⁾	Destin, Florida	37	91.9 %	630.12	579.30	16.6 %
TOTAL/WEIGHTED AVERAGE FOR OPEN HOTELS		7,462	51.9 %	233.68	121.24	74.2 %

Hotels Closed for a Portion of the Company's Period of Ownership during the Nine Months Ended September 30, 2021

Property	Location	Date of Closure	Date of Reopening	Number of Rooms	Occupancy (%)	ADR (\$)	RevPAR (\$)	% Change from 2020 RevPAR
Chicago Marriott Downtown Magnificent Mile ⁽¹⁾	Chicago, Illinois	4/10/2020	9/1/2020	1,200	25.1 %	\$ 194.21	\$ 48.76	99.7 %
The Lexington Hotel ⁽¹⁾⁽⁴⁾	New York, New York	3/29/2020	-	725	— %	—	—	(100.0)%
Hilton Garden Inn New York/Times Square Central ⁽¹⁾	New York, New York	3/29/2020	5/3/2021	282	44.2 %	169.24	74.86	89.7 %
Courtyard New York Manhattan/Fifth Avenue ⁽¹⁾	New York, New York	3/27/2020	6/1/2021	189	40.9 %	181.14	74.06	75.6 %
TOTAL/WEIGHTED AVERAGE FOR CLOSED HOTELS				2,396	24.9 %	186.02	46.31	24.0 %
TOTAL/WEIGHTED AVERAGE				9,858	46.0 %	\$ 228.06	\$ 104.93	67.7 %

(1) Operations were suspended for a portion of the nine months ended September 30, 2020.

(2) The operating statistics reflect our ownership period from July 29, 2021 to September 30, 2021. The hotel was closed during the comparable period in 2020.

(3) The operating statistics reflect our ownership period from July 30, 2021 to September 30, 2021.

(4) The hotel was sold on June 30, 2021. The operating statistics reflect the period from January 1, 2021 to June 30, 2021.

Results of Operations

The comparability of our results of operations for the three and nine months ended September 30, 2021 to the three and nine months ended September 30, 2020 has been impacted by the effects of the COVID-19 pandemic. Our results of operations for the three and nine months ended September 30, 2020 were impacted by the advent of the COVID-19 pandemic and corresponding government mandates and health official recommendations. Our results of operations for the three and nine months ended September 30, 2021 have improved relative to the three and nine months ended September 30, 2020 as government mandates eased, vaccines were distributed, and travel increased. We expect the comparability of our results of operations in future periods to past periods in 2020 and 2021 will be similarly impacted by the effects of COVID-19.

Comparison of the Three Months Ended September 30, 2021 to the Three Months Ended September 30, 2020

In response to the COVID-19 pandemic, operations were suspended at 20 of our hotels for a portion of the three months ended September 30, 2020. As of September 30, 2021, and for the three months then ended, all of our owned hotels were open.

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Revenue. Revenue consists primarily of the room, food and beverage and other operating revenues from our hotels, as follows (dollars in millions):

	Three Months Ended September 30,		% Change
	2021	2020	
Rooms	\$ 128.7	\$ 33.2	287.7 %
Food and beverage	36.5	9.6	280.2 %
Other	14.3	7.3	95.9 %
Total revenues	\$ 179.5	\$ 50.1	258.3 %

Our total revenues increased \$129.4 million from \$50.1 million for the three months ended September 30, 2020 to \$179.5 million for the three months ended September 30, 2021.

The following are key hotel operating statistics for the three months ended September 30, 2021 and 2020. The 2020 amounts reflect the period in 2020 comparable to our ownership period in 2021 for our dispositions of Frenchman's Reef and The Lexington Hotel and the acquisitions of the Bourbon Orleans Hotel and Henderson Park Inn.

	Three Months Ended September 30,		% Change
	2021	2020	
Occupancy %	65.1 %	19.9 %	45.2 %
ADR	\$ 237.41	\$ 206.76	14.8 %
RevPAR	\$ 154.54	\$ 41.21	275.0 %

Food and beverage revenues increased \$26.9 million from \$9.6 million for the three months ended September 30, 2020 to \$36.5 million for the three months ended September 30, 2021.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by \$7.0 million.

Hotel operating expenses. The operating expenses consisted of the following (dollars in millions):

	Three Months Ended September 30,		% Change
	2021	2020	
Rooms departmental expenses	\$ 32.4	\$ 11.8	174.6 %
Food and beverage departmental expenses	27.0	10.0	170.0
Other departmental expenses	3.8	1.6	137.5
General and administrative	16.3	7.3	123.3
Utilities	5.4	4.2	28.6
Repairs and maintenance	8.5	5.3	60.4
Sales and marketing	11.7	4.7	148.9
Franchise fees	6.0	1.8	233.3
Base management fees	3.0	(0.8)	(475.0)
Incentive management fees	0.1	—	100.0
Property taxes	11.2	14.9	(24.8)
Other fixed charges	6.2	4.5	37.8
Severance costs	—	7.4	(100.0)
Professional fees and pre-opening costs related to Frenchman's Reef	0.3	0.6	(50.0)
Lease expense	3.0	2.8	7.1
Total hotel operating expenses	\$ 134.9	\$ 76.1	77.3 %

Our hotel operating expenses increased \$58.8 million from \$76.1 million for the three months ended September 30, 2020 to \$134.9 million for the three months ended September 30, 2021. For the three months ended September 30, 2020, we

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accrued \$7.4 million of severance costs at our properties as a result of the COVID-19 pandemic. Additionally, in connection with the change in hotel manager of the Renaissance Charleston Historic District Hotel, we recognized \$1.4 million of accelerated amortization of the unfavorable management agreement liability during the three months ended September 30, 2020, which reduced base management fees.

Depreciation and amortization. Depreciation and amortization is recorded on our hotel buildings over 40 years for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. Our depreciation and amortization expense decreased \$3.0 million, or 10.4%, from the three months ended September 30, 2020.

Corporate expenses. Corporate expenses principally consist of employee-related costs, including base payroll, bonus, restricted stock and severance. Corporate expenses also include corporate operating costs, professional fees and directors' fees. Our corporate expenses increased \$1.0 million, or 13.7%, from \$7.3 million for the three months ended September 30, 2020 to \$8.3 million for the three months ended September 30, 2021 primarily due to increases in employee-related compensation and other employee-related expenses.

Interest expense. Our interest expense was \$10.1 million and \$10.8 million for the three months ended September 30, 2021 and 2020, respectively, and was comprised of the following (in millions):

	Three Months Ended September 30,	
	2021	2020
Mortgage debt interest	\$ 6.3	\$ 6.5
Unsecured term loan interest	3.8	3.7
Credit facility interest and unused fees	0.3	1.1
Amortization of debt issuance costs and debt premium	0.6	0.5
Interest rate swap mark-to-market and net settlements	(0.9)	(1.0)
	<u>\$ 10.1</u>	<u>\$ 10.8</u>

The decrease in interest expense is primarily related to a decrease in interest incurred on the credit facility, which had no outstanding borrowings for the three months ended September 30, 2021.

Comparison of the Nine Months Ended September 30, 2021 to the Nine Months Ended September 30, 2020

In response to the COVID-19 pandemic, operations were suspended at four of our hotels for a portion of the nine months ended September 30, 2021. Operations were suspended at 20 of our hotels for a portion of the nine months ended September 30, 2020.

Revenue. Revenue consists primarily of the room, food and beverage and other operating revenues from our hotels, as follows (dollars in millions):

	Nine Months Ended September 30,		% Change
	2021	2020	
Rooms	\$ 266.1	\$ 158.1	68.3 %
Food and beverage	76.1	56.5	34.7 %
Other	35.0	25.8	35.7 %
Total revenues	<u>\$ 377.2</u>	<u>\$ 240.4</u>	<u>56.9 %</u>

Our total revenues increased \$136.8 million from \$240.4 million for the nine months ended September 30, 2020 to \$377.2 million for the nine months ended September 30, 2021.

The following are key hotel operating statistics for the nine months ended September 30, 2021 and 2020. The 2020 amounts reflect the period in 2020 comparable to our ownership period in 2021 for our dispositions of Frenchman's Reef and The Lexington Hotel and the acquisitions of the Bourbon Orleans Hotel and Henderson Park Inn.

	Nine Months Ended September 30,		% Change
	2021	2020	
Occupancy %	46.0 %	29.8 %	16.2 %
ADR	\$ 228.06	\$ 210.33	8.4 %
RevPAR	\$ 104.93	\$ 62.58	67.7 %

Food and beverage revenues increased \$19.6 million from \$56.5 million for the nine months ended September 30, 2020 to \$76.1 million for the nine months ended September 30, 2021.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by \$9.2 million.

Hotel operating expenses. The operating expenses consisted of the following (dollars in millions):

	Nine Months Ended September 30,		% Change
	2021	2020	
Rooms departmental expenses	\$ 67.7	\$ 54.6	24.0 %
Food and beverage departmental expenses	58.1	45.8	26.9
Other departmental expenses	8.3	6.1	36.1
General and administrative	39.2	38.7	1.3
Utilities	13.7	12.0	14.2
Repairs and maintenance	21.0	17.7	18.6
Sales and marketing	25.5	23.3	9.4
Franchise fees	12.2	8.4	45.2
Base management fees	6.3	2.6	142.3
Incentive management fees	0.2	—	100.0
Property taxes	36.3	44.0	(17.5)
Other fixed charges	13.3	13.2	0.8
Severance costs	(0.2)	7.8	(102.6)
Professional fees and pre-opening costs related to Frenchman's Reef	1.4	0.4	250.0
Lease expense	8.7	8.6	1.2
Total hotel operating expenses	\$ 311.7	\$ 283.2	10.1 %

Our hotel operating expenses increased \$28.5 million from \$283.2 million for the nine months ended September 30, 2020 to \$311.7 million for the nine months ended September 30, 2021. For the nine months ended September 30, 2020, we recognized \$7.8 million of severance costs at our properties as a result of the COVID-19 pandemic. Additionally, in connection with the change in hotel manager of the Renaissance Charleston Historic District Hotel, we recognized \$1.4 million of accelerated amortization of the unfavorable management agreement liability during the nine months ended September 30, 2020, which reduced base management fees.

Depreciation and amortization. Depreciation and amortization is recorded on our hotel buildings over 40 years for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. Our depreciation and amortization expense decreased \$10.2 million, or 11.7%, from the nine months ended September 30, 2020.

Impairment losses. We recorded impairment losses of \$11.5 million during the nine months ended September 30, 2021 related to Frenchman's Reef, which was sold on April 30, 2021. We recorded impairment losses of \$115.2 million during the nine months ended September 30, 2021 related to The Lexington Hotel, which was sold on June 30, 2021. No impairment losses were recorded during the nine months ended September 30, 2020.

Corporate expenses. Corporate expenses principally consist of employee-related costs, including base payroll, bonus, restricted stock and severance. Corporate expenses also include corporate operating costs, professional fees and directors' fees. Our corporate expenses increased \$4.1 million, or 20.8%, from \$19.7 million for the nine months ended September 30, 2020 to

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\$23.8 million for the nine months ended September 30, 2021 primarily due to increases in employee-related compensation and other employee-related expenses.

Interest expense. Our interest expense was \$29.2 million and \$43.7 million for the nine months ended September 30, 2021 and 2020, respectively, and was comprised of the following (in millions):

	Nine Months Ended September 30,	
	2021	2020
Mortgage debt interest	\$ 18.7	\$ 19.5
Unsecured term loan interest	11.1	9.8
Credit facility interest and unused fees	2.0	3.6
Amortization of debt issuance costs and debt premium	1.9	1.6
Capitalized interest	—	(2.1)
Interest rate swap mark-to-market and net settlements	(4.5)	11.3
	<u>\$ 29.2</u>	<u>\$ 43.7</u>

The decrease in interest expense is primarily related to the mark-to-market of our interest rate swaps, partially offset by the cessation of interest capitalization due to the pause on the reconstruction of Frenchman's Reef.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds necessary to pay our scheduled debt service and operating expenses and capital expenditures directly associated with our hotels. We have suspended our quarterly common stock dividend. We currently expect that our existing cash balances and available capacity on our senior unsecured credit facility will be sufficient to meet our short-term liquidity requirements.

Some of our mortgage debt agreements contain "cash trap" provisions that are triggered when the hotel's operating results fall below a certain debt service coverage ratio. When these cash trap provisions are triggered, all of the excess cash flow generated by the hotel is deposited directly into cash management accounts for the benefit of our lenders until a specified debt service coverage ratio is reached and maintained for a certain period of time. Such provisions do not allow the lender the right to accelerate repayment of the underlying debt. As of September 30, 2021, the debt service coverage ratios or debt yields for all of our mortgage loans with cash trap provisions were below the minimum thresholds such that the cash trap provision of each respective loan was triggered. We do not expect that such cash traps will affect our ability to satisfy our short-term liquidity requirements.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional hotels, renovations, and other capital expenditures that need to be made periodically to our hotels, scheduled debt payments, debt maturities, redemption of limited operating partnership units ("common OP units") and making distributions to our common and preferred stockholders. We expect to meet our long-term liquidity requirements through various sources of capital, including cash provided by operations, borrowings, issuances of additional equity, including common OP units, and/or debt securities and proceeds from property dispositions. Our ability to incur additional debt is dependent upon a number of factors, including the state of the credit markets, our degree of leverage, the value of our unencumbered assets and borrowing restrictions imposed by existing lenders. Our ability to raise capital through the issuance of additional equity and/or debt securities is also dependent on a number of factors including the current state of the capital markets, investor sentiment and intended use of proceeds. We may need to raise additional capital if we identify acquisition opportunities that meet our investment objectives and require liquidity in excess of existing cash balances. Our ability to raise funds through the issuance of equity securities depends on, among other things, general market conditions for hotel companies and REITs and market perceptions about the Company.

On April 30, 2021, we sold a wholly owned subsidiary of the Company that owns Frenchman's Reef to an unaffiliated third party pursuant to a share purchase agreement for \$35.0 million in cash upon closing, as well as a participation right in the future profits of the hotel once certain return metrics are achieved. On June 30, 2021, we sold The Lexington Hotel for \$185.3 million.

On July 29, 2021, we acquired the 218-room Bourbon Orleans Hotel located in the New Orleans, Louisiana, for net consideration of \$90.1 million, including proration. On July 30, 2021, we acquired the 37-room Henderson Park Inn located in Destin, Florida, for net consideration of \$26.4 million, including proration.

Our Financing Strategy

Since our formation in 2004, we have been committed to a conservative capital structure with prudent leverage. Our outstanding debt consists of fixed interest rate mortgage debt, unsecured term loans and borrowings on our senior unsecured credit facility. We have a preference to maintain a significant portion of our portfolio as unencumbered assets in order to provide balance sheet flexibility. We expect that our strategy will enable us to maintain a balance sheet with an appropriate amount of debt throughout all phases of the lodging cycle. We believe that it is prudent to reduce the inherent risk of highly cyclical lodging fundamentals through a low leveraged capital structure.

We prefer a relatively simple but efficient capital structure. We generally structure our hotel acquisitions to be straightforward and to fit within our capital structure; however, we will consider a more complex transaction, such as the issuance of common OP units in connection with the acquisition of Cavallo Point, The Lodge at the Golden Gate, if we believe that the projected returns to our stockholders will significantly exceed the returns that would otherwise be available.

We believe that we maintain a reasonable amount of debt. As of September 30, 2021, we had \$1.0 billion of debt outstanding with a weighted average interest rate of 3.97% and a weighted average maturity date of approximately 2.8 years. We have one near-term mortgage debt maturity and 23 of our 31 hotels unencumbered by mortgage debt. We remain committed to our core strategy of prudent leverage.

Information about our financing activities is available in Note 8 to the accompanying consolidated financial statements. Further information is available in Note 1 to the accompanying consolidated financial statements for measures taken in response to the impact of COVID-19.

ATM Program

In August 2021, our board of directors approved an “at-the-market” equity offering program (the “Current ATM Program”), pursuant to which we may issue and sell shares of our common stock from time to time, having an aggregate offering price of up to \$200.0 million. We have not sold any shares under the Current ATM Program. Prior to the implementation of the Current ATM Program, we had a \$200.0 million ATM program (the “Prior ATM Program”), which is no longer active. No shares under the Prior ATM Program were sold during the three and nine months ended September 30, 2021.

Preferred Shares

In 2020, we issued a total of 4,760,000 shares of Series A Preferred Stock with a liquidation preference of \$25.00 per share, for net proceeds of \$114.5 million. On or after August 31, 2025, the Series A Preferred Stock will be redeemable at the Company’s option, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date.

Short-Term Borrowings

Other than borrowings under our senior unsecured credit facility, discussed below, we do not utilize short-term borrowings to meet liquidity requirements.

Senior Unsecured Credit Facility and Unsecured Term Loans

We are party to a \$400 million senior unsecured credit facility expiring in July 2023, a \$350 million unsecured term loan maturing in July 2024 and a \$50 million unsecured term loan maturing in October 2023. The maturity date for the senior unsecured credit facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions. On June 9, 2020, we executed amendments (the “First Amendments”) to the credit agreements (the “Credit Agreements”) for our \$400 million senior unsecured credit facility and \$400 million of unsecured term loans. The First Amendments provided for a waiver of the quarterly tested financial covenants beginning with the second quarter of 2020 through the first quarter of 2021 and certain other modifications to the covenants thereafter through the fourth quarter of 2021.

On August 14, 2020, we entered into additional amendments (the “Second Amendments”) that permit us to pay dividends on preferred stock up to \$17.5 million annually. On January 20, 2021, we executed additional amendments (the “Third Amendments” and together with the First Amendments and Second Amendments, the “Credit Agreement Amendments”) to the Credit Agreements to extend the existing waiver of the quarterly tested financial covenants through the fourth quarter of 2021, unless terminated early at our option. The Third Amendments also extend the modification of certain financial covenants, once

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quarterly testing resumes, through the first quarter of 2023. As of September 30, 2021, we had no borrowings outstanding under our senior unsecured credit facility.

Additional information about the Amended Credit Agreements, including the restrictions imposed by the Amended Credit Agreements and their impacts on our liquidity, sources of capital, and ability to incur additional debt, can be found in Note 8 to the accompanying consolidated financial statements.

Sources and Uses of Cash

Our principal sources of cash are net cash flow from hotel operations, sales of common and preferred stock, debt financings and proceeds from hotel dispositions. Our principal uses of cash are acquisitions of hotel properties, debt service and maturities, share repurchases, capital expenditures, operating costs, corporate expenses, and distributions to holders of common stock, common units and preferred stock. As of September 30, 2021, we had \$66.5 million of unrestricted cash, \$31.3 million of restricted cash and no outstanding borrowings on our senior unsecured credit facility.

Our net cash used in operations was \$22.3 million for the nine months ended September 30, 2021. Our cash from operations generally consists of the net cash flow from hotel operations, offset by cash paid for corporate expenses and other working capital changes.

Our net cash provided by investing activities was \$61.8 million for the nine months ended September 30, 2021, which consisted of \$213.8 million of net proceeds from the sale of Frenchman's Reef and The Lexington Hotel, offset by \$116.5 million paid for the acquisitions of the Bourbon Orleans Hotel and Henderson Park Inn, \$30.1 million of capital expenditures at our operating hotels, \$2.7 million of capital expenditures at Frenchman's Reef and \$2.8 million paid to extend the Salt Lake City Marriott Downtown at City Creek ground lease.

Our net cash used in financing activities was \$76.5 million for the nine months ended September 30, 2021, which consisted of net repayments of \$55.0 million on our senior unsecured credit facility, \$7.4 million of distributions paid to holders of preferred stock, \$11.4 million of scheduled mortgage debt principal payments, \$1.2 million paid for financing costs for the Amended Credit Agreements, and \$1.6 million paid to repurchase shares for the payment of tax withholding obligations and for accrued dividends upon the vesting of restricted stock.

We currently anticipate our significant sources of cash for the fourth quarter of 2021 will be the net cash flow from hotel operations as the lodging disruptions from COVID-19 subside. We expect our estimated uses of cash for the fourth quarter of 2021 will be scheduled debt service payments, capital expenditures, potential funding of hotel working capital requirements, distributions to preferred stockholders, corporate expenses and potential hotel acquisitions.

Dividend Policy

We intend to distribute to our stockholders dividends at least equal to our REIT taxable income to avoid paying corporate income tax and excise tax on our earnings (other than the earnings of our TRS, which are all subject to tax at regular corporate rates) and to qualify for the tax benefits afforded to REITs under the Code. In order to qualify as a REIT under the Code, we generally must make distributions to our stockholders each year in an amount equal to at least:

- 90% of our REIT taxable income determined without regard to the dividends paid deduction and excluding net capital gains, plus
- 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Code, minus
- any excess non-cash income.

The timing and frequency of distributions will be authorized by our board of directors and declared by us based upon a variety of factors, including our financial performance, restrictions under applicable law and our current and future loan agreements, our debt service requirements, our capital expenditure requirements, the requirements for qualification as a REIT under the Code and other factors that our board of directors may deem relevant from time to time.

Our board of directors suspended our quarterly common dividend commencing with the first quarter dividend that would have been paid in April 2020. The payment of future dividends, including a quarterly common dividend, will be determined by our board of directors after considering our projected taxable income, obligations under our financing agreements, expected capital requirements, and risks affecting our business.

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We have paid the following dividends per share to holders of our Series A Preferred Stock during 2021, and through the date of this report:

Payment Date	Record Date	Dividend per Share
March 31, 2021	March 18, 2021	\$ 0.515625
June 30, 2021	June 18, 2021	\$ 0.515625
September 30, 2021	September 17, 2021	\$ 0.515625

Capital Expenditures

The management and franchise agreements for each of our hotels provide for the establishment of separate property improvement funds to cover, among other things, the cost of replacing and repairing furniture, fixtures and equipment at our hotels and other routine capital expenditures. Contributions to the property improvement fund are calculated as a percentage of hotel revenues. In addition, we may be required to pay for the cost of certain additional improvements that are not permitted to be funded from the property improvement fund under the applicable management or franchise agreement. As of September 30, 2021, we have set aside \$20.7 million for capital projects in property improvement funds, which are included in restricted cash.

In response to the COVID-19 pandemic, we canceled or deferred a significant portion of the planned capital improvements at our operating hotels and paused the rebuild of Frenchman's Reef. In 2021, we expect to spend approximately \$55 million on necessary capital improvements and a select few transformational projects with attractive returns on investment. Significant projects in 2021 include the following:

- **The Lodge at Sonoma Resort:** We completed an upgrade renovation to reposition and rebrand the hotel to an Autograph Collection Hotel in the second quarter of 2021. The renovation includes a new Michael Mina restaurant.
- **Vail Marriott Mountain Resort:** We plan to complete the final phase of a multi-year renovation to rebrand the hotel as The Hythe Vail, a Luxury Collection Hotel in the fourth quarter of 2021.
- **JW Marriott Denver Cherry Creek:** We plan to complete the renovations in the second half of 2021 to rebrand the hotel as Hotel Clio, a Luxury Collection Hotel at the start of 2022.
- **Margaritaville Beach House Key West:** We plan to invest \$3 million to convert the Barbary Beach House Key West to the Margaritaville Beach Resort Key West in the fall of 2021.

We invested approximately \$30.1 million in capital improvements at our operating hotels during the nine months ended September 30, 2021. We spent approximately \$2.7 million on the rebuild of Frenchman's Reef during the nine months ended September 30, 2021 and have no further obligations to fund any additional amounts related to the rebuild following the sale of the property on April 30, 2021. Currently, the United States is experiencing both supply chain disruptions and significant price increases for certain construction materials. The supply chain disruptions are the result of substantial backlogs of container ships seeking to unload cargo at major ports, with delays caused or exacerbated by port and trucking labor shortages, railway logistics issues and a shortage of warehouse space in close proximity to the affected ports. We have not been significantly impacted by these backlogs to date; however, if not resolved, these backlogs and related logistics issues could result in material delays and increased costs for our planned capital improvements.

Contractual Obligations

There have been no material changes, outside of the ordinary course of business, as of September 30, 2021, to contractual obligations specified in the table of contractual obligations included in our Annual Report on Form 10-K for the year ended December 31, 2020, other than as follows. The Salt Lake City Marriott Downtown at City Creek is subject to a ground lease. On April 1, 2021, we completed a transaction to extend the lease term by 50 years to December 31, 2106. The extension of the ground lease term increases our operating lease payments contractually due by approximately \$6.6 million.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as of September 30, 2021 included construction contract commitments of approximately \$26.3 million for capital expenditures at our properties. Our contracts contain clauses that allow us to cancel all or some portion of the work. If cancellation of a contract occurred, our commitment would be any costs incurred up to the cancellation date, in addition to any costs associated with the discharge of the contract.

Non-GAAP Financial Measures

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We use the following non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: EBITDA, EBITDAre, Adjusted EBITDA, FFO and Adjusted FFO. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with U.S. GAAP. EBITDA, EBITDAre, Adjusted EBITDA, FFO and Adjusted FFO, as calculated by us, may not be comparable to other companies that do not define such terms exactly as the Company.

Use and Limitations of Non-GAAP Financial Measures

Our management and Board of Directors use EBITDA, EBITDAre, Adjusted EBITDA, FFO and Adjusted FFO to evaluate the performance of our hotels and to facilitate comparisons between us and other lodging REITs, hotel owners who are not REITs and other capital intensive companies. The use of these non-GAAP financial measures has certain limitations. These non-GAAP financial measures as presented by us, may not be comparable to non-GAAP financial measures as calculated by other real estate companies. These measures do not reflect certain expenses or expenditures that we incurred and will incur, such as depreciation, interest and capital expenditures. We compensate for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions or assessments of our operating performance. Our reconciliations to the most comparable U.S. GAAP financial measures, and our consolidated statements of operations and cash flows, include interest expense, capital expenditures, and other excluded items, all of which should be considered when evaluating our performance, as well as the usefulness of our non-GAAP financial measures.

These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with U.S. GAAP. They should not be considered as alternatives to operating profit, cash flow from operations, or any other operating performance measure prescribed by U.S. GAAP. These non-GAAP financial measures reflect additional ways of viewing our operations that we believe, when viewed with our U.S. GAAP results and the reconciliations to the corresponding U.S. GAAP financial measures, provide a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure.

EBITDA, EBITDAre and FFO

EBITDA represents net income (calculated in accordance with U.S. GAAP) excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; and (3) depreciation and amortization. The Company computes EBITDAre in accordance with the National Association of Real Estate Investment Trusts (“Nareit”) guidelines, as defined in its September 2017 white paper “Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate.” EBITDAre represents net income (calculated in accordance with U.S. GAAP) adjusted for: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; (3) depreciation and amortization; (4) gains or losses on the disposition of depreciated property, including gains or losses on change of control; (5) impairment write-downs of depreciated property and of investments in unconsolidated affiliates caused by a decrease in value of depreciated property in the affiliate; and (6) adjustments to reflect the entity’s share of EBITDAre of unconsolidated affiliates.

We believe EBITDA and EBITDAre are useful to an investor in evaluating our operating performance because they help investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization, and in the case of EBITDAre, impairment and gains or losses on dispositions of depreciated property) from our operating results. In addition, covenants included in our debt agreements use EBITDA as a measure of financial compliance. We also use EBITDA and EBITDAre as measures in determining the value of hotel acquisitions and dispositions.

The Company computes FFO in accordance with standards established by the Nareit, which defines FFO as net income determined in accordance with U.S. GAAP, excluding gains or losses from sales of properties and impairment losses, plus real estate related depreciation and amortization. The Company believes that the presentation of FFO provides useful information to investors regarding its operating performance because it is a measure of the Company’s operations without regard to specified non-cash items, such as real estate related depreciation and amortization and gains or losses on the sale of assets. The Company also uses FFO as one measure in assessing its operating results.

Adjustments to EBITDAre and FFO

We adjust EBITDAre and FFO when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance and that the presentation of Adjusted EBITDA and Adjusted FFO, when combined with U.S. GAAP net income,

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EBITDAre and FFO, is beneficial to an investor's complete understanding of our consolidated operating performance. We adjust EBITDAre and FFO for the following items:

- *Non-Cash Lease Expense and Other Amortization:* We exclude the non-cash expense incurred from the straight line recognition of expense from our ground leases and other contractual obligations and the non-cash amortization of our favorable and unfavorable contracts, originally recorded in conjunction with certain hotel acquisitions. We exclude these non-cash items because they do not reflect the actual cash amounts due to the respective lessors in the current period and they are of lesser significance in evaluating our actual performance for that period.
- *Cumulative Effect of a Change in Accounting Principle:* The Financial Accounting Standards Board promulgates new accounting standards that require or permit the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude the effect of these adjustments, which include the accounting impact from prior periods, because they do not reflect the Company's actual underlying performance for the current period.
- *Gains or Losses from Early Extinguishment of Debt:* We exclude the effect of gains or losses recorded on the early extinguishment of debt because these gains or losses result from transaction activity related to the Company's capital structure that we believe are not indicative of the ongoing operating performance of the Company or our hotels.
- *Hotel Acquisition Costs:* We exclude hotel acquisition costs expensed during the period because we believe these transaction costs are not reflective of the ongoing performance of the Company or our hotels.
- *Severance Costs:* We exclude corporate severance costs, or reversals thereof, incurred with the termination of corporate-level employees and severance costs incurred at our hotels related to lease terminations or structured severance programs because we believe these costs do not reflect the ongoing performance of the Company or our hotels.
- *Hotel Manager Transition Items:* We exclude the transition items associated with a change in hotel manager because we believe these items do not reflect the ongoing performance of the Company or our hotels.
- *Other Items:* From time to time we incur costs or realize gains that we consider outside the ordinary course of business and that we do not believe reflect the ongoing performance of the Company or our hotels. Such items may include, but are not limited to the following: pre-opening costs incurred with newly developed hotels; lease preparation costs incurred to prepare vacant space for marketing; management or franchise contract termination fees; gains or losses from legal settlements; costs incurred related to natural disasters; and gains on property insurance claim settlements, other than income related to business interruption insurance.

In addition, to derive Adjusted FFO we exclude any unrealized fair value adjustments to interest rate swaps. We exclude these non-cash amounts because they do not reflect the underlying performance of the Company.

The following table is a reconciliation of our U.S. GAAP net income to EBITDA, EBITDAre and Adjusted EBITDA (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss	\$ (1,771)	\$ (79,635)	\$ (192,457)	\$ (187,714)
Interest expense	10,052	10,818	29,246	43,665
Income tax expense (benefit)	2,371	7,205	1,433	(5,853)
Real estate related depreciation and amortization	25,555	28,514	77,209	87,397
EBITDA	36,207	(33,098)	(84,569)	(62,505)
Impairment losses	—	—	126,697	—
EBITDAre	36,207	(33,098)	42,128	(62,505)
Non-cash lease expense and other amortization	1,664	1,715	5,007	5,172
Professional fees and pre-opening costs related to Frenchman's Reef ⁽¹⁾	335	593	1,388	418
Hotel manager transition items	523	(1,021)	651	(460)
Severance costs ⁽²⁾	—	7,367	(216)	7,760
Uninsured costs related to natural disasters ⁽³⁾	187	—	187	—
Adjusted EBITDA	\$ 38,916	\$ (24,444)	\$ 49,145	\$ (49,615)

- (1) Represents pre-opening costs and professional fees related to the reopening of Frenchman's Reef, as well as legal and other costs incurred at Frenchman's Reef as a result of Hurricane Irma that are not covered by insurance.
- (2) Consists of severance costs incurred with the elimination of positions at our hotels, which are classified within other hotel expenses on the consolidated statement of operations.
- (3) Represents costs incurred at the Bourbon Orleans Hotel as a result of Hurricane Ida that have not been or are not expected to be recovered by insurance.

The following table is a reconciliation of our U.S. GAAP net income to FFO and Adjusted FFO (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss	\$ (1,771)	\$ (79,635)	(192,457)	\$ (187,714)
Real estate related depreciation and amortization	25,555	28,514	77,209	87,397
Impairment losses, net of tax	(2,215)	—	127,282	—
FFO	21,569	(51,121)	12,034	(100,317)
Distributions to preferred stockholders	(2,454)	(845)	(7,362)	(845)
FFO available to common stock and unit holders	19,115	(51,966)	4,672	(101,162)
Non-cash lease expense and other amortization	1,664	1,715	5,007	5,172
Professional fees and pre-opening costs related to Frenchman's Reef ⁽¹⁾	335	593	1,388	418
Hotel manager transition items	523	(1,021)	651	(460)
Severance costs ⁽²⁾	—	7,367	(216)	7,760
Uninsured costs related to natural disasters ⁽³⁾	187	—	187	—
Fair value adjustments to interest rate swaps	(919)	(983)	(4,488)	11,329
Adjusted FFO available to common stock and unit holders	\$ 20,905	\$ (44,295)	\$ 7,201	\$ (76,943)

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- (1) Represents pre-opening costs and professional fees related to the reopening of Frenchman's Reef, as well as legal and other costs incurred at Frenchman's Reef as a result of Hurricane Irma that are not covered by insurance.
- (2) Consists of severance costs incurred with the elimination of positions at our hotels, which are classified within other hotel expenses on the consolidated statement of operations.
- (3) Represents costs incurred at the Bourbon Orleans Hotel as a result of Hurricane Ida that have not been or are not expected to be recovered by insurance.

Critical Accounting Policies

Our unaudited consolidated financial statements include the accounts of DiamondRock Hospitality Company and all consolidated subsidiaries. The preparation of financial statements in conformity with U.S. 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. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We evaluate our estimates and judgments, including those related to the impairment of long-lived assets, on an ongoing basis. We base our estimates on experience and on various assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies are disclosed in the notes to our consolidated financial statements. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020. The following represent certain critical accounting policies that require us to exercise our business judgment or make significant estimates:

Investment in Hotels

Investment purchases of hotel properties, land, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets that are not businesses are accounted for as asset acquisitions and recorded at relative fair value based upon total accumulated cost of the acquisition. Property and equipment purchased after the hotel acquisition date is recorded at cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally five to 40 years for buildings, land improvements and building improvements and one to 10 years for furniture, fixtures and equipment. Identifiable intangible assets are typically related to contracts, including ground lease agreements and hotel management agreements, which are recorded at fair value. Above-market and below-market contract values are based on the present value of the difference between contractual amounts to be paid pursuant to the contracts acquired and our estimate of the fair market contract rates for corresponding contracts. Contracts acquired that are at market do not have significant value. We enter into a hotel management agreement at the time of acquisition and such agreements are generally based on market terms. Intangible assets are amortized using the straight-line method over the remaining non-cancelable term of the related agreements. In making estimates of fair values for purposes of allocating purchase price, we may utilize a number of sources that may be obtained in connection with the acquisition or financing of a property and other market data. Management also considers information obtained about each property as a result of its pre-acquisition due diligence in estimating the fair value of the tangible and intangible assets acquired.

We review our investments in hotels for impairment whenever events or changes in circumstances indicate that the carrying amount of the hotel properties may not be recoverable. Events or circumstances that may cause us to perform a review include, but are not limited to, adverse changes in the demand for lodging at our properties, current or projected losses from operations, and an expectation that the property is more likely than not to be sold significantly before the end of its previously estimated useful life. If such events or circumstances are identified, management performs an analysis to compare the estimated undiscounted future cash flows from operations and the net proceeds from the ultimate disposition of a hotel to the carrying amount of the asset. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotels' estimated fair value is recorded and an impairment loss is recognized. The fair value is determined through various valuation techniques, including discounted cash flow models with estimated discount and terminal capitalization rates, comparable market transactions, third-party appraisals, the net sales proceeds from pending offers, or from transactions that closed subsequent to the end of the reporting period.

Inflation

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures or other factors may limit the ability of our management companies to raise room rates. Inflation may

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also affect our expenses and cost of capital improvements, including, without limitation, by increasing the costs of labor, employee-related benefits, food, commodities and other materials, taxes, property and casualty insurance and utilities.

Seasonality

The periods during which our hotels experience higher revenues vary from property to property, depending principally upon location and the customer base served. Accordingly, we expect some seasonality in our business. Volatility in our financial performance from the seasonality of the lodging industry could adversely affect our financial condition and results of operations.

New Accounting Pronouncements Not Yet Implemented

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business strategies, the primary market risk to which we are currently exposed, and, to which we expect to be exposed in the future, is interest rate risk. The face amount of our outstanding debt as of September 30, 2021 was \$1.0 billion, of which \$220.9 million was variable rate. If market rates of interest on our variable rate debt fluctuate by 100 basis points, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows, by \$2.2 million annually.

We entered into (i) an interest rate swap agreement in 2019 to fix LIBOR at 2.41% through maturity for our \$50 million unsecured term loan and (ii) an interest rate swap agreement in 2019 to fix LIBOR at 1.70% through maturity for \$175 million of our \$350 million unsecured term loan. Information about our unsecured term loans and interest rate swap agreements can be found in Note 8 to the accompanying consolidated financial statements.

In July 2017, the Financial Conduct Authority (“FCA”) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The remaining LIBOR rates will continue to be published through June 30, 2023, after which the interest rate for our variable rate debt and interest rate swaps of our unconsolidated joint ventures, will be based on an alternative variable rate as specified in the applicable documentation governing such debt or swaps or as otherwise agreed upon. As a result, the Federal Reserve Board and the Federal Reserve Bank of New York organized the Alternative Reference Rates Committee which identified the Secured Overnight Financing Rate (“SOFR”) as its preferred alternative to USD-LIBOR. The Company is not able to predict when LIBOR will cease to be published or precisely how SOFR will be calculated and published. Any changes adopted by the FCA or other governing bodies in the method used for determining LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR. If that were to occur, our interest payments could change. In addition, uncertainty about the extent and manner of future changes may result in interest rates and/or payments that are higher or lower than if LIBOR were to remain available in its current form.

The Company has contracts that are indexed to LIBOR and is monitoring and evaluating the related risks, which include interest amounts on our variable rate debt and the swap rate for our interest rate swaps as discussed in Note 8 to the accompanying consolidated financial statements. In the event that LIBOR is discontinued, the interest rates will be based on a fallback reference rate specified in the applicable documentation governing such debt or swaps or as otherwise agreed upon. Such an event would not affect the Company’s ability to borrow or maintain already outstanding borrowings or swaps, but the alternative reference rate could be higher and more volatile than LIBOR.

Certain risks arise in connection with transitioning contracts to an alternative reference rate, including any resulting value transfer that may occur. The value of loans, securities, or derivative instruments tied to LIBOR could also be impacted if LIBOR is limited or discontinued. For some instruments, the method of transitioning to an alternative rate may be challenging, as they may require substantial negotiation with each respective counterparty.

If a contract is not transitioned to an alternative reference rate and LIBOR is discontinued, the impact is likely to vary by contract. If LIBOR is discontinued or if the method of calculating LIBOR changes from its current form, interest rates on our current or future indebtedness may be adversely affected.

While we expect LIBOR to be available in substantially its current form until the end of 2023, it is possible that LIBOR will become unavailable prior to that point. This could result, for example, if sufficient banks decline to make submissions to the LIBOR administrator. In that case, the risks associated with the transition to an alternative reference rate will be accelerated and magnified.

Item 4. Controls and Procedures

The Company’s management has evaluated, under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act, and has concluded that as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective to give reasonable assurances that information we disclose in reports filed with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

There was no change in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during the Company’s most recent

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fiscal quarter that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to various claims, lawsuits and legal proceedings, including routine litigation arising in the ordinary course of business, regarding the operation of our hotels and company matters. While it is not possible to ascertain the ultimate outcome of such matters, management believes that the aggregate amount of such liabilities, if any, in excess of amounts covered by insurance will not have a material adverse impact on our financial condition or results of operations. The outcome of claims, lawsuits and legal proceedings brought against the Company, however, is subject to significant uncertainties.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) During the three months ended September 30, 2021, we issued an aggregate of 315,990 shares of common stock in exchange for OP units held by certain limited partners. These shares were issued in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act. We relied on this exemption based upon factual representations received from the limited partners who received the shares of common stock.

(b) Not applicable.

(c) None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) *Exhibits*

The following exhibits are filed as part of this Form 10-Q:

<u>Exhibit</u>	
31.1 *	Certification of Chief Executive Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
31.2 *	Certification of Chief Financial Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
32.1 **	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)

* Filed herewith

** Furnished herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DiamondRock Hospitality Company

November 5, 2021

/s/ Jeffrey J. Donnelly

Jeffrey J. Donnelly
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Briony R. Quinn

Briony R. Quinn
Senior Vice President and Treasurer
(Principal Accounting Officer)

Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, Mark W. Brugger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DiamondRock Hospitality Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2021

/s/ Mark W. Brugger

Mark W. Brugger
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2
Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, Jeffrey J. Donnelly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DiamondRock Hospitality Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2021

/s/ Jeffrey J. Donnelly

Jeffrey J. Donnelly
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Certification
Pursuant to 18 U.S.C. Section 1350

The undersigned officers, who are the Chief Executive Officer and Chief Financial Officer of DiamondRock Hospitality Company (the "Company"), each hereby certifies to the best of his knowledge, that the Company's Quarterly Report on Form 10-Q (the "Report") to which this certification is attached, as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark W. Brugger

Mark W. Brugger
Chief Executive Officer

November 5, 2021

/s/ Jeffrey J. Donnelly

Jeffrey J. Donnelly
Executive Vice President and Chief Financial Officer

November 5, 2021