

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, 2020

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 199,518,880 shares of its \$0.01 par value common stock outstanding as of November 6, 2020.

PART I. FINANCIAL INFORMATION

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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)

ASSETS	September 30, 2020	December 31, 2019
	(unaudited)	
Property and equipment, net	\$ 3,013,989	\$ 3,026,769
Right-of-use assets	96,956	98,145
Restricted cash	31,478	57,268
Due from hotel managers	67,951	91,207
Prepaid and other assets	33,194	29,853
Cash and cash equivalents	110,555	122,524
Total assets	<u>\$ 3,354,123</u>	<u>\$ 3,425,766</u>
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage and other debt, net of unamortized debt issuance costs	\$ 601,715	\$ 616,329
Unsecured term loans, net of unamortized debt issuance costs	398,443	398,770
Senior unsecured credit facility	99,985	75,000
Total debt	1,100,143	1,090,099
Deferred income related to key money, net	11,045	11,342
Unfavorable contract liabilities, net	64,564	67,422
Deferred rent	55,270	52,012
Lease liabilities	104,275	103,625
Due to hotel managers	94,473	72,445
Distributions declared and unpaid	138	25,815
Accounts payable and accrued expenses	82,026	81,944
Total liabilities	1,511,934	1,504,704
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 and no shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	48	—
Common stock, \$0.01 par value; 400,000,000 shares authorized; 199,518,880 and 200,207,795 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	1,995	2,002
Additional paid-in capital	2,198,376	2,089,349
Accumulated deficit	(366,635)	(178,861)
Total stockholders' equity	1,833,784	1,912,490
Noncontrolling interests	8,405	8,572
Total equity	1,842,189	1,921,062
Total liabilities and equity	<u>\$ 3,354,123</u>	<u>\$ 3,425,766</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,	
	2020	2019	2020	2019
Revenues:				
Rooms	\$ 33,166	\$ 174,113	\$ 158,066	\$ 492,395
Food and beverage	9,586	50,624	56,529	161,803
Other	7,315	15,542	25,846	46,374
Total revenues	50,067	240,279	240,441	700,572
Operating Expenses:				
Rooms	11,792	42,840	54,588	124,581
Food and beverage	10,043	34,262	45,845	103,868
Management fees	(755)	6,088	2,644	18,745
Franchise fees	1,813	6,894	8,402	19,961
Other hotel expenses	53,196	85,157	171,759	241,955
Depreciation and amortization	28,514	29,474	87,397	87,805
Corporate expenses	7,267	6,318	19,650	20,785
Business interruption insurance income	—	—	—	(8,822)
Total operating expenses, net	111,870	211,033	390,285	608,878
Interest and other (income) expense, net	(191)	(102)	58	(510)
Interest expense	10,818	14,184	43,665	38,264
Loss on early extinguishment of debt	—	2,373	—	2,373
Total other expenses, net	10,627	16,455	43,723	40,127
(Loss) income before income taxes	(72,430)	12,791	(193,567)	51,567
Income tax (expense) benefit	(7,205)	(1,217)	5,853	(1,939)
Net (loss) income	(79,635)	11,574	(187,714)	49,628
Less: Net loss (income) attributable to noncontrolling interests	43	(45)	781	(194)
Net (loss) income attributable to the Company	(79,592)	11,529	(186,933)	49,434
Distributions to preferred stockholders	(845)	—	(845)	—
Net (loss) income attributable to common stockholders	\$ (80,437)	\$ 11,529	\$ (187,778)	\$ 49,434
(Loss) earnings per share:				
Net (loss) income per share available to common stockholders—basic	\$ (0.40)	\$ 0.06	\$ (0.93)	\$ 0.24
Net (loss) income per share available to common stockholders—diluted	\$ (0.40)	\$ 0.06	\$ (0.93)	\$ 0.24

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, 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	—	—	—	—	—	(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	47,600	48	—	—	114,423	—	114,471	—	114,471
Net (loss) income	—	—	—	—	—	(79,592)	(79,592)	(43)	(79,635)
Balance at September 30, 2020	47,600	\$ 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.

	Common Stock			Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Par Value	Additional Paid-In Capital				
Balance at December 31, 2018	204,536,485	\$ 2,045	\$ 2,126,472	\$ (245,620)	\$ 1,882,897	\$ 7,696	\$ 1,890,593
Cumulative effect of ASC 842 adoption	—	—	—	(15,286)	(15,286)	—	(15,286)
Distributions on common stock/units (\$0.125 per share)	—	—	113	(25,483)	(25,370)	(134)	(25,504)
Share-based compensation	55,916	1	1,073	—	1,074	83	1,157
Common stock repurchased and retired	(3,143,922)	(31)	(29,967)	—	(29,998)	—	(29,998)
Net income	—	—	—	8,945	8,945	35	8,980
Balance at March 31, 2019	<u>201,448,479</u>	<u>\$ 2,015</u>	<u>\$ 2,097,691</u>	<u>\$ (277,444)</u>	<u>\$ 1,822,262</u>	<u>\$ 7,680</u>	<u>\$ 1,829,942</u>
Distributions on common stock/units (\$0.125 per share)	—	—	120	(25,365)	(25,245)	(134)	(25,379)
Share-based compensation	33,396	1	1,955	—	1,956	249	2,205
Common stock repurchased and retired	(1,004,589)	(11)	(10,021)	—	(10,032)	—	(10,032)
Net income	—	—	—	28,960	28,960	114	29,074
Balance at June 30, 2019	<u>200,477,286</u>	<u>\$ 2,005</u>	<u>\$ 2,089,745</u>	<u>\$ (273,849)</u>	<u>\$ 1,817,901</u>	<u>\$ 7,909</u>	<u>\$ 1,825,810</u>
Distributions on common stock (\$0.125 per share)	—	—	122	(25,321)	(25,199)	(130)	(25,329)
Share-based compensation	—	—	866	59	925	173	1,098
Common stock repurchased and retired	(280,436)	(3)	(2,796)	—	(2,799)	—	(2,799)
Net income	—	—	—	11,529	11,529	45	11,574
Balance at September 30, 2019	<u>200,196,850</u>	<u>\$ 2,002</u>	<u>\$ 2,087,937</u>	<u>\$ (287,582)</u>	<u>\$ 1,802,357</u>	<u>\$ 7,997</u>	<u>\$ 1,810,354</u>

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,	
	2020	2019
Cash flows from operating activities:		
Net (loss) income	\$ (187,714)	\$ 49,628
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	87,397	87,805
Corporate asset depreciation as corporate expenses	174	170
Loss on early extinguishment of debt	—	2,373
Non-cash lease expense and other amortization	3,744	5,247
Non-cash interest rate swap fair value adjustment	11,329	4,790
Amortization of debt issuance costs	1,480	1,432
Amortization of deferred income related to key money	(297)	(297)
Share-based compensation	5,536	4,882
Changes in assets and liabilities:		
Prepaid expenses and other assets	(13,927)	(5,623)
Due to/from hotel managers	45,084	(18,119)
Accounts payable and accrued expenses	(7,509)	3,420
Net cash (used in) provided by operating activities	(54,703)	135,708
Cash flows from investing activities:		
Capital expenditures for operating hotels	(39,916)	(75,595)
Capital expenditures for Frenchman's Reef	(38,312)	(65,208)
Acquisition of interest in the land underlying the Kimpton Shorebreak Resort	(1,585)	—
Proceeds from property insurance	10,663	—
Net cash used in investing activities	(69,150)	(140,803)
Cash flows from financing activities:		
Scheduled mortgage debt principal payments	(10,594)	(10,374)
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)	—
Proceeds from senior unsecured term loan	—	350,000
Repayments of senior unsecured term loans	—	(300,000)
Draws on senior unsecured credit facility	400,000	125,000
Repayments of senior unsecured credit facility	(375,015)	(50,000)
Payment of debt financing costs	(1,410)	(4,796)
Distributions on common stock and units	(25,557)	(76,751)
Distributions on preferred stock	(845)	—
Repurchase of common stock	(10,000)	(42,828)
Redemption of Operating Partnership units	(201)	—
Shares redeemed to satisfy tax withholdings on vested share-based compensation	(1,253)	(452)
Net cash provided by (used in) financing activities	86,094	(10,201)
Net decrease in cash, cash equivalents, and restricted cash	(37,759)	(15,296)
Cash, cash equivalents, and restricted cash at beginning of period	179,792	91,598
Cash, cash equivalents, and restricted cash at end of period	\$ 142,033	\$ 76,302

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,	
	2020	2019
Cash paid for interest	\$ 33,017	\$ 32,604
Cash paid for income taxes, net	\$ 32	\$ 1,310
Capitalized interest	\$ 2,136	\$ 1,119
Non-cash cumulative effect of ASC 842 accounting standard adoption	\$ —	\$ 15,286
Non-cash Investing and Financing Activities:		
Unpaid dividends and distributions declared	\$ 138	\$ 25,771

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, 2020	December 31, 2019
Cash and cash equivalents	\$ 110,555	\$ 122,524
Restricted cash (1)	31,478	57,268
Total cash, cash equivalents and restricted cash	\$ 142,033	\$ 179,792

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

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. (“Marriott”) or Hilton Worldwide (“Hilton”)). 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, which are based on the revenues and profitability of the hotels.

As of September 30, 2020, we owned 31 hotels with 10,102 guest rooms, located in the following markets: Atlanta, Georgia; Boston, Massachusetts (2); Burlington, Vermont; Charleston, South Carolina; Chicago, Illinois (2); Denver, Colorado (2); Fort Lauderdale, Florida; Fort Worth, Texas; Huntington Beach, California; Key West, Florida (2); New York, New York (4); 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); St. Thomas, U.S. Virgin Islands; and Vail, Colorado. Our hotel located in St. Thomas, U.S. Virgin Islands, Frenchman's Reef & Morning Star Marriott Beach Resort (“Frenchman's Reef”) is closed as a result of damage caused by Hurricane Irma in September 2017.

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 99.6% of the limited partnership units (“common OP units”) of our operating partnership. The remaining 0.4% 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.

COVID-19 Pandemic and Management's Response

In March 2020, the World Health Organization declared the novel coronavirus, or COVID-19, a global pandemic. Since then, the virus has spread throughout the United States and globally. As a result of the pandemic, government mandates and health official recommendations, the demand for lodging has materially decreased. Throughout March and April 2020, we suspended operations at 20 of our 30 previously operating hotels. As of September 30, 2020, we had reopened 17 of those hotels, leaving three of our previously operating hotels unopened. The hotels that remained open and the hotels that have reopened are operating at historically low occupancy levels. As a result, 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, 2020. The severity and duration of the COVID-19 pandemic cannot be reasonably estimated at this time, but we expect it will continue to have a material adverse impact on our results of operations, financial position and cash flow into 2021.

We have taken aggressive steps in order to mitigate the ongoing operational and financial impacts on our business. We drew down funds on our \$400 million senior unsecured credit facility, suspended our quarterly common dividend, canceled or deferred a significant portion of our capital expenditures planned for 2020, paused the reconstruction of Frenchman's Reef and reduced corporate expenses through decreases in executive compensation, employee headcount and other expenses. Additionally, in coordination with our hotel operators, we have developed and implemented action plans to significantly reduce operating costs at each of our hotels. On June 9, 2020, we executed amendments to the credit agreements for our \$400 million senior unsecured credit facility and \$400 million of unsecured term loans. The amendments provide 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. See Note 8 for more information about these amendments. There can be no assurance that we will meet our financial covenants in the future or that we will be able to obtain additional waivers from our lenders, if needed. Further, during the third quarter of 2020, we issued 4,760,000 shares of 8.250% Series A Cumulative Redeemable Preferred Stock, for net proceeds of \$114.5 million. See Note 5 for more information about the preferred stock issuance.

As of September 30, 2020, the Company had unrestricted cash of \$110.6 million and \$300.0 million of borrowing capacity on our senior unsecured credit facility.

2. Summary of Significant Accounting Policies

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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 as of September 30, 2020, the results of our operations for the three and nine months ended September 30, 2020 and 2019, the statements of equity for the three and nine months ended September 30, 2020 and 2019, and the cash flows for the nine months ended September 30, 2020 and 2019. 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, 2019, included in our Annual Report on Form 10-K filed on February 28, 2020.

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 will 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, and its impact on customer travel, 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 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, 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 one year 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. As of November 6, 2020, we determined that there is not substantial doubt about our ability to continue as a going concern over the next 12 months.

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

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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 value 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 value. 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. As a result of the COVID-19 pandemic, we reviewed each of our hotel properties for impairment as of September 30, 2020 and concluded the carrying value of each of the hotel properties is recoverable. Due to the continuing effects of the pandemic, however, estimated future cash flows could further decline and result in the recognition in future periods of an impairment charge on one or more of our hotel properties, including Frenchman's Reef, which is not yet fully reconstructed.

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.

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 operations of the hotels 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 principal, we recognize revenue based upon the gross sales price.

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.

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

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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.

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. Due to the negative financial impact of the COVID-19 pandemic, we reassessed the realizability of deferred tax assets in each quarter of 2020. As a result of our analysis in the third quarter of 2020, we recorded a valuation allowance of \$12.4 million in the three months ended September 30, 2020 on our deferred tax assets given our financial results and uncertainty about our ability to utilize our net operating loss carryforwards in future years.

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 taxable REIT subsidiary (“TRS”), except for Frenchman’s Reef, which is owned by a Virgin Islands corporation that we have 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, 2020 and December 31, 2019.

Fair Value Measurements

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

Intangible Assets and Liabilities

Intangible assets and liabilities are recorded on non-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.

Comprehensive Income

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

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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.

Accounting for Impact of Natural Disasters

Assets destroyed or damaged as a result of natural disasters or other involuntary events are written off or reduced in carrying value to their salvage value. When recovery of all or a portion of the amount of property damage loss or other covered expenses through insurance proceeds is demonstrated to be probable, a receivable is recorded and offsets the loss or expense up to the amount of the total loss or expense. No gain is recorded until all contingencies related to the insurance claim have been resolved. Income resulting from business interruption insurance is not recognized until all contingencies related to the insurance recoveries are resolved.

Frenchman's Reef has been closed since September 2017, when the hotel was significantly damaged by Hurricane Irma. For the nine months ended September 30, 2019, we recognized \$8.8 million of business interruption insurance income related to Frenchman's Reef. We settled our insurance claim for Hurricane Irma in December 2019, and for the nine months ended September 30, 2020, we did not recognize any business interruption insurance income.

3. Property and Equipment

Property and equipment as of September 30, 2020 and December 31, 2019 consists of the following (in thousands):

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	September 30, 2020	December 31, 2019
Land	\$ 618,210	\$ 617,695
Land improvements	7,994	7,994
Buildings and site improvements	2,778,571	2,751,590
Furniture, fixtures and equipment	541,810	534,802
Construction in progress	166,751	126,464
	4,113,336	4,038,545
Less: accumulated depreciation	(1,099,347)	(1,011,776)
	\$ 3,013,989	\$ 3,026,769

On March 2, 2020, we acquired the remaining 4.5% interest in the land underlying the Kimpton Shorebreak Resort located in Huntington Beach, California, for a purchase price of \$1.6 million. We now own 100% of the interest in the land underlying the hotel.

As of September 30, 2020 and December 31, 2019, we had accrued capital expenditures of \$8.9 million and \$13.1 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 one parking garage as of September 30, 2020. 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, 2020, 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,	
	2020	2019	2020	2019
Operating lease cost	\$ 2,760	\$ 2,834	\$ 8,331	\$ 8,417
Variable lease payments	\$ 17	\$ 311	\$ 256	\$ 1,137
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 802	\$ 835	\$ 2,412	\$ 2,421

Maturities of lease liabilities are as follows (in thousands):

Year Ending December 31,	As of September 30, 2020
2020 (excluding the nine months ended September 30, 2020)	\$ 802
2021	3,496
2022	3,940
2023	3,997
2024	3,976
Thereafter	759,124
Total lease payments	775,335
Less imputed interest	(671,060)
Total lease liabilities	\$ 104,275

5. Equity

Common Shares

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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.

We have an “at-the-market” equity offering program (the “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 million. In June 2020, we sold 135,481 shares of common stock at an average price of \$7.56 per share for proceeds of \$1.0 million, net of approximately \$10 thousand in fees paid to the applicable sales agent. We did not sell any shares during the three months ended September 30, 2020. As of November 6, 2020, shares of common stock having an aggregate offering price of up to \$199.0 million remained available for sale under the ATM Program.

Our board of directors has approved a share repurchase program (the “Share Repurchase Program”) authorizing us to repurchase shares of our common stock having an aggregate price of up to \$250 million. Repurchases under the Share Repurchase Program are made in open market or privately negotiated transactions as permitted by federal securities laws and other legal requirements. This authority may be exercised from time to time and in such amounts as market conditions warrant, and subject to regulatory considerations. The timing, manner, price and actual number of shares repurchased will depend on a variety of factors, including stock price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Share Repurchase Program may be suspended or terminated at any time without prior notice. During the first quarter of 2020, we repurchased 1,119,438 shares of our common stock at an average price of \$8.91 per share for a total purchase price of \$10.0 million. These shares were all repurchased prior to March 4, 2020. We retired all repurchased shares on their respective settlement dates. We have suspended share repurchases and, pursuant to our Amended Credit Agreements (as defined in Note 8), may not repurchase shares while our financial covenant requirements are waived on our senior unsecured credit facility and unsecured term loans. The Share Repurchase Program expired on November 5, 2020. At the time of expiration, we had \$165.2 million of unused repurchase capacity under the Share Repurchase Program.

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.

In August and September 2020, we issued a total of 4,760,000 shares of 8.250% Series A Cumulative Redeemable Preferred Stock (“Series A Preferred Stock”) with a liquidation preference of \$25.00 per share, for gross proceeds of \$119.0 million. In connection with the offering, we incurred \$4.5 million of offering costs. 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.

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There were 855,191 and 792,131 common OP units held by unaffiliated third parties and executive officers of the Company as of September 30, 2020 and December 31, 2019, respectively. There were 243,809 and 244,366 LTIP units outstanding as of September 30, 2020 and December 31, 2019, respectively. All vested LTIP units have reached economic parity with common OP units and have been converted into common OP units.

Dividends and Distributions

We have paid the following dividends to holders of our common stock and distributions to holders of common OP units and LTIP units during 2020:

<u>Payment Date</u>	<u>Record Date</u>	<u>Dividend per Share</u>
January 13, 2020	January 2, 2020	\$ 0.125

Our board of directors has suspended the quarterly common dividend commencing with the first quarter dividend that would have been paid in April 2020. The resumption in quarterly common dividends 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 2020:

<u>Payment Date</u>	<u>Record Date</u>	<u>Dividend per Share</u>
September 30, 2020	September 20, 2020	\$ 0.178

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 3,053,153 shares as of September 30, 2020.

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 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, 2020 to September 30, 2020 is as follows:

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Unvested balance at January 1, 2020	472,999	\$ 10.40
Granted	343,410	9.41
Vested	(229,664)	10.55
Forfeited	(13,683)	9.99
Unvested balance at September 30, 2020	<u>573,062</u>	<u>\$ 9.76</u>

The remaining share awards are expected to vest as follows: 8,202 shares during 2020, 247,019 shares during 2021, 141,836 during 2022 and 176,005 during 2023. As of September 30, 2020, the unrecognized compensation cost related to restricted stock awards was \$4.0 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 25 months. We recorded \$0.7 million and \$0.6 million of compensation expense related to restricted stock awards for the three months ended September 30, 2020 and 2019, respectively. We recorded \$2.0 million and \$1.9 million of compensation expense related to restricted stock awards for the nine months ended September 30, 2020 and 2019, respectively.

Performance Stock Units

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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. Fifty percent 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 and universally accepted benchmarking service for the hospitality industry.

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. 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 February 25, 2020, our board of directors granted 352,035 PSUs to our executive officers. The grant date fair value of the portion of the PSUs based on our relative total stockholder return was \$8.52 using the assumptions of volatility of 21.4% and a risk-free rate of 1.16%. The grant date fair value of the portion of the PSUs based on hotel market share was \$9.58, which was the closing stock price of our common stock on such date.

A summary of our PSUs from January 1, 2020 to September 30, 2020 is as follows:

	Number of Target Units	Weighted- Average Grant Date Fair Value
Unvested balance at January 1, 2020	796,532	\$ 11.16
Granted	352,035	9.02
Additional units from dividends	9,556	10.42
Vested (1)	(245,937)	11.00
Unvested balance at September 30, 2020	<u>912,186</u>	<u>\$ 9.63</u>

(1) The number of shares of common stock earned for the PSUs vested in 2020 was equal to 123.07% of the PSU Target Award.

The remaining unvested PSUs are expected to vest as follows: 290,927 units during 2021, 269,224 units during 2022 and 352,035 during 2023. The number of shares earned upon vesting is subject to the attainment of the performance goals described above. As of September 30, 2020, the unrecognized compensation cost related to the PSUs was \$4.1 million and is expected to be recognized on a straight-line basis over a weighted average period of 23 months. We recorded \$0.7 million and \$0.5 million of compensation expense related to the PSUs for the three months ended September 30, 2020 and 2019, respectively. We recorded \$2.0 million and \$1.8 million of compensation expense related to the PSUs for the nine months ended September 30, 2020 and 2019, 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.

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On February 25, 2020, our board of directors granted 80,898 LTIP units to certain of our executive officers. Other executive officers of the Company elected to receive restricted stock in lieu of LTIP units. The grant date fair value of the LTIP unit was the closing price of our common stock on the grant date.

A summary of our LTIP units from January 1, 2020 to September 30, 2020 is as follows:

	Number of Units	Weighted- Average Grant Date Fair Value
Unvested balance at January 1, 2020	244,366	\$ 10.65
Granted	80,898	9.58
Vested (1)	<u>(81,455)</u>	<u>10.65</u>
Unvested balance at September 30, 2020	<u>243,809</u>	<u>\$ 10.29</u>

(1) As of September 30, 2020, all vested LTIP units have been converted to common OP units.

The remaining unvested LTIP units are expected to vest as follows: 108,421 units during 2021, 108,422 units during 2022 and 26,966 units during 2023. As of September 30, 2020, of the 325,264 LTIP units granted, 81,455 LTIP units have vested.

As of September 30, 2020, the unrecognized compensation cost related to LTIP unit awards was \$1.9 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 21 months. We recorded \$0.3 million and \$0.2 million of compensation expense related to LTIP unit awards for the three months ended September 30, 2020 and 2019, respectively. We recorded \$0.8 million and \$0.5 million of compensation expense related to LTIP unit awards for the nine months ended September 30, 2020 and 2019, respectively.

7. Earnings (Loss) Per Share

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):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net (loss) income attributable to common stockholders	(80,437)	\$ 11,529	\$ (187,778)	\$ 49,434
Dividends declared on unvested share-based compensation	—	(31)	—	(101)
Net (loss) income available to common stockholders	<u>\$ (80,437)</u>	<u>\$ 11,498</u>	<u>\$ (187,778)</u>	<u>\$ 49,333</u>
Denominator:				
Weighted-average number of common shares outstanding—basic	200,978,327	201,448,348	200,994,434	202,218,646
Effect of dilutive securities:				
Unvested restricted common stock	—	102,309	—	59,793
Shares related to unvested PSUs	—	441,632	—	404,149
Weighted-average number of common shares outstanding—diluted	<u>200,978,327</u>	<u>201,992,289</u>	<u>200,994,434</u>	<u>202,682,588</u>
Earnings (loss) per share:				
Net (loss) income per share available to common stockholders—basic	<u>\$ (0.40)</u>	<u>\$ 0.06</u>	<u>\$ (0.93)</u>	<u>\$ 0.24</u>
Net (loss) income per share available to common stockholders—diluted	<u>\$ (0.40)</u>	<u>\$ 0.06</u>	<u>\$ (0.93)</u>	<u>\$ 0.24</u>

For each of the three and nine month periods ended September 30, 2020 and 2019, there were no anti-dilutive securities that were excluded from 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, 2020 and December 31, 2019 (dollars in thousands):

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Loan	Interest Rate as of September 30, 2020	Maturity Date	Principal Balance as of	
			September 30, 2020	December 31, 2019
Salt Lake City Marriott Downtown at City Creek mortgage loan (repaid on June 25, 2020)	4.25%	November 2020	\$ —	\$ 53,273
Salt Lake City Marriott Downtown at City Creek mortgage loan	LIBOR + 3.25% (1)	January 2022 (2)	47,700	—
Westin Washington, D.C. City Center mortgage loan	3.99%	January 2023	58,860	60,550
The Lodge at Sonoma Renaissance Resort & Spa mortgage loan	3.96%	April 2023	26,502	26,963
Westin San Diego Downtown mortgage loan	3.94%	April 2023	60,668	61,851
Courtyard New York Manhattan/Midtown East mortgage loan	4.40%	August 2024	79,940	81,107
Worthington Renaissance Fort Worth Hotel mortgage loan	3.66%	May 2025	79,647	80,904
JW Marriott Denver at Cherry Creek mortgage loan	4.33%	July 2025	60,361	61,253
Westin Boston Waterfront mortgage loan	4.36%	November 2025	187,839	190,725
New Market Tax Credit loan (3)	5.17%	December 2020	2,943	2,943
Unamortized debt issuance costs			(2,745)	(3,240)
Total mortgage and other debt, net of unamortized debt issuance costs			601,715	616,329
Unsecured term loan	LIBOR + 2.35% (4)	October 2023	50,000	50,000
Unsecured term loan	LIBOR + 2.35% (5)	July 2024	350,000	350,000
Unamortized debt issuance costs			(1,557)	(1,230)
Unsecured term loans, net of unamortized debt issuance costs			398,443	398,770
Senior unsecured credit facility	LIBOR + 2.40% (6)	July 2023 (7)	99,985	75,000
Total debt, net of unamortized debt issuance costs			\$ 1,100,143	\$ 1,090,099
Weighted-Average Interest Rate	3.84%			

(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) Assumed in connection with the acquisition of the Hotel Palomar Phoenix on March 1, 2018.

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

(5) We are party to an interest rate swap agreement that fixes LIBOR at 1.70% through July 2024 for \$175 million of the loan. Effective June 9, 2020, LIBOR is subject to a floor of 0.25%.

(6) Effective June 9, 2020, LIBOR is subject to a floor of 0.25%.

(7) 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, 2020, eight of our 31 hotels were secured by mortgage debt.

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On June 25, 2020, we refinanced our only significant near-term debt maturity by closing on a \$48.0 million mortgage loan secured by the Salt Lake City Marriott Downtown at City Creek. The loan proceeds were used to repay the existing \$52.5 million mortgage loan secured by the Salt Lake City Marriott Downtown at City Creek that was scheduled to mature in November 2020, with the balance funded by corporate cash on hand. The new loan matures in January 2022 and has an option to extend the maturity to January 2023, subject to the satisfaction of certain conditions. The new loan bears interest at LIBOR plus 3.25%. The LIBOR rate is subject to a floor of 1.0%. The loan requires principal payments of \$150 thousand per month, with the remaining principal due at maturity.

Due to the impact of COVID-19, we requested relief with respect to certain conditions of the loans on our hotels syndicated through commercial mortgage backed security (“CMBS”) pools. With the exception of the mortgage loan secured by the Westin Boston Waterfront, we have not received any of the requested relief. On July 16, 2020, we entered into an amendment to the mortgage loan secured by the Westin Boston Waterfront. The amendment allows the Company to use the hotel’s current reserve balance for replacement of furniture and fixtures (“FF&E Reserve”) for the debt service payments due for three months beginning August 2020. Any funds from the FF&E Reserve used for amounts due under the loan are required to be replenished by the Company ratably over a 12-month period ending in June 2022.

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 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, 2020, the debt service coverage ratios or debt yields for all of our mortgage loans were below the minimum thresholds such that the cash trap provision of each respective loan was triggered, with the exception of the mortgage loan secured by the Salt Lake Marriott Downtown at City Creek. We do not expect that such cash traps 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, 2020, we had \$100.0 million in borrowings outstanding under the Revolving Credit Facility.

We incurred interest and unused fees on the Revolving Credit Facility of \$1.1 million for each of the three months ended September 30, 2020 and 2019. We incurred interest and unused fees on the Revolving Credit Facility of \$3.6 million and \$2.8 million for the nine months ended September 30, 2020 and 2019, respectively. We incurred interest on the unsecured term loans of \$3.7 million and \$3.5 million for the three months ended September 30, 2020 and 2019, respectively. We incurred interest on the unsecured term loans of \$9.8 million and \$10.4 million for the nine months ended September 30, 2020 and 2019, respectively.

On June 9, 2020, we entered into amendments to the Credit Agreements (the “Amended Credit Agreements”). The Amended Credit Agreements waive the quarterly tested financial covenants from June 9, 2020 through the first quarter of 2021, unless we elect to terminate the waiver on an earlier date (such period between June 9, 2020 and the earlier of such date of termination and the end of 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 \$100.0 million, and (iii) the Amended Credit Agreements impose additional negative covenants that will limit our ability to incur

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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.

9. Fair Value Measurements and Interest Rate Swaps

The fair value of certain financial assets and liabilities and other financial instruments as of September 30, 2020 and December 31, 2019, in thousands, is as follows:

	September 30, 2020		December 31, 2019	
	Carrying Amount (1)	Fair Value	Carrying Amount (1)	Fair Value
Debt	\$ 1,100,143	\$ 1,102,892	\$ 1,090,099	\$ 1,110,353
Interest rate swap liabilities	\$ 13,874	\$ 13,874	\$ 2,545	\$ 2,545

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

Interest Rate Swaps

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, 2020 and December 31, 2019, in thousands:

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Hedged Debt	Type	Rate Fixed	Index	Effective Date	Maturity Date	Notional Amount	Fair Value of Assets (Liabilities)	
							September 30, 2020	December 31, 2019
\$50 million term loan	Swap	2.41 %	1-Month LIBOR	January 7, 2019	October 18, 2023	\$ 50,000	\$ (3,540)	\$ (1,597)
\$350 million term loan	Swap	1.70 %	1-Month LIBOR	July 25, 2019	July 25, 2024	\$ 175,000	(10,334)	(948)
							<u>\$ (13,874)</u>	<u>\$ (2,545)</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, 2020 and December 31, 2019.

10. Relationships with Managers and Franchisors

On August 27, 2020, we entered into several agreements with Marriott covering a number of our properties, as described in the following paragraphs.

We terminated the existing management agreements with Marriott and entered into new franchise agreements with Marriott for the following hotel properties:

Hotel	Franchise Effective Date	Franchise Expiration Date	Franchise Fees
Atlanta Marriott Alpharetta	September 9, 2020	September 9, 2040 (1)	6% of gross room sales and 3% of gross food and beverage sales (2)
Salt Lake City Marriott Downtown at City Creek	September 3, 2020	September 3, 2040 (1)	6% of gross room sales and 3% of gross food and beverage sales (2)
The Lodge at Sonoma Renaissance Resort & Spa	September 1, 2020	December 31, 2035	5% of gross room sales (2)
Renaissance Charleston Historic District Hotel	September 23, 2020	December 31, 2031	5% of gross room sales (3)
Courtyard New York Manhattan/Fifth Avenue	October 1, 2020	December 28, 2035	6% of gross room sales

- (1) The franchise agreement may be extended at Marriott's option for one 10-year term.
- (2) The franchise agreement limits total franchise fees prior to December 31, 2020 to 3% of gross revenues.
- (3) The franchise agreement limits total franchise fees prior to December 31, 2020 to 3.5% of gross revenues.

The term of each of the new franchise agreements is generally equivalent to the term remaining under each of the management agreements that were terminated, including Marriott's extension options. The franchise agreement for The Lodge at Sonoma Renaissance Resort & Spa provides us an option through July 2022 to convert the hotel to an Autograph Collection Hotel for the remaining franchise term. 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. The accelerated amortization is included as a reduction to management fees on the accompanying consolidated statements of operations for the three and nine months ended September 30, 2020.

We entered into a new franchise agreement for the Vail Marriott Mountain Resort to convert the brand to a Luxury Collection Hotel. The new franchise agreement has a term of 20 years, and the brand conversion will be effective upon the completion of an agreed-upon renovation. The franchise fees ramp up for the first two years to stabilize in the third year at the standard fees of 5% of gross room sales and 2% of gross food and beverage sales thereafter.

The franchise agreement for The Lexington Hotel was amended to provide the Company with a right to terminate such agreement on or after April 2, 2021, subject to the payment of unamortized key money as of the date of termination and payment of a termination fee.

The franchise agreements for the JW Marriott Denver Cherry Creek, Westin Washington D.C. City Center and Westin San Diego Downtown were amended to extend the term of each agreement by 10 years. The amended franchise agreement for the JW Marriott Denver Cherry Creek provides the Company with an option to convert the hotel to a Luxury Collection Hotel, subject to the completion of a property improvement plan.

11. 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, 2019 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, a continued 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;*
- *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, an increase in alternative lodging channels, 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 the reopening of our hotels that suspended operations as a result of the novel coronavirus (COVID-19);*
- *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 qualify as a REIT under the Internal Revenue Code of 1986, as amended;*
- *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, 2020, we owned a portfolio of 31 premium hotels and resorts that contain 10,102 guest rooms located in 21 different markets in North America and the U.S. Virgin Islands. Our hotel in the U.S. Virgin Islands, Frenchman's Reef & Morning Star Marriott Beach Resort ("Frenchman's Reef"), remains closed due to damage incurred from Hurricane Irma in September 2017.

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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, which are calculated based on the revenues and profitability of each hotel.

Our strategy is to apply aggressive asset management, conservative leverage, 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. (“Marriott”).

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 66% of our total revenues for the nine months ended September 30, 2020 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.”

COVID-19 Pandemic

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In March 2020, the World Health Organization declared COVID-19 a global pandemic. The pandemic has reduced travel and adversely affected the hospitality industry in general. We have seen, and expect to continue to see, significant reductions in lodging demand generators, including city-wide conferences, sporting and entertainment events, corporate and leisure travel, and overall domestic airlift capacity, compared to pre-pandemic levels.

In response to COVID-19, we have taken the following proactive measures at the property and corporate levels:

- In coordination with our hotel operators, we suspended operations at 20 of our 30 previously operating hotels throughout March and April 2020. As of September 30, 2020, we reopened 17 of our hotels and currently have 27 of our 30 previously operating hotels open as of November 6, 2020.
- We have developed and implemented action plans with our hotel operators to significantly reduce operating costs at each of our hotels and cultivate alternative demand, where possible.
- We have canceled or deferred over 65% of our capital expenditures planned for the remainder of 2020.
- We have paused the rebuild of Frenchman's Reef, which we had expected to open as two separate hotels in late 2020.
- We suspended our quarterly common dividend to common stockholders beginning with the dividend that would have been paid in April 2020. The resumption in quarterly common dividends 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 drew down funds on our \$400 million senior unsecured credit facility in March 2020 to enhance our liquidity. As of September 30, 2020, we had \$300.0 million of borrowing capacity on our the senior unsecured credit facility and \$110.6 million of unrestricted cash on hand.
- On June 9, 2020, we executed amendments to the credit agreements for our \$400 million senior unsecured credit facility and \$400 million of unsecured term loans. The amendments provide 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 June 25, 2020, we refinanced our only significant near-term debt maturity by closing on a \$48.0 million mortgage loan secured by the Salt Lake City Marriott Downtown at City Creek (the "Salt Lake City Marriott"). The loan proceeds were used to repay the existing \$52.5 million mortgage loan secured by the Salt Lake City Marriott that was scheduled to mature on November 1, 2020. The new loan matures in January 2022 with an option to extend maturity to January 2023, subject to the satisfaction of certain conditions.
- In August and September 2020, we issued a total of 4,760,000 shares of 8.250% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), for net proceeds of \$114.5 million.

The situation surrounding the COVID-19 pandemic remains fluid. Market demand for lodging at our hotels is closely correlated with reported infection levels near our hotel locations, consumer confidence, and guidance from health officials and federal, state, and local governments.

Demand for our leisure-focused hotels has recovered more quickly than our urban hotels. As demand returns, we will continue to aggressively asset manage our hotels. We continue to carefully assess staffing needs, cleanliness and safety protocols, business mix, and other initiatives. We expect that the COVID-19 pandemic will decrease the pipeline of supply of new hotel rooms within the markets we operate, which will further stabilize RevPAR and profitability.

See also "Risk Factors" in Part II, Item 1A of this report.

Our Hotels

The following tables set forth certain operating information for the nine months ended September 30, 2020 for each of our hotels. The table indicates the operating status of each hotel and the occupancy percentage, ADR and RevPAR for each hotel for the portion of the nine months ended September 30, 2020 that it was open.

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Hotels Open Throughout the Nine Months Ended September 30, 2020

Property	Location	Number of Rooms	Occupancy (%)	ADR (\$)	RevPAR(\$)	% Change from 2019 RevPAR
Salt Lake City Marriott Downtown at City Creek	Salt Lake City, Utah	510	22.9 %	158.91	36.39	(69.8)%
Worthington Renaissance Fort Worth Hotel	Fort Worth, Texas	504	28.7 %	177.91	51.10	(63.6)%
Westin San Diego Downtown	San Diego, California	436	39.2 %	175.26	68.65	(56.9)%
Westin Fort Lauderdale Beach Resort	Fort Lauderdale, Florida	433	42.8 %	224.57	96.09	(42.5)%
Westin Washington D.C. City Center	Washington, D.C.	410	23.6 %	182.86	43.20	(76.0)%
Atlanta Marriott Alpharetta	Atlanta, Georgia	318	23.8 %	154.29	36.70	(69.8)%
Courtyard New York Manhattan/Midtown East	New York, New York	321	63.7 %	150.19	95.61	(59.1)%
Bethesda Marriott Suites	Bethesda, Maryland	272	23.6 %	150.98	35.60	(72.5)%
Kimpton Shorebreak Resort	Huntington Beach, California	157	54.6 %	237.64	129.77	(38.6)%
L'Auberge de Sedona	Sedona, Arizona	88	59.1 %	585.16	345.92	(26.2)%
TOTAL/WEIGHTED AVERAGE FOR OPEN HOTELS		3,449	34.7 %	197.62	68.55	(58.6)%

Hotels Closed for a Portion of the Nine Months Ended September 30, 2020

Property ⁽¹⁾	Location	Date of Closure	Date of Reopening	Number of Rooms	Occupancy (%)	ADR (\$)	RevPAR (\$)	% Change from 2019 RevPAR
Chicago Marriott Downtown Magnificent Mile	Chicago, Illinois	4/10/2020	9/1/2020	1,200	14.9 %	\$ 164.09	\$ 24.42	(85.1)%
Westin Boston Waterfront	Boston, Massachusetts	3/25/2020	9/3/2020	793	21.2 %	193.59	40.95	(79.2)%
The Lexington Hotel	New York, New York	3/29/2020	-	725	20.4 %	183.27	37.42	(82.8)%
Hilton Boston Downtown/Faneuil Hall	Boston, Massachusetts	3/23/2020	7/31/2020	403	25.9 %	183.50	47.58	(82.7)%
Vail Marriott Mountain Resort	Vail, Colorado	3/20/2020	6/12/2020	344	34.6 %	360.76	124.93	(36.1)%
The Gwen Hotel	Chicago, Illinois	3/31/2020	6/10/2020	311	28.1 %	194.12	54.54	(74.5)%
Hilton Garden Inn New York/Times Square Central	New York, New York	3/29/2020	-	282	25.6 %	154.35	39.46	(83.0)%
Hilton Burlington Lake Champlain	Burlington, Vermont	3/31/2020	7/16/2020	258	20.6 %	149.39	30.80	(80.5)%
Hotel Palomar Phoenix	Phoenix, Arizona	3/31/2020	6/21/2020	242	34.5 %	195.61	67.55	(56.0)%
JW Marriott Denver Cherry Creek	Denver, Colorado	3/22/2020	6/1/2020	199	34.2 %	219.17	75.00	(59.0)%
Courtyard New York Manhattan/Fifth Avenue	New York, New York	3/27/2020	-	189	20.5 %	206.17	42.17	(80.4)%
Barbary Beach House Key West (formerly the Sheraton Suites Key West) ⁽²⁾	Key West, Florida	3/23/2020	6/1/2020	184	42.2 %	283.16	119.54	(42.8)%
The Lodge at Sonoma Renaissance Resort & Spa	Sonoma, California	3/21/2020	7/1/2020	182	29.9 %	240.69	71.94	(68.8)%
Courtyard Denver Downtown	Denver, Colorado	3/20/2020	6/1/2020	177	27.0 %	142.27	38.47	(76.4)%
Renaissance Charleston Historic District Hotel	Charleston, South Carolina	4/6/2020	5/14/2020	166	41.6 %	206.83	86.02	(60.7)%
Cavallo Point, The Lodge at the Golden Gate	Sausalito, California	3/17/2020	6/24/2020	142	24.3 %	469.11	114.14	(61.8)%
Havana Cabana Key West	Key West, Florida	3/23/2020	6/1/2020	106	55.5 %	221.74	123.12	(35.1)%
Hotel Emblem San Francisco	San Francisco, California	3/23/2020	6/26/2020	96	27.3 %	235.06	64.22	(66.1)%
The Landing Lake Tahoe Resort & Spa	South Lake Tahoe, California	3/23/2020	6/5/2020	82	48.4 %	405.37	196.06	(6.7)%
Orchards Inn Sedona	Sedona, Arizona	3/31/2020	5/15/2020	70	44.7 %	204.08	91.22	(52.0)%
TOTAL/WEIGHTED AVERAGE FOR CLOSED HOTELS				6,151	25.4 %	218.13	55.34	(72.4)%
TOTAL/WEIGHTED AVERAGE				9,600	28.7 %	\$ 209.23	\$ 60.09	(68.0)%

- (1) Frenchman's Reef closed on September 6, 2017 due to Hurricane Irma and remains closed. Accordingly, there is no operating information for the nine months ended September 30, 2020.
(2) On June 1, 2020, the hotel converted to an independent hotel, Barbary Beach House Key West.

Results of Operations

The comparability of our results of operations for the three and nine months ended September 30, 2020 to the three and nine months ended September 30, 2019 has been significantly impacted by the effects of the COVID-19 pandemic. We expect the comparability of our results of operations in future periods will be similarly impacted.

Comparison of the Three Months Ended September 30, 2020 to the Three Months Ended September 30, 2019

In response to the COVID-19 pandemic, operations were suspended at eight of our hotels for all or a portion of the three months ended September 30, 2020. Five of these hotels reopened by September 30, 2020. Three hotels remained closed as of 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):

	Three Months Ended September 30,		% Change
	2020	2019	
Rooms	\$ 33.2	\$ 174.1	(80.9)%
Food and beverage	9.6	50.6	(81.0)%
Other	7.3	15.6	(53.2)%
Total revenues	\$ 50.1	\$ 240.3	(79.2)%

Our total revenues decreased \$190.2 million from \$240.3 million for the three months ended September 30, 2019 to \$50.1 million for the three months ended September 30, 2020.

The following are key hotel operating statistics for the three months ended September 30, 2020 and 2019.

	Three Months Ended September 30,		% Change
	2020	2019	
Occupancy %	18.6 %	82.7 %	(64.1)%
ADR	\$ 201.82	\$ 238.50	(15.4)%
RevPAR	\$ 37.55	\$ 197.14	(81.0)%

Food and beverage revenues decreased \$41.0 million from the three months ended September 30, 2019.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, decreased by \$8.3 million.

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

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	Three Months Ended September 30,		% Change
	2020	2019	
Rooms departmental expenses	\$ 11.8	\$ 42.8	(72.4)%
Food and beverage departmental expenses	10.0	34.3	(70.8)
Other departmental expenses	1.6	4.0	(60.0)
General and administrative	7.3	20.8	(64.9)
Utilities	4.2	5.6	(25.0)
Repairs and maintenance	5.3	8.8	(39.8)
Sales and marketing	4.7	17.0	(72.4)
Franchise fees	1.8	6.9	(73.9)
Base management fees	(0.8)	4.9	(116.3)
Incentive management fees	—	1.2	(100.0)
Property taxes	14.9	14.8	0.7
Other fixed charges	4.5	4.6	(2.2)
Severance costs	7.4	—	100.0
Professional fees and pre-opening costs related to Frenchman's Reef	0.6	6.4	(90.6)
Lease expense	2.8	3.1	(9.7)
Total hotel operating expenses	\$ 76.1	\$ 175.2	(56.6)%

Our hotel operating expenses decreased \$99.1 million from \$175.2 million for the three months ended September 30, 2019 to \$76.1 million for the three months ended September 30, 2020. For the three months ended September 30, 2020, we accrued \$7.4 million of severance costs at our properties in connection with the 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 \$1.0 million, or 3.3%, from the three months ended September 30, 2019. This is primarily due to the timing of fully depreciated capital expenditures.

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 \$0.9 million, or 15.0%, from \$6.3 million for the three months ended September 30, 2019 to \$7.3 million for the three months ended September 30, 2020 primarily due to increases in legal fees, insurance, and certain employee-related expenses, partially offset by decreases in employee payroll, travel costs, and certain professional fees.

Interest expense. Our interest expense was \$10.8 million and \$14.2 million for the three months ended September 30, 2020 and 2019, respectively, and was comprised of the following (in millions):

	Three Months Ended September 30,	
	2020	2019
Mortgage debt interest	\$ 6.5	\$ 6.7
Unsecured term loan interest	3.7	3.5
Credit facility interest and unused fees	1.1	1.1
Amortization of debt issuance costs and debt premium	0.5	0.4
Capitalized interest	—	(0.6)
Interest rate swap mark-to-market and net settlements	(1.0)	3.1
	\$ 10.8	\$ 14.2

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.

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Income taxes. We recorded income tax expense of \$7.2 million for the three months ended September 30, 2020 and income tax expense of \$1.2 million for the three months ended September 30, 2019. The income tax expense for the three months ended September 30, 2020 includes a valuation allowance of \$12.4 million, which was recognized based on an assessment of our ability to utilize our net operating loss carryforwards in future years.

Comparison of the Nine Months Ended September 30, 2020 to the Nine Months Ended September 30, 2019

In response to the COVID-19 pandemic, we suspended operations at 20 of our 30 previously operating hotels for a portion of the nine months ended September 30, 2020. Seventeen of these hotels reopened by September 30, 2020. Three of our previously operating hotels remained closed as of 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
	2020	2019	
Rooms	\$ 158.1	\$ 492.4	(67.9)%
Food and beverage	56.5	161.8	(65.1)%
Other	25.8	46.4	(44.4)%
Total revenues	\$ 240.4	\$ 700.6	(65.7)%

Our total revenues decreased \$460.2 million from \$700.6 million for the nine months ended September 30, 2019 to \$240.4 million for the nine months ended September 30, 2020.

The following are key hotel operating statistics for the nine months ended September 30, 2020 and 2019.

	Nine Months Ended September 30,		% Change
	2020	2019	
Occupancy %	28.7 %	79.7 %	(51.0)%
ADR	\$ 209.23	\$ 235.89	(11.3)%
RevPAR	\$ 60.09	\$ 187.96	(68.0)%

Food and beverage revenues decreased \$105.3 million from the nine months ended September 30, 2019.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, decreased by \$20.6 million.

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

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	Nine Months Ended September 30,		% Change
	2020	2019	
Rooms departmental expenses	\$ 54.6	\$ 124.6	(56.2)%
Food and beverage departmental expenses	45.8	103.9	(55.9)
Other departmental expenses	6.1	11.6	(47.4)
General and administrative	38.7	61.9	(37.5)
Utilities	12.0	15.6	(23.1)
Repairs and maintenance	17.7	26.1	(32.2)
Sales and marketing	23.3	49.6	(53.0)
Franchise fees	8.4	20.0	(58.0)
Base management fees	2.6	14.8	(82.4)
Incentive management fees	—	3.9	(100.0)
Property taxes	44.0	43.2	1.9
Other fixed charges	13.2	12.9	2.3
Severance costs	7.8	—	100.0
Professional fees and pre-opening costs related to Frenchman's Reef	0.4	11.4	(96.5)
Lease expense	8.6	9.6	(10.4)
Total hotel operating expenses	\$ 283.2	\$ 509.1	(44.4)%

Our hotel operating expenses decreased \$225.9 million from \$509.1 million for the nine months ended September 30, 2019 to \$283.2 million for the nine months ended September 30, 2020. For the nine months ended September 30, 2020, we recognized \$7.8 million of severance costs at our properties in connection with the 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 \$0.4 million, or 0.5%, from the nine months ended September 30, 2019. This is primarily due to the timing of fully depreciated capital expenditures.

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 decreased \$1.1 million, or 5.5%, from \$20.8 million for the nine months ended September 30, 2019 to \$19.7 million for the nine months ended September 30, 2020 primarily due to decreases in employee compensation, travel costs, and certain professional fees, partially offset by an increase in legal fees.

Business interruption insurance income. In September 2017, Hurricane Irma caused significant damage to Frenchman's Reef, which resulted in lost revenue and additional expenses covered under our insurance policies. In December 2019, we settled the insurance claim for Frenchman's Reef. We did not recognize any business interruption insurance income for the nine months ended September 30, 2020 and we recognized \$8.8 million of business interruption insurance income for the nine months ended September 30, 2019 related to the claim for Frenchman's Reef.

Interest expense. Our interest expense was \$43.7 million and \$38.3 million for the nine months ended September 30, 2020 and 2019, respectively, and was comprised of the following (in millions):

	Nine Months Ended September 30,	
	2020	2019
Mortgage debt interest	\$ 19.5	\$ 19.9
Unsecured term loan interest	9.8	10.4
Credit facility interest and unused fees	3.6	2.8
Amortization of debt issuance costs and debt premium	1.6	1.5
Capitalized interest	(2.1)	(1.1)
Interest rate swap mark-to-market and net settlements	11.3	4.8
	<u>\$ 43.7</u>	<u>\$ 38.3</u>

The increase in interest expense is primarily related to the mark-to-market of our interest rate swaps, partially offset by an increase in capitalized interest recognized in the first half of the year related to Frenchman's Reef. We have since ceased interest capitalization due to the pause on the reconstruction of Frenchman's Reef.

Income taxes. We recorded income tax benefit of \$5.9 million for the nine months ended September 30, 2020 and income tax expense of \$1.9 million for the nine months ended September 30, 2019. The income tax benefit for the nine months ended September 30, 2020 is net of a valuation allowance of \$12.4 million, which was recognized based on an assessment of our ability to utilize our net operating loss carryforwards in future years.

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 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. We do not expect to pay a common dividend through the remainder of 2020.

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 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, 2020, the debt service coverage ratios or debt yields for all of our mortgage loans were below the minimum thresholds such that the cash trap provision of each respective loan was triggered, with the exception of the mortgage loan secured by the Salt Lake Marriott Downtown at City Creek. We do not expect that such cash traps 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.

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

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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, 2020, we had \$1.1 billion of debt outstanding with a weighted average interest rate of 3.84% and a weighted average maturity date of approximately 3.7 years. We have no near-term mortgage debt maturities 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

We have equity distribution agreements, dated August 8, 2018, with a number of sales agents (the “ATM Program”) to issue and sell, from time to time, shares of our common stock, par value \$0.01 per share, having an aggregate offering price of up to \$200 million (the “ATM Shares”). Sales of the ATM Shares can be made in privately negotiated transactions and/or any other method permitted by law, including sales deemed to be an “at the market” offering, which includes sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange. Actual future sales of the ATM Shares will depend upon a variety of factors, including but not limited to market conditions, the trading price of the Company's common stock and the Company's capital needs. We have no obligation to sell the ATM Shares under the ATM Program. In June 2020, we sold 135,481 shares of our common stock at an average price of \$7.56 per share for proceeds of \$1.0 million, net of approximately \$10 thousand in fees paid to the applicable sales agent. No shares were sold during the three months ended September 30, 2020. As of November 6, 2020, shares of common stock having an aggregate offering price of up to \$199.0 million remained available for sale under the ATM Program.

Share Repurchase Program

Our board of directors has approved a share repurchase program (the “Share Repurchase Program”) authorizing us to repurchase shares of our common stock having an aggregate price of up to \$250 million. Information about our Share Repurchase Program is found in Note 5 to the accompanying consolidated financial statements. During the first quarter of 2020, we repurchased 1,119,438 shares of our common stock at an average price of \$8.91 per share for a total purchase price of \$10.0 million. These shares were all repurchased prior to March 4, 2020. We retired all repurchased shares on their respective settlement dates. We have suspended share repurchases and, pursuant to our Amended Credit Agreements, as defined below, may not repurchase shares while our financial covenant requirements are waived. The Share Repurchase Program expired on November 5, 2020. At the time of expiration, we had \$165.2 million of unused repurchase capacity under the Share Repurchase Program.

Preferred Shares

In August and September 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

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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 to the credit agreements ("Amended Credit Agreements") for our \$400 million senior unsecured credit facility and \$400 million of unsecured term loans. The Amended Credit Agreements provide 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. 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. As of September 30, 2020, we had \$100.0 million of borrowings outstanding under our senior unsecured credit facility.

Sources and Uses of Cash

Our principal sources of cash are net cash flow from hotel operations, sales of common 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 and units. As of September 30, 2020, we had \$110.6 million of unrestricted cash and \$31.5 million of restricted cash.

Our net cash used in operations was \$54.7 million for the nine months ended September 30, 2020. 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 used in investing activities was \$69.2 million for the nine months ended September 30, 2020, which is composed of capital expenditures at our operating hotels of \$39.9 million, capital expenditures for the rebuild of Frenchman's Reef of \$38.3 million, and \$1.6 million of cash paid for the acquisition of the remaining interest in land underlying the Kimpton Shorebreak Resort, offset by \$10.7 million of proceeds from our property insurance policy related to our hotels impacted by Hurricanes Irma and Maria.

Our net cash provided by financing activities was \$86.1 million for the nine months ended September 30, 2020, which consisted of \$25.0 million in net draws on our senior unsecured credit facility, \$48.0 million proceeds of mortgage debt, \$1.0 million proceeds from the sale of common stock under the ATM Program, and \$114.5 million net proceeds from the sale of preferred stock, offset by the \$52.5 million repayment of mortgage debt from the refinancing of the mortgage loan secured by the Salt Lake City Marriott, \$25.6 million of distributions paid to holders of common stock and units, \$0.8 million of distributions paid to holders of preferred stock, \$10.0 million of share repurchases, \$10.6 million of scheduled mortgage debt principal payments, \$1.4 million paid for financing costs on the Amended Credit Agreements and Salt Lake City Marriott mortgage loan refinancing, \$1.3 million paid to repurchase shares upon the vesting of restricted stock for the payment of tax withholding obligations, and \$0.2 million paid for the redemption of common OP units.

We do not anticipate that we will receive any meaningful net cash flow from operations at our operating hotels for the remainder of the year ending December 31, 2020. We expect our uses of cash for the remainder of the year ending December 31, 2020 will be regularly scheduled debt service payments, capital expenditures, potential funding of hotel working capital requirements, distributions to preferred stockholders, and corporate expenses.

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

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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.

We have paid the following dividends to holders of our common stock and distributions to holders of common OP units and LTIP units during 2020 as follows:

Payment Date	Record Date	Dividend per Share
January 13, 2020	January 2, 2020	\$ 0.125

Our board of directors suspended the quarterly common dividend commencing with the first quarter dividend that would have been paid in April 2020. The resumption in quarterly common dividends 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 2020:

Payment Date	Record Date	Dividend per Share
September 30, 2020	September 20, 2020	\$ 0.178

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, 2020, we have set aside \$25.2 million for capital projects in property improvement funds, which are included in restricted cash.

We spent approximately \$39.9 million on capital improvements at our operating hotels during the nine months ended September 30, 2020. Additionally, we spent approximately \$38.3 million on the rebuild of Frenchman's Reef during the nine months ended September 30, 2020. In response to the COVID-19 pandemic, we have canceled or deferred a significant portion of the planned capital improvements at our operating hotels and paused the rebuild of Frenchman's Reef. We currently expect to spend approximately \$50 million on capital improvements at our operating hotels during 2020.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Non-GAAP Financial Measures

We use the following non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: EBITDA, EBITDA_{re}, 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, EBITDA_{re}, 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, EBITDA_{re}, 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

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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, 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.

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- *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 derivative instruments. 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net (loss) income	\$ (79,635)	\$ 11,574	\$ (187,714)	\$ 49,628
Interest expense	10,818	14,184	43,665	38,264
Income tax expense (benefit)	7,205	1,217	(5,853)	1,939
Real estate related depreciation and amortization	28,514	29,474	87,397	87,805
EBITDA / EBITDAre	(33,098)	56,449	(62,505)	177,636
Non-cash lease expense and other amortization	1,715	1,750	5,172	5,249
Professional fees and pre-opening costs related to Frenchman's Reef ⁽¹⁾	593	6,378	418	11,445
Hotel manager transition items ⁽²⁾	(1,021)	582	(460)	1,050
Loss on early extinguishment of debt	—	2,373	—	2,373
Severance costs ⁽³⁾	7,367	—	7,760	—
Adjusted EBITDA	\$ (24,444)	\$ 67,532	\$ (49,615)	\$ 197,753

(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) Three months ended September 30, 2020 consists of manager transition costs of \$0.4 million related to The Lodge at Sonoma Renaissance Resort & Spa, Salt Lake City Marriott Downtown at City Creek, and Renaissance Charleston Historic District Hotel, offset by \$1.4 million of accelerated amortization of the unfavorable management agreement liability related to the manager transition at the Renaissance Charleston Historic District Hotel. Nine months ended September 30, 2020 consists of manager transition costs of \$1.5 million related to the L'Auberge de Sedona, Orchards Inn Sedona, the Westin Boston Waterfront, The Lodge at Sonoma Renaissance Resort & Spa, Salt Lake City Marriott Downtown at City Creek, and Renaissance Charleston Historic District Hotel, offset by a downward adjustment of \$0.6 million to the termination fees for the Sheraton Suites Key West franchise agreement and \$1.4 million of accelerated amortization of the unfavorable management agreement liability related to the manager transition at the Renaissance Charleston Historic District Hotel. Three months ended September 30, 2019 consist of (a) less than \$0.1 million of pre-opening costs related to the reopening of the Hotel Emblem and manager transition costs related to the Westin Washington, D.C. City Center and (b) \$0.6 million of manager termination fees for L'Auberge de Sedona and Orchards Inn Sedona. Nine months ended September 30, 2019 consists of (a) \$0.4 million of pre-opening costs related to the reopening of the Hotel Emblem, (b) \$0.1 million of manager transition costs related to the Westin Washington, D.C. City Center and (c) \$0.6 million of manager termination fees for L'Auberge de Sedona and Orchards Inn Sedona.

(3) Three and nine months ended September 30, 2020 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.

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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,	
	2020	2019	2020	2019
Net (loss) income	\$ (79,635)	\$ 11,574	\$ (187,714)	\$ 49,628
Real estate related depreciation and amortization	28,514	29,474	87,397	87,805
FFO	(51,121)	41,048	(100,317)	137,433
Non-cash lease expense and other amortization	1,715	1,750	5,172	5,249
Professional fees and pre-opening costs related to Frenchman's Reef ⁽¹⁾	593	6,378	418	11,445
Hotel manager transition items ⁽²⁾	(1,021)	582	(460)	1,050
Loss on early extinguishment of debt	—	2,373	—	2,373
Severance costs ⁽³⁾	7,367	—	7,760	—
Fair value adjustments to interest rate swaps	(983)	3,143	11,329	4,790
Adjusted FFO	\$ (43,450)	\$ 55,274	\$ (76,098)	\$ 162,340

- (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) Three months ended September 30, 2020 consists of manager transition costs of \$0.4 million related to The Lodge at Sonoma Renaissance Resort & Spa, Salt Lake City Marriott Downtown at City Creek, and Renaissance Charleston Historic District Hotel, offset by \$1.4 million of accelerated amortization of the unfavorable management agreement liability related to the manager transition at the Renaissance Charleston Historic District Hotel. Nine months ended September 30, 2020 consists of manager transition costs of \$1.5 million related to the L'Auberge de Sedona, Orchards Inn Sedona, the Westin Boston Waterfront, The Lodge at Sonoma Renaissance Resort & Spa, Salt Lake City Marriott Downtown at City Creek, and Renaissance Charleston Historic District Hotel, offset by a downward adjustment of \$0.6 million to the termination fees for the Sheraton Suites Key West franchise agreement and \$1.4 million of accelerated amortization of the unfavorable management agreement liability related to the manager transition at the Renaissance Charleston Historic District Hotel. Three months ended September 30, 2019 consist of (a) less than \$0.1 million of pre-opening costs related to the reopening of the Hotel Emblem and manager transition costs related to the Westin Washington, D.C. City Center and (b) \$0.6 million of manager termination fees for L'Auberge de Sedona and Orchards Inn Sedona. Nine months ended September 30, 2019 consists of (a) \$0.4 million of pre-opening costs related to the reopening of the Hotel Emblem, (b) \$0.1 million of manager transition costs related to the Westin Washington, D.C. City Center and (c) \$0.6 million of manager termination fees for L'Auberge de Sedona and Orchards Inn Sedona.
- (3) Three and nine months ended September 30, 2020 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.

Critical Accounting Policies

Our unaudited consolidated financial statements have been prepared in conformity with U.S. GAAP, which 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 that 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 from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances. 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, 2019.

Investment in Hotels

Acquired hotels, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets that are generally accounted for as asset acquisitions are recorded at total cost and allocated based on relative fair value. Direct acquisition-related costs are capitalized as a component of the acquired assets. Additions to property and equipment, including current buildings, improvements, furniture, fixtures and equipment are recorded at cost. Property and equipment are depreciated using the straight-line method over an estimated useful life of 5 to 40 years for buildings, land improvements, and building

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improvements and 1 to 10 years for furniture 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 value of our investments in hotels 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 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 the its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying value to the related hotels' estimated fair market value is recorded and an impairment loss is recognized.

While our hotels have experienced improvement in certain key operating measures as the general economic conditions improve, the operating performance at certain of our hotels has not achieved our expected levels. As part of our overall capital allocation strategy, we assess underperforming hotels for possible disposition, which could result in a reduction in the carrying values of these properties.

Inflation

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

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, 2020 was \$1.1 billion, of which \$323 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 \$3.2 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. 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 2021, 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 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

The following risk factor supplements the risk factors described under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, and should be read in conjunction with the other risk factors presented in the Annual Report on Form 10-K.

The outbreak of the novel coronavirus (COVID-19) has caused, and could continue to cause, severe disruptions in the U.S., regional and global economies, travel and the hospitality industry and has impacted, and could continue to materially and adversely impact, our financial condition and results of operations.

In March 2020, the World Health Organization declared COVID-19 a global pandemic. COVID-19 has caused, and could continue to cause, widespread disruptions to the United States and global economy and has contributed to significant volatility and negative pressure in financial markets. The global impact of the outbreak is continually evolving, and many countries, including the United States, have reacted by instituting quarantines, restrictions on travel and/or mandatory closures of businesses. Certain states and cities, including where our hotels are located, have also reacted by instituting quarantines, restrictions on travel, “shelter in place” rules, restrictions on types of business that may continue to operate, and/or restrictions on the types of construction projects that may continue.

The full extent to which COVID-19 impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of such pandemic, the actions taken to contain the pandemic or mitigate its impact, as well as the effect of any relaxation of current restrictions, all of which could vary among the geographic regions in which our hotels are located, and the direct and indirect economic effects of the pandemic and containment measures, among others. The rapid development and fluidity of this situation precludes any prediction as to the full adverse impact of COVID-19. Nevertheless, COVID-19 has adversely affected, and may continue to adversely affect, our business, financial condition and results of operations, and our ability to pay dividends, and it may also have the effect of heightening many of the risks described below and in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2019, including:

- a complete or partial closure or re-closure of, or other operational issues at, one or more of our hotels resulting from government, third-party hotel manager or franchisor action, which could materially adversely affect our operations;
- the postponement or cancellation of conferences, conventions, festivals, sporting events, public events and other group business that would have otherwise brought individuals to the cities in which our hotels are located, which has caused, and could continue to cause, a decrease in occupancy rates over a prolonged period of time and exacerbate the seasonal volatility at our hotels;
- a general decline of in-person business meetings and an increase in the use of teleconferencing and video-conference technology, which could cause a sustained shift away from business-related travel and have a material adverse effect on the overall demand for hotel rooms;
- a decrease in individuals’ willingness to travel once our hotels are reopened as a result of the public health risks and social impacts of such outbreak or a decrease in consumer spending, which could affect the ability of our hotels to generate sufficient revenues to meet operating and other expenses in the short- and long-term;
- reduced economic activity impacting the businesses, financial condition and liquidity of the Company or that of our third-party hotel managers or franchisors, which could result in us, the third-party hotel manager or the franchisor being unable to comply with operational and performance conditions under the applicable management and franchise agreements;

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- reduced economic activity impacting the businesses, financial condition and liquidity of our retail and restaurant tenants located at our hotels, which could cause one or more of such tenants to be unable to meet their obligations to us in full, or at all, to otherwise seek modifications of such obligations or to declare bankruptcy;
- severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions, which could make it difficult for us to access debt and equity capital on attractive terms, or at all, and impact our ability to fund business activities and repay debt on a timely basis;
- the potential inability of the Company to comply with financial covenants under our senior unsecured credit facility, unsecured term loans and other debt agreements, or the inability to renegotiate such covenants, which could result in a default and potential acceleration of indebtedness and impact our ability to make additional borrowings under our senior unsecured credit facility or otherwise in the future;
- the potential lack of funding, disruptions in the supply of materials or products or the inability of contractors to perform on a timely basis or at all, which could cause delays in completing ongoing or future hotel renovations and capital improvements at our hotels, including the planned reconstruction of Frenchman's Reef & Morning Star Marriott Beach Resort;
- difficulties in sourcing and transporting materials or products necessary to operate our hotels, such as linens or cleaning supplies, and a decrease in the availability of adequate staffing at our hotels, which could impact our ability to provide our guests with the customary level of service provided at our hotels, including our premium full-service hotels;
- the potential inability of our TRS lessees to renew or enter into new management agreements for our hotels on favorable terms, or at all, which could cause interruptions in the operations at certain hotels;
- a general decline in business activity and demand for real estate transactions, and more specifically, demand for hotel properties, which could adversely affect our ability or desire to make strategic acquisitions or dispositions;
- the potential negative impact on the health of our personnel, particularly if a significant number of our senior executive officers are impacted, which could result in a deterioration in our ability to ensure business continuity during a disruption;
- the limited access to our facilities, management, franchisors, support staff and professional advisors, which could decrease the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, increase our susceptibility to security breaches, or hamper our ability to comply with regulatory obligations and lead to reputational harm and regulatory issues or fines;
- increased operating costs at our hotels due to enhanced cleaning and hygiene protocols required or recommended by major hotel brands, the Centers for Disease Control and Prevention, unions and state and local governments; and
- increased labor costs due to demands for higher wages due to health risks associated with working in hotels and requirements for more staff to implement cleaning protocols.

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands)⁽¹⁾
July 1 - July 31, 2020	—	\$ —	—	\$ 165,179
August 1 - August 31, 2020	—	\$ —	—	\$ 165,179
September 1 - September 30, 2020	1,008 ⁽²⁾	\$ —	—	\$ 165,179

(1) Represents amounts available under the Company's \$250 million share repurchase program announced by the Company on November 5, 2018 (the "Share Repurchase Program"). To facilitate repurchases, we make purchases pursuant to a trading plan under Rule 10b5-1 of the Exchange Act, which allows us to repurchase shares during periods when we otherwise may be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. The Share Repurchase Program may be suspended or terminated at any time without prior notice. The Share Repurchase Program expired on November 5, 2020.

(2) Reflects shares surrendered to the Company by employees for payment of tax withholding obligations in connection with the vesting of restricted stock.

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>	
3.1.1	Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (<i>incorporated by reference to the Registrant's Registration Statement on Form S-11 filed with the Securities and Exchange Commission on March 1, 2005 (File No. 333-123065)</i>)
3.1.2	Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (<i>incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2007</i>)
3.1.3	Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (<i>incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2012</i>)
3.1.4	Articles Supplementary Prohibiting DiamondRock Hospitality Company From Electing to be Subject to Section 3-803 of the Maryland General Corporation Law Absent Stockholder Approval (<i>incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2014</i>)
3.1.5	Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (<i>incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 5, 2016</i>)
3.1.6	Articles of Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (<i>incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2019</i>)
3.1.7	Articles Supplementary Designating DiamondRock Hospitality Company's 8.250% Series A Cumulative Redeemable Preferred Stock (<i>incorporated by reference to Exhibit 3.7 to the Registrant's Form 8-A filed with the Securities and Exchange Commission on August 28, 2020 (File No. 001-32514)</i>)
4.1	Form of Specimen Certificate for DiamondRock Hospitality Company's 8.250% Series A Cumulative Redeemable Preferred Stock (<i>incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-A filed with the Securities and Exchange Commission on August 28, 2020 (File No. 001-32514)</i>)
10.1	Amendment No. 1 to the Agreement of Limited Partnership of DiamondRock Hospitality Limited Partnership, dated August 28, 2020 (<i>incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 31, 2020</i>)
10.2*	Second Amendment to Fifth Amended and Restated Credit Agreement dated as of August 14, 2020
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

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Exhibit

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

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 6, 2020

/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 6, 2020

/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 6, 2020

/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 6, 2020

/s/ Jeffrey J. Donnelly

Jeffrey J. Donnelly
Executive Vice President and Chief Financial Officer

November 6, 2020

SECOND AMENDMENT TO
FIFTH AMENDED and RESTATED CREDIT AGREEMENT

THIS SECOND AMENDMENT TO FIFTH AMENDED and RESTATED CREDIT AGREEMENT (this “**Amendment**”) dated as of August 14, 2020, by and among DIAMONDROCK HOSPITALITY LIMITED PARTNERSHIP, a limited partnership formed under the laws of the State of Delaware (the “**Borrower**”), DIAMONDROCK HOSPITALITY COMPANY, a corporation formed under the laws of the State of Maryland (the “**Parent**”), each of the Lenders party hereto (collectively, “**Lenders**”) and Wells Fargo Bank, National Association, as Administrative Agent (the “**Administrative Agent**”).

WHEREAS, the Borrower, the Parent, the Lenders, the Administrative Agent and certain other parties have entered into that certain Fifth Amended and Restated Credit Agreement dated as of July 25, 2019 (as amended by that certain First Amendment to Fifth Amended and Restated Credit Agreement dated as of June 9, 2020, that certain Conditional Consent Letter dated as of August 14, 2020 and as further amended and in effect immediately prior to the effectiveness of this Amendment, the “**Credit Agreement**”; capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to them in the Credit Agreement);

WHEREAS, the parties hereto desire to amend certain provisions of the Credit Agreement on the terms and conditions contained herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

Section 1. Specific Amendments to Credit Agreement. Effective as of the date hereof (the “**Second Amendment Date**”) but subject to the satisfaction of the conditions precedent set forth in Section 2 below, the parties hereto agree that Section 10.15(a) of the Credit Agreement is hereby restated in its entirety as follows:

“(a) Make any Restricted Payment other than, so long as no Event of Default specified in Section 11.1.(a), 11.1.(b), Section 11.1.(f) or Section 11.1.(g) exists and the Obligations have not been accelerated pursuant to Section 11.2.(a) as a result of the occurrence of any other Event of Default, (i) the Borrower may declare and make cash distributions to the Parent and other holders of partnership interests in the Borrower, and the Parent may declare and make cash distributions to its shareholders, each, in an aggregate amount not to exceed up to 100% of the taxable income of the Parent and (ii) the Borrower may declare and make Preferred Dividends to the Parent and other holders of partnership interests in the Borrower, and the Parent may declare and make Preferred Dividends to its shareholders, in an aggregate amount not to exceed \$17,500,000 per fiscal year.

Section 2. Conditions Precedent. The effectiveness of this Amendment, is subject to the satisfaction or waiver of the following conditions precedent:

(a) Execution of Amendment. Receipt by the Administrative Agent of counterparts of this Amendment duly executed by the Borrower, Parent, the Requisite Lenders and the Administrative Agent.

(b) Guarantor Reaffirmation. Receipt by the Administrative Agent of a Guarantor Acknowledgement substantially in the form of Exhibit A attached hereto, executed by each Guarantor.

(c) Fees. Receipt by the Administrative Agent and the Lenders of all fees and expenses, if any, then owing by the Borrower to the Lenders and the Administrative Agent.

(d) Additional Matters. All other documents and legal matters in connection with the transactions contemplated by this Amendment shall be reasonably satisfactory in form and substance to the Administrative Agent.

Section 3. Representations. Each of the Parent and the Borrower represents and warrants to the Administrative Agent and the Lenders that:

(a) Authorization. Each of the Borrower and the Parent has the right and power, and has taken all necessary action to authorize it, to execute and deliver this Amendment and to perform this Amendment, and the Credit Agreement, as amended by this Amendment in accordance with their respective terms and to consummate the transactions contemplated hereby and thereby. This Amendment has been duly executed and delivered by the duly authorized officers, agents and/or signatories of the Borrower and the Parent and each is a legal, valid and binding obligation of such Person enforceable against such Person in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, and other similar laws affecting the rights of creditors generally and the availability of equitable remedies for the enforcement of certain obligations (other than the payment of principal) contained herein or therein and as may be limited by equitable principles generally.

(b) Compliance with Laws, etc. The execution and delivery of this Amendment and the performance of this Amendment and the Credit Agreement, as amended by this Amendment in accordance with their respective terms and the borrowings do not and will not, by the passage of time, the giving of notice, or both: (i) require any Governmental Approval or violate any Applicable Law (including all Environmental Laws) relating to the Borrower or any other Loan Party; (ii) conflict with, result in a breach of or constitute a default under the organizational documents of any Loan Party, or any indenture, agreement or other instrument to which the Borrower or any other Loan Party is a party or by which it or any of its respective properties may be bound; or (iii) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by any Loan Party.

(c) No Default. No Default or Event of Default has occurred and is continuing as of the date hereof, nor will exist immediately after giving effect to this Amendment.

(d) Existing Representations and Warranties. The representations and warranties made or deemed made by the Borrower or any other Loan Party in the Credit Agreement or any other Loan Document to which such Loan Party is a party or which are contained in any certificate furnished in connection therewith are true and correct in all material respects (except in the case of a representation or warranty qualified by materiality, in which case such representation or warranty shall be true and correct in all respects) on and as of the date hereof as if made on and as of such date, except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties shall have been true and correct in all material respects (except in the case of a representation or warranty qualified by materiality, in which case such representation or warranty shall have been true and correct in all respects) on and as of such earlier date) and except for changes in factual circumstances specifically and expressly permitted under the Credit Agreement; provided that, for purposes of making the representation in the first sentence of Section 7.1(1) of the Credit Agreement, any event or circumstance resulting from the COVID-19 pandemic as described in the 10-Q publicly filed by the Parent on May 11, 2020 or as otherwise disclosed to the Administrative Agent and the Lenders in writing prior to the Second Amendment Date, shall be excluded.

Section 4. Certain References. Each reference to the Credit Agreement in any of the Loan Documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

Section 5. Expenses. The Borrower shall reimburse the Administrative Agent upon demand for all reasonable, documented out-of-pocket costs and expenses (including reasonable and documented attorneys' fees) incurred by the Administrative Agent in connection with the preparation, negotiation and execution of this Amendment and the other agreements and documents executed and delivered in connection herewith.

Section 6. Benefits. This Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

Section 7. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED, AND TO BE FULLY PERFORMED, IN SUCH STATE.

Section 8. Effect. Except as expressly herein amended, the terms and conditions of the Credit Agreement and the other Loan Documents remain in full force and effect. The amendments contained in Section 1 hereof shall be deemed to have prospective application only from the date this Amendment becomes effective. The Credit Agreement, as herein amended, is hereby ratified and confirmed in all respects. Nothing in this Amendment shall limit, impair or constitute a waiver of the rights, powers or remedies available to the Administrative Agent or the Lenders under the Credit Agreement, as herein amended, or any other Loan Document.

Section 9. Release. In consideration of the amendments and agreements contained herein, each Loan Party hereby waives and releases the Administrative Agent, each Lender, the Swingline Lender and the Issuing Banks from any and all claims and defenses, whether known or unknown, with respect to the Credit Agreement and the other Loan Documents and the transactions contemplated thereby to the extent any such claims and defenses have arisen on or prior to the date hereof.

Section 10. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and shall be binding upon all parties, their successors and assigns. Signatures hereto delivered by facsimile transmission, emailed .pdf file or other similar forms of electronic transmission shall be deemed original signatures, which hereby may be relied upon by all parties and shall be binding on the respective signor.

Section 11. Loan Documents. This Amendment and the executed Guarantor Acknowledgement substantially in the form attached hereto as Exhibit A shall be deemed to be "Loan Documents" for all purposes under the Credit Agreement and the other Loan Documents.

[Signatures Commence on Next Page]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to Fifth Amended and Restated Credit Agreement to be executed as of the date first above written.

BORROWER:

DIAMONDROCK HOSPITALITY LIMITED PARTNERSHIP

By: DiamondRock Hospitality Company, its sole General Partner

By: /s/ Jeff Donnelly

Name: Jeff Donnelly

Title: Executive Vice President and Chief Financial Officer

PARENT:

DIAMONDROCK HOSPITALITY COMPANY

By: /s/ Jeff Donnelly

Name: Jeff Donnelly

Title: Executive Vice President and Chief Financial Officer

[Signatures Continued on Next Page]

THE ADMINISTRATIVE AGENT AND THE LENDERS:

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent and as a Lender

By: /s/ Mark F. Monahan
Name: Mark F. Monahan
Title: Senior Vice President

[Signatures Continued on Next Page]

BANK OF AMERICA, N.A., as a Lender

By: /s/ Suzanne E. Pickett
Name: Suzanne E. Pickett
Title: Senior Vice President

[Signatures Continued on Next Page]

CITIBANK, N.A., as a Lender

By: /s/ Christopher J. Albano
Name: Christopher J. Albano
Title: Authorized Signatory

[Signatures Continued on Next Page]

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Timothy J. Tillman

Name: Timothy J. Tillman

Title: Senior Vice President

[Signatures Continued on Next Page]

KEYBANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Jim Komperda
Name: Jim Komperda
Title: Senior Vice President

[Signatures Continued on Next Page]

PNC BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Wayne Robertson

Name: Wayne Robertson

Title: Senior Vice President

[Signatures Continued on Next Page]

REGIONS BANK, as a Lender

By: /s/ Ghi S. Gavin

Name: Ghi S. Gavin

Title: Senior Vice President

T.D. BANK, N.A., as a Lender

By: /s/ Jay P. Arvai

Name: Jay P. Arvai

Title: Senior Vice President, Regional Director, CRE Lending

BMO HARRIS BANK, N.A., as a Lender

By: /s/ Gwendolyn Gatz

Name: Gwendolyn Gatz

Title: Director

[Signatures Continued on Next Page]

BARCLAYS BANK PLC, as a Lender

By: /s/ Jake Lame

Name: Jake Lame

Title: Assistant Vice President

[Signatures Continued on Next Page]

DEUTSCHE BANK AG NEW YORK BRANCH, as a Lender

By: /s/ Annie Chung
Name: Annie Chung
Title: Director

By: /s/ Yvonne Tilden
Name: Yvonne Tilden
Title: Managing Director

TRUIST BANK, as a Lender

By: /s/ Karen Cadiente
Name: Karen Cadiente
Title: Assistant Vice President

EXHIBIT A

FORM OF GUARANTOR ACKNOWLEDGEMENT

THIS GUARANTOR ACKNOWLEDGEMENT dated as of August 14, 2020 (this “Acknowledgement”) executed by each of the undersigned (the “Guarantors”) in favor of Wells Fargo Bank, National Association, as Administrative Agent (the “Administrative Agent”) and each “Lender” a party to the Credit Agreement referred to below (the “Lenders”).

WHEREAS, DiamondRock Hospitality Limited Partnership (the “Borrower”), DiamondRock Hospitality Company (the “Parent”), the Lenders, the Administrative Agent and certain other parties have entered into that certain Fifth Amended and Restated Credit Agreement dated as of July 25, 2019 (as amended by that certain First Amendment to Fifth Amended and Restated Credit Agreement dated as of June 9, 2020, that certain Conditional Consent Letter dated as of August 14, 2020 and as further amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”);

WHEREAS, each of the Guarantors is a party to that certain Amended and Restated Guaranty dated as of July 25, 2019 (as amended, restated, supplemented or otherwise modified from time to time, the “Guaranty”) pursuant to which they guaranteed, among other things, the Borrower’s obligations under the Credit Agreement on the terms and conditions contained in the Guaranty;

WHEREAS, the Borrower, the Parent, the Administrative Agent and certain of the Lenders are to enter into the Second Amendment to Fifth Amended and Restated Credit Agreement dated as of the date hereof (the “Second Amendment”), to amend the Credit Agreement on the terms and conditions contained therein; and

WHEREAS, it is a condition precedent to the effectiveness of the Second Amendment that the Guarantors execute and deliver this Acknowledgement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto agree as follows:

Section 1. Reaffirmation. Each Guarantor hereby reaffirms its continuing obligations to the Administrative Agent and the Lenders under the Guaranty and agrees that the transactions contemplated by the Second Amendment, shall not in any way affect the validity and enforceability of the Guaranty, or reduce, impair or discharge the obligations of such Guarantor thereunder.

Section 2. Governing Law. THIS ACKNOWLEDGEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED, AND TO BE FULLY PERFORMED, IN SUCH STATE.

Section 3. Counterparts. This Acknowledgement may be executed in any number of counterparts, each of which shall be deemed to be an original and shall be binding upon all parties, their successors and assigns. Signatures hereto delivered by facsimile transmission, emailed .pdf file or other similar forms of electronic transmission shall be deemed original signatures, which hereby may be relied upon by all parties and shall be binding on the respective signor.

[Signatures on Next Page]

IN WITNESS WHEREOF, each Guarantor has duly executed and delivered this Guarantor Acknowledgement as of the date and year first written above.

THE GUARANTORS:

DIAMONDROCK HOSPITALITY COMPANY

By: /s/ Jeff Donnelly

Name: Jeff Donnelly

Title: Executive Vice President and Chief Financial Officer

BLOODSTONE TRS, INC.

By: /s/ Jeff Donnelly

Name: Jeff Donnelly

Title: President and Chief Executive Officer

[Signatures Continued on Next Page]

DiamondRock Alpharetta Owner, LLC
DiamondRock Alpharetta Tenant, LLC
DIAMONDROCK BETHESDA GENERAL, LLC, general partner of DiamondRock Bethesda Owner

Limited Partnership

DiamondRock Bethesda General, LLC,
general partner of DiamondRock Bethesda Owner Limited Partnership
DiamondRock Bethesda Tenant, LLC
DiamondRock Boston Broad Street Owner, LLC
DiamondRock Boston Broad Street Tenant, LLC
DiamondRock Burlington Owner, LLC
DiamondRock Burlington Tenant, LLC
DiamondRock Charleston Owner, LLC
DiamondRock Charleston Tenant, LLC
DiamondRock Chicago Conrad Owner, LLC
DiamondRock Chicago Conrad Tenant, LLC
DiamondRock Chicago Owner, LLC
DiamondRock Chicago Tenant, LLC
DiamondRock Denver Downtown Owner, LLC
DiamondRock Denver Downtown Tenant, LLC
DiamondRock FL Owner, LLC
DiamondRock FL Tenant, LLC
DiamondRock HB Owner, LLC
DiamondRock HB Tenant, LLC
DiamondRock Key West North Owner, LLC
DiamondRock Key West North Tenant, LLC
DiamondRock KW South Owner, LLC
DiamondRock KW South Tenant, LLC
DiamondRock SF Sutter Street Owner, LLC
DiamondRock SF Sutter Street Tenant, LLC
DiamondRock Tahoe Owner, LLC
DiamondRock Tahoe Tenant, LLC
DiamondRock Times Square Owner, LLC
DiamondRock Times Square Tenant, LLC
DiamondRock Vail Owner, LLC
DiamondRock Vail Tenant, LLC
DiamondRock AZ LA Owner, LLC
DiamondRock AZ LA Tenant, LLC
DiamondRock AZ OR Owner, LLC
DiamondRock AZ OR Tenant, LLC
CPFH Holdings, LLC
CPFH Owner, LLC
CPFH Tenant, LLC

By: /s/ Jeff Donnelly
Name: Jeff Donnelly
Title: Director

DiamondRock Bethesda Owner Limited Partnership

By: DiamondRock Bethesda General, LLC, its general partner

By: /s/ Jeff Donnelly

Name: Jeff Donnelly

Title: Director