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 June 30, 2023

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	**20-1180098**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

2 Bethesda Metro Center, Suite 1400, Bethesda,	**Maryland**	**20814**
(Address of Principal Executive Offices)		**(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. ☐

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 209,627,197 shares of its $0.01 par value common stock outstanding as of August 4, 2023.

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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)

	June 30, 2023	December 31, 2022
ASSETS	**(unaudited)**	
Property and equipment, net	$ 2,740,395	$ 2,748,476
Right-of-use assets	97,834	99,047
Restricted cash	37,535	39,614
Due from hotel managers	164,193	176,708
Prepaid and other assets	86,224	76,131
Cash and cash equivalents	98,556	67,564
Total assets	**$ 3,224,737**	**$ 3,207,540**
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage and other debt, net of unamortized debt issuance costs	$ 382,157	$ 386,655
Unsecured term loans, net of unamortized debt issuance costs	799,271	799,138
Senior unsecured credit facility	—	—
Total debt	1,181,428	1,185,793
Lease liabilities	111,233	110,875
Due to hotel managers	119,706	123,682
Deferred rent	67,260	65,097
Unfavorable contract liabilities, net	60,240	61,069
Accounts payable and accrued expenses	39,811	43,120
Distributions declared and unpaid	6,437	12,946
Deferred income related to key money, net	8,565	8,780
Total liabilities	1,594,680	1,611,362
Equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized:		
8.250% Series A Cumulative Redeemable Preferred Stock (liquidation preference $25.00 per share), 4,760,000 shares issued and outstanding at June 30, 2023 and December 31, 2022	48	48
Common stock, $0.01 par value; 400,000,000 shares authorized; 209,589,638 and 209,374,830 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	2,095	2,094
Additional paid-in capital	2,287,348	2,288,433
Accumulated other comprehensive income	3,830	—
Distributions in excess of earnings	(670,063)	(700,694)
Total stockholders’ equity	1,623,258	1,589,881
Noncontrolling interests	6,799	6,297
Total equity	1,630,057	1,596,178
Total liabilities and equity	**$ 3,224,737**	**$ 3,207,540**

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

DIAMONDROCK HOSPITALITY COMPANY

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenues:				
Rooms	$ 197,318	$ 193,025	$ 357,991	$ 325,195
Food and beverage	68,369	68,606	128,146	114,354
Other	25,560	19,776	48,663	38,691
Total revenues	291,247	281,407	534,800	478,240
Operating Expenses:				
Rooms	45,116	42,645	85,319	76,475
Food and beverage	45,908	43,471	89,058	76,692
Other departmental and support expenses	65,445	59,521	127,413	108,058
Management fees	6,885	6,312	11,873	10,332
Franchise fees	9,403	8,693	17,480	14,503
Other property-level expenses	26,934	20,977	51,051	42,949
Depreciation and amortization	27,840	27,389	55,312	54,044
Impairment losses	941	—	941	2,843
Corporate expenses	8,284	8,726	16,151	14,759
Business interruption insurance income	(110)	—	(110)	(499)
Total operating expenses, net	236,646	217,734	454,488	400,156
Interest expense	15,567	9,675	32,739	13,794
Interest (income) and other (income) expense, net	(522)	606	(945)	892
Total other expenses, net	15,045	10,281	31,794	14,686
Income before income taxes	39,556	53,392	48,518	63,398
Income tax expense	(422)	(691)	(196)	(637)
Net income	39,134	52,701	48,322	62,761
Less: Net income attributable to noncontrolling interests	(169)	(184)	(201)	(216)
Net income attributable to the Company	38,965	52,517	48,121	62,545
Distributions to preferred stockholders	(2,454)	(2,454)	(4,908)	(4,908)
Net income attributable to common stockholders	$ 36,511	$ 50,063	$ 43,213	$ 57,637
Earnings per share:				
Earnings per share available to common stockholders—basic	$ 0.17	$ 0.24	$ 0.20	$ 0.27
Earnings per share available to common stockholders—diluted	$ 0.17	$ 0.23	$ 0.20	$ 0.27

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

DIAMONDROCK HOSPITALITY COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME - (CONTINUED)
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Comprehensive Income:				
Net income	$ 39,134	$ 52,701	$ 48,322	$ 62,761
Other comprehensive income:				
Unrealized gain on interest rate derivative instruments	3,467	—	3,383	—
Unrealized gain on Rabbi Trust assets	210	—	447	—
Comprehensive income	42,811	52,701	52,152	62,761
Comprehensive income attributable to noncontrolling interests	(151)	(184)	(183)	(216)
Comprehensive income attributable to the Company	$ 42,660	$ 52,517	$ 51,969	$ 62,545

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							
	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2022	4,760,000	$ 48	209,374,830	$ 2,094	$2,288,433	—	$ (700,694)	$ 1,589,881	$ 6,297	$1,596,178
Distributions on common stock/units ($0.03 per common share/unit)	—	—	—	—	—	—	(6,295)	(6,295)	(32)	(6,327)
Distributions on preferred stock ($0.5156 per preferred share)	—	—	—	—	—	—	(2,454)	(2,454)	—	(2,454)
Share-based compensation	—	—	804,541	—	1,827	—	—	1,827	140	1,967
Shares redeemed to satisfy withholdings on vested share based compensation	—	—	(333,779)	6	(3,029)	—	—	(3,023)	—	(3,023)
Common stock repurchased and retired	—	—	(56,400)	(2)	(407)	—	—	(409)	—	(409)
Other comprehensive income:										
Unrealized loss on interest rate derivative instruments	—	—	—	—	—	(84)	—	(84)	—	(84)
Unrealized gain on Rabbi Trust assets	—	—	—	—	—	237	—	237	—	237
Net income	—	—	—	—	—	—	9,156	9,156	32	9,188
Balance at March 31, 2023	4,760,000	$ 48	209,789,192	$ 2,098	$2,286,824	$ 153	$ (700,287)	$ 1,588,836	$ 6,437	$1,595,273
Distributions on common stock/units ($0.03 per common share/unit)	—	—	—	—	—	—	(6,287)	(6,287)	(32)	(6,319)
Distributions on preferred stock ($0.5156 per preferred share)	—	—	—	—	—	—	(2,454)	(2,454)	—	(2,454)
Share-based compensation	—	—	62,500	—	2,535	—	—	2,535	225	2,760
Common stock repurchased and retired	—	—	(262,054)	(3)	(2,011)	—	—	(2,014)	—	(2,014)
Other comprehensive income:										
Unrealized gain on interest rate derivative instruments	—	—	—	—	—	3,467	—	3,467	—	3,467
Unrealized gain on Rabbi Trust assets	—	—	—	—	—	210	—	210	—	210
Net income	—	—	—	—	—	—	38,965	38,965	169	39,134
Balance at June 30, 2023	4,760,000	$ 48	209,589,638	$ 2,095	$2,287,348	$ 3,830	$ (670,063)	$ 1,623,258	$ 6,799	$1,630,057

	Preferred Stock		Common Stock							
	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2021	4,760,000	$ 48	210,746,895	$ 2,107	$2,293,990	—	$ (780,931)	$ 1,515,214	$ 5,750	$1,520,964
Distributions on preferred stock ($0.5156 per preferred share)	—	—	—	—	—	—	(2,454)	(2,454)	—	(2,454)
Share-based compensation	—	—	114,210	—	951	—	—	951	209	1,160
Shares redeemed to satisfy withholdings on vested share based compensation	—	—	—	2	(812)	—	—	(810)	—	(810)
Net income	—	—	—	—	—	—	10,028	10,028	32	10,060
Balance at March 31, 2022	4,760,000	$ 48	210,861,105	$ 2,109	$2,294,129	$ —	$ (773,357)	$ 1,522,929	$ 5,991	$1,528,920
Distributions on preferred stock ($0.5156 per preferred share)	—	—	—	—	—	—	(2,454)	(2,454)	—	(2,454)
Share-based compensation	—	—	54,910	—	2,684	—	—	2,684	65	2,749
Redemption of Operating Partnership Units	—	—	7,000	—	51	—	—	51	(51)	—
Net income	—	—	—	—	—	—	52,517	52,517	184	52,701
Balance at June 30, 2022	4,760,000	$ 48	210,923,015	$ 2,109	$2,296,864	$ —	$ (723,294)	$ 1,575,727	$ 6,189	$1,581,916

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

DIAMONDROCK HOSPITALITY COMPANY

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net income	$ 48,322	$ 62,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,312	54,044
Corporate asset depreciation as corporate expenses	99	115
Non-cash lease expense and other amortization	3,087	3,124
Non-cash interest rate swap fair value adjustment	2,033	(10,222)
Amortization of debt issuance costs	1,026	1,310
Impairment losses	941	2,843
Amortization of deferred income related to key money	(215)	(207)
Share-based compensation	4,727	3,927
Changes in assets and liabilities:		
Prepaid expenses and other assets	(5,940)	(8,933)
Due to/from hotel managers	8,540	(33,936)
Accounts payable and accrued expenses	(3,508)	659
Net cash provided by operating activities	114,424	75,485
Cash flows from investing activities:		
Capital expenditures	(47,928)	(28,031)
Acquisition of interest in land	(1,829)	—
Property acquisitions	—	(106,184)
Purchase deposits	(1,500)	—
Receipt of deferred key money	—	1,000
Net cash used in investing activities	(51,257)	(133,215)
Cash flows from financing activities:		
Scheduled mortgage debt principal payments	(4,744)	(7,844)
Draws on senior unsecured credit facility	—	110,000
Payment of financing costs	—	(120)
Distributions on common stock and units	(19,156)	(10)
Distributions on preferred stock	(4,908)	(4,908)
Repurchase of common stock	(2,423)	—
Shares redeemed to satisfy tax withholdings on vested share-based compensation	(3,023)	(828)
Net cash (used in) provided by financing activities	(34,254)	96,290
Net increase in cash, cash equivalents, and restricted cash	28,913	38,560
Cash, cash equivalents, and restricted cash at beginning of period	107,178	75,507
Cash, cash equivalents, and restricted cash at end of period	$ 136,091	$ 114,067

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:

	Six Months Ended June 30,	
	2023	2022
Cash paid for interest	$ 29,314	$ 24,389
Cash paid for income taxes, net	$ 1,833	$ 3,261
Non-cash investing and financing activities:		
Unpaid dividends and distributions declared	$ 6,437	$ 9
Accrued capital expenditures	$ 6,153	$ 8,672
Redemption of Operating Partnership units for common stock	$ —	$ 51

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:

	June 30, 2023	December 31, 2022
Cash and cash equivalents	$ 98,556	$ 67,564
Restricted cash	37,535	39,614
Total cash, cash equivalents and restricted cash	$ 136,091	$ 107,178

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 major urban markets 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., Hilton Worldwide, or IHG Hotels & Resorts). We are an owner, as opposed to an operator, of the hotels in our portfolio. As an owner, we receive all of the operating profits or losses generated by our hotels after we pay fees to the hotel managers and hotel brands, which are based on the revenues and profitability of the hotels. As of June 30, 2023, we owned 35 hotels with 9,617 guest rooms.

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 owned 99.6% of the limited partnership units ("common OP units") of our operating partnership as of June 30, 2023. The remaining 0.4% of the common OP units are held by third parties and executive officers of the Company. See Note 9 for additional disclosures related to common OP units.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

In our opinion, the accompanying unaudited consolidated financial statements reflect all adjustments necessary to present fairly our financial position, the results of our operations, the statements of equity, and cash flows. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations. We believe the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2022, included in our Annual Report on Form 10-K filed on February 24, 2023.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications did not effect the Company's financial position, results of operations, or cash flows. An adjustment has been made to the consolidated statements of operations for the year ended December 31, 2022 for presentation of other department and support expenses and other property-level expenses.

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. Currently, some of the most significant risks and uncertainties relate to the impact of rising inflation and increasing interest rates on the overall economy. 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.

Fair Value Measurements

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

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

Property and Equipment

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

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

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

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

Cash and Cash Equivalents

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

Revenue Recognition

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

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

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings during the period in which the new rate is enacted. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of all available evidence, including the future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of June 30, 2023 and December 31, 2022, we had a valuation allowance of $9.8 million and $11.0 million, respectively, on our deferred tax assets.

We have elected to be treated as a real estate investment trust, or 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 wholly owned taxable REIT subsidiaries.

We may recognize a tax benefit from an uncertain tax position when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. If a tax position does not meet the more-likely-than-not recognition threshold, despite our belief that our filing position is supportable, the benefit of that tax position is not recognized in the consolidated statements of operations and comprehensive income. We recognize interest and penalties, as applicable, related to unrecognized tax benefits as a component of income tax expense. We recognize unrecognized tax benefits in the period that the uncertainty is eliminated by either affirmative agreement of the uncertain tax position by the applicable taxing authority, or by expiration of the applicable statute of limitation.

We had no accruals for tax uncertainties as of June 30, 2023 and December 31, 2022.

Intangible Assets and Liabilities

Intangible assets and liabilities recorded may include trade name, management or franchise agreement intangibles, right-to-manage and in-place lease intangibles 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 an intangible asset or liability exists. Intangible assets or liabilities are recorded at the acquisition date and amortized using the straight-line method over the expected useful life. We do not amortize intangible assets with indefinite useful lives, but we review these assets for impairment annually or at interim periods if events or circumstances indicate that the asset may be impaired.

Earnings Per Share

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

Share-based Compensation

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

Comprehensive Income

The purpose of reporting comprehensive income is to report a measure of all changes in equity of an entity that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. Comprehensive income consists of net income and other comprehensive income.

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. For derivative instruments for which we have not elected hedge accounting, changes in the fair value of derivatives are recorded each period and are included in interest expense in the consolidated statements of operations and comprehensive income. For derivative instruments for which we have elected hedge accounting treatment, unrealized gains and losses of hedging instruments are reported in other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

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. The noncontrolling interests are classified as permanent equity as we have the right to choose to settle each holder's redemption of the interest in either cash or delivery of shares of our common stock. See Note 9 for additional details. On the consolidated statements of operations and comprehensive income, 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 cash held in reserve 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 and comprehensive income.

Debt issuance costs related to our Credit Agreement (defined in Note 5) 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 Credit Agreement, regardless of whether there are any outstanding borrowings, and the amortization is included in interest expense in the accompanying consolidated statements of operations and comprehensive income.

If a refinancing of our debt is considered an extinguishment, unamortized debt issuance costs are included in the gain or loss on extinguishment. All fees paid to or received from creditors are included in the gain or loss on extinguishment. Fees paid to third parties are capitalized as debt issuance costs. If a refinancing of our debt is considered a modification, the net debt issuance costs at the time of modification are amortized over the remaining life of the modified debt.

Due to/from Hotel Managers

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

Key Money

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

Leases

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

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

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

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.

3. Property and Equipment

Property and equipment as of June 30, 2023 and December 31, 2022 consists of the following (in thousands):

	June 30, 2023	December 31, 2022
Land	$ 579,528	$ 577,861
Land improvements	7,994	7,994
Buildings and site improvements	2,834,377	2,798,654
Furniture, fixtures and equipment	551,816	525,901
Construction in progress	15,917	32,422
	3,989,632	3,942,832
Less: accumulated depreciation	(1,249,237)	(1,194,356)
	$ 2,740,395	$ 2,748,476

As of June 30, 2023 and December 31, 2022, we had accrued capital expenditures of $6.2 million and $8.0 million, respectively. During the six months ended June 30, 2023, we recorded an impairment loss of $0.9 million related to the write-off of construction in progress that was determined not to be recoverable.

4. Acquisitions

2022 Acquisitions

On January 6, 2022, we acquired the 103-room Tranquility Bay Beachfront Resort located in Marathon, Florida, for $62.4 million, including prorations and transaction costs. The acquisition was funded with corporate cash. The acquisition includes income from 84 units owned by third parties that currently participate in the hotel's rental management program and the majority of the intervals in three units that are structured as vacation ownership. In March 2022, we entered into agreements to purchase four of the third-party owned units for $4.1 million in aggregate. In connection with the purchase agreements, we evaluated the recoverability of the right-to-manage intangible asset related to the long-term rental agreements ("RMAs"), and as a result, we recorded an impairment loss of $2.8 million. On March 23, 2022, we closed on the purchase of two of the four third-party owned units and on April 7, 2022, we closed on the purchase of the remaining two third-party owned units.

We recognized a $45.2 million right-to-manage intangible asset related to the RMAs that were purchased as part of the acquisition. We estimated the fair value of the right-to-manage intangible using a discounted cash flow model, which calculated a present value of expected future cash flows over the remaining term of agreements, including expected renewal periods, with a discount rate of 12% and reversion rate of 9.25%. The intangible asset will be amortized over a period of 40 years, which is our estimate of its useful life, inclusive of expected renewal periods. The remaining useful life of this intangible asset as of June 30, 2023 is approximately 38.5 years. As of June 30, 2023 and December 31, 2022, the intangible asset was $40.8 million and $41.3 million, net of accumulated amortization of $1.6 million and $1.1 million, respectively, and is recorded within prepaid and other assets on the accompanying consolidated balance sheet. Amortization expense for the three and six months ended June 30, 2023 was $0.3 million and $0.5 million, respectively. Amortization expense for the three and six months ended June 30, 2022 was $0.3 million and $0.6 million, respectively. Amortization expense is expected to be $1.1 million annually for the remaining useful life of the asset.

On April 1, 2022, we acquired the 96-room Kimpton Fort Lauderdale Beach Resort located in Fort Lauderdale, Florida for $35.6 million, including prorations and transaction costs. The acquisition was funded with corporate cash.

On November 21, 2022, we acquired the 40-room Lake Austin Spa Resort located in Austin, Texas for $75.8 million, including prorations and transaction costs. The acquisition was funded with corporate cash.

5. Debt

The following table sets forth information regarding the Company’s debt as of June 30, 2023 and December 31, 2022 (dollars in thousands):

Loan	Interest Rate as of June 30, 2023	Maturity Date	Principal Balance as of June 30, 2023	Principal Balance as of December 31, 2022
Courtyard New York Manhattan/Midtown East mortgage loan	4.40%	August 2024	75,255	76,153
Worthington Renaissance Fort Worth Hotel mortgage loan	3.66%	May 2025	74,681	75,625
Hotel Clio mortgage loan	4.33%	July 2025	56,784	57,469
Westin Boston Seaport District mortgage loan	4.36%	November 2025	176,270	178,487
Unamortized debt issuance costs			(833)	(1,079)
Total mortgage debt, net of unamortized debt issuance costs			382,157	386,655
Unsecured term loan	SOFR + 1.35%	January 2028	500,000	500,000
Unsecured term loan	SOFR + 1.35%	January 2025 (1)	300,000	300,000
Unamortized debt issuance costs			(729)	(862)
Unsecured term loans, net of unamortized debt issuance costs			799,271	799,138
Senior unsecured credit facility	SOFR + 1.40%	September 2026 (1)	—	—
Total debt, net of unamortized debt issuance costs			$ 1,181,428	$ 1,185,793
Weighted-Average Interest Rate (2)	4.88%			

(1) Maturity date may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions.
(2) Weighted-average interest rate as of June 30, 2023 includes effect of interest rate swaps.

Mortgage 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 June 30, 2023, four of our 35 hotels were secured by mortgage debt. One of our mortgage loans matures within one year. The principal balance of this mortgage loan is $75.3 million as of June 30, 2023. We intend to repay mortgage debt using cash flow from operations or available capacity on our senior unsecured credit facility, which is sufficient to meet the principal due within the next twelve months.

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 December 31, 2022, we had $2.9 million held in cash traps, which is included within the restricted cash on the accompanying consolidated balance sheet. As of June 30, 2023, all cash traps had been released.

Senior Unsecured Credit Facility and Unsecured Term Loans

We are party to a Sixth Amended and Restated Credit Agreement (the “Credit Agreement”) that provides us with a $400 million senior unsecured revolving credit facility and two term loan facilities in the aggregate amount of $800 million. The revolving credit facility matures on September 27, 2026, which we may extend for an additional year upon the payment of applicable fees and satisfaction of certain standard conditions. The term loan facilities consist of a $500 million term loan that matures on January 3, 2028 and a $300 million term loan that matures January 3, 2025. The maturity date of the $300 million term loan may be extended for an additional year upon the payment of applicable fees and satisfaction of certain standard conditions. We have the right to increase the aggregate amount of the facilities to $1.4 billion upon the satisfaction of certain standard conditions.

Interest is paid on the periodic advances on the revolving credit facility and amounts outstanding on the term loans at varying rates, based upon the adjusted Secured Overnight Financing Rate ("SOFR"), as defined in the Credit Agreement, plus an applicable margin. The applicable margin is based upon our leverage ratio, as follows:

Leverage Ratio	Applicable Margin for Revolving Loans	Applicable Margin for Term Loans
Less than 30%	1.40%	1.35%
Greater than or equal to 30% but less than 35%	1.45%	1.40%
Greater than or equal to 35% but less than 40%	1.50%	1.45%
Greater than or equal to 40% but less than 45%	1.60%	1.55%
Greater than or equal to 45% but less than 50%	1.80%	1.75%
Greater than or equal to 50% but less than 55%	1.95%	1.85%
Greater than or equal to 55%	2.25%	2.20%

The Credit Agreement contains various financial covenants. A summary of the most significant covenants is as follows:

	Covenant	Actual at June 30, 2023
Maximum leverage ratio (1)	60%	28.0%
Minimum fixed charge coverage ratio (2)	1.50x	3.19x
Secured recourse indebtedness	Less than 45% of Total Asset Value	10.8%
Unencumbered leverage ratio	60.0%	27.6%
Unencumbered implied debt service coverage ratio	1.20x	2.70x

(1) Leverage ratio is net indebtedness, as defined in the Credit Agreement, divided by total asset value, defined in the Credit Agreements as the value of our owned hotels based on hotel net operating income divided by a defined capitalization rate.
(2) Fixed charge coverage ratio is Adjusted EBITDA, generally defined in the Credit Agreements as EBITDA less FF&E reserves, for the most recently ending 12 months, to fixed charges, which is defined in the Credit Agreement as interest expense, all regularly scheduled principal payments and payments on capitalized lease obligations, for the same most recently ending 12-month period.

The components of the Company's interest expense consisted of the following (in thousands):

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Mortgage debt interest	$ 4,111	$ 6,057	$ 8,202	$ 12,090
Unsecured term loan interest	10,608	3,835	20,848	7,464
Credit facility interest and unused fees	317	1,845	630	3,152
Amortization of debt issuance costs and debt premium	512	658	1,026	1,310
Interest rate swap mark-to-market	19	(2,720)	2,033	(10,222)
	$ 15,567	$ 9,675	$ 32,739	$ 13,794

6. Derivatives

As of June 30, 2023 and December 31, 2022 the Company had the following derivatives that were designated as cash flow hedges of interest rate risk (in thousands):

Hedged Debt	Type	Fixed Rate	Index	Effective Date	Maturity Date	Notional Amount	Fair Value of Assets (Liabilities) June 30, 2023	Fair Value of Assets (Liabilities) December 31, 2022
Senior unsecured term loans	Swap (1)	2.21 %	SOFR	December 28, 2022	October 18, 2023	$ 87,500	3,275	3,979
Senior unsecured term loans	Swap (1)	2.21 %	SOFR	December 28, 2022	October 18, 2023	$ 87,500	3,272	3,976
Senior unsecured term loans	Swap (1)	1.63 %	SOFR	November 28, 2022	July 25, 2024	$ 25,000	228	517
Senior unsecured term loans	Swap (1)	1.63 %	SOFR	November 28, 2022	July 25, 2024	$ 25,000	227	515
Senior unsecured term loans	Swap	3.36 %	SOFR	March 1, 2023	January 1, 2028	$ 75,000	1,751	—
Senior unsecured term loans	Swap	3.50 %	SOFR	March 1, 2023	January 1, 2027	$ 75,000	1,584	—
							$ 10,337	$ 8,987

(1) Swap was designated as cash flow hedge as of April 1, 2023.

The Company’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

Derivative assets are included in prepaid expenses and other assets and derivative liabilities are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. The changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2023, such derivatives were used to hedge the variable cash flows associated with variable-rate debt. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s variable-rate debt.

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 table below details the location in the consolidated financial statements of the gains and losses recognized on derivative financial statements for the three months ended June 30, 2023 and 2022 (in thousands):

Effect of derivative instruments	*Location in Statements of Operations and Comprehensive Income*	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Gain recognized in other comprehensive income	Unrealized loss on interest rate derivative instruments	$ 3,467	$ —	$ 3,383	$ —
Interest income for derivatives that were designated as cash flow hedges	Interest expense	$ (2,395)	$ —	$ (2,542)	$ —
Interest expense (income) for derivatives that were not designated as cash flow hedges	Interest expense	$ —	$ (2,099)	$ 469	$ (8,643)

During the next twelve months, the Company estimates that $4.2 million will be reclassified from other comprehensive income as a decrease to interest expense.

7. Fair Value Measurements

The fair value of certain financial assets and liabilities and other financial instruments as of June 30, 2023 and December 31, 2022, in thousands, is as follows:

	June 30, 2023		December 31, 2022	
	Carrying Amount [(1)]	Fair Value	Carrying Amount [(1)]	Fair Value
Debt	$ 1,181,428	$ 1,153,773	$ 1,185,793	$ 1,148,533

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

8. 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 area as of June 30, 2023. 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 June 30, 2023, our operating leases have a weighted-average remaining lease term of 64 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 comprehensive income, and cash paid for amounts included in the measurement of lease liabilities, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating lease cost	$ 2,754	$ 2,787	$ 5,524	$ 5,573
Variable lease payments	$ 417	$ 533	$ 757	$ 763
Cash paid for amounts included in the measurement of operating lease liabilities	$ 978	$ 994	$ 1,961	$ 1,979

Maturities of lease liabilities as of June 30, 2023 are as follows (in thousands):

Year Ending December 31,	
2023 (excluding the six months ended June 30, 2023)	$ 1,963
2024	3,966
2025	4,026
2026	4,594
2027	4,737
Thereafter	752,819
Total lease payments	772,105
Less imputed interest	(660,872)
Total lease liabilities	$ 111,233

On April 20, 2023, we acquired the fee simple interest in a land parcel underlying the parking structure at the Worthington Renaissance Fort Worth Hotel, which had been subject to a ground lease, for $1.8 million.

9. Equity

Common Shares

We are authorized by our charter 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 maintain 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 $200.0 million. We have not sold any shares under the ATM Program.

Our board of directors has authorized a share repurchase program pursuant to which we are authorized to repurchase up to $200.0 million of our common stock through February 28, 2025. The timing and actual number of shares repurchased will depend on a variety of factors, including price and general business and market conditions. Under the share repurchase program, repurchases can be made from time to time using a variety of methods, including open market purchases or privately negotiated transactions, all in compliance with the rules of the United States Securities and Exchange Commission and other applicable legal requirements. The share repurchase program does not obligate us to acquire any particular amount of shares, and may be suspended or discontinued at any time at our discretion. During the six months ended June 30, 2023, we repurchased 318,454 shares of common stock at an average price of $7.60 per share for a total purchase price of $2.4 million. During the year ended December 31, 2022, we repurchased 1.6 million shares of common stock at an average price of $7.81 per share for a total purchase price of $12.3 million. As of August 4, 2023, we have $185.3 million of authorized capacity remaining under the share repurchase program.

Preferred Shares

We are authorized by our charter to issue up to 10 million 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.

As of June 30, 2023 and December 31, 2022, there were 4,760,000 shares of 8.250% Series A Cumulative Redeemable Preferred Stock (“Series A Preferred Stock”) issued and outstanding with a liquidation preference each of $25.00 per share. On or after August 31, 2025, the Series A Preferred Stock will be redeemable at the Company's option, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date.

Operating Partnership Units

In connection with our acquisition of Cavallo Point in December 2018, we issued 796,684 common OP units to third parties, otherwise unaffiliated with the Company, then valued 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 10 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 10 for additional disclosures related to LTIP units.

There were 746,508 and 719,542 common OP units held by unaffiliated third parties and executive officers of the Company as of June 30, 2023 and December 31, 2022, respectively. There were 328,354 and 98,050 unvested LTIP units outstanding as of June 30, 2023 and December 31, 2022, respectively.

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 2023 and through the date of this report:

Payment Date	Record Date	Dividend per Share
January 12, 2023	December 30, 2022	$ 0.06
April 12, 2023	March 31, 2023	$ 0.03
July 12, 2023	June 30, 2023	$ 0.03

We have paid the following dividends to holders of our Series A Preferred Stock during 2023 and through the date of this report:

Payment Date	Record Date	Dividend per Share
March 31, 2023	March 17, 2023	$ 0.515625
June 30, 2023	June 20, 2023	$ 0.515625

10. 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 5,735,185 shares as of June 30, 2023. In addition to these shares, additional shares of common stock could be issued in connection with the performance stock unit awards as further described below.

Restricted Stock Awards

Restricted stock awards issued to our officers and employees generally vest over a three to five year period from the date of 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 and comprehensive income. A summary of our restricted stock awards from January 1, 2023 to June 30, 2023 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2023	1,356,937	$ 9.47
Granted	247,762	8.94
Vested	(382,822)	9.60
Forfeited	(12,014)	9.16
Unvested balance at June 30, 2023	1,209,863	$ 9.32

The total unvested restricted stock awards as of June 30, 2023 are expected to vest as follows: 516,903 shares during 2024, 332,756 shares during 2025, 346,783 shares during 2026, 6,712 shares during 2027, and 6,709 shares during 2028. As of June 30, 2023, the unrecognized compensation cost related to restricted stock awards was $7.5 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 27 months. We recorded $1.0 million and $1.2 million of compensation expense related to restricted stock awards for each of the three months ended June 30, 2023 and 2022, respectively. We recorded $2.1 million and $2.0 million of compensation expense related to restricted stock awards for each of the six months ended June 30, 2023 and 2022, respectively.

Performance Stock Units

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

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 vesting period and is included in corporate expenses in the accompanying consolidated statements of operations and comprehensive income. 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. The determination of the grant-date fair values of outstanding awards based on our relative stockholder return included the following assumptions:

Award Grant Date	Volatility	Risk-Free Rate	Total Stockholder Return PSUs	Hotel Market Share PSUs
March 2, 2021	68.8%	0.26%	$9.28	$9.40
February 22, 2022	71.4%	1.74%	$9.84	$9.56
August 9, 2022	73.3%	3.20%	$9.65	$9.32
February 23, 2023	74.5%	4.40%	$9.22	$8.94

A summary of our PSUs from January 1, 2023 to June 30, 2023 is as follows:

	Number of Target Units	Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2023	950,653	$ 9.35
Granted	363,523	9.08
Additional units from dividends	10,322	$ 8.50
Vested [(1)]	(299,766)	9.01
Unvested balance at June 30, 2023	1,024,732	$ 9.35

(1) The number of shares of common stock earned for the PSUs vested in 2023 was equal to 103.36% of the PSU Target Award.

The total unvested PSUs as of June 30, 2023 are expected to vest as follows: 298,698 units during 2024, 325,718 units during 2025, 364,877 units during 2026, and 35,439 units during 2027. The number of shares earned upon vesting is subject to the attainment of the performance goals described above. As of June 30, 2023, the unrecognized compensation cost related to the PSUs was $5.6 million and is expected to be recognized on a straight-line basis over a weighted average period of 28 months. We recorded $0.8 million and $0.7 million of compensation expense related to the PSUs for the three months ended June 30, 2023 and 2022, respectively. We recorded $1.5 million and $0.9 million of compensation expense related to the PSUs for the six months ended June 30, 2023 and 2022, respectively

LTIP Units

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

A summary of our LTIP units from January 1, 2023 to June 30, 2023 is as follows:

	Number of Units		Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2023	98,050	$	9.39
Granted	257,270		8.94
Vested [(1)]	(26,966)		9.58
Unvested balance at June 30, 2023	328,354	$	9.02

(1) As of June 30, 2023, all vested LTIP units have achieved economic parity with common OP units and have been converted to common OP units.

The total unvested LTIP units as of June 30, 2023 are expected to vest as follows: 14,217 during 2023, 99,974 during 2024 and 2025, respectively, 99,973 during 2026, and 14,216 during 2027. As of June 30, 2023, the unrecognized compensation cost related to LTIP unit awards was $2.6 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 36 months. We recorded $0.2 million and $0.1 million of compensation expense related to LTIP unit awards for the three months ended June 30, 2023 and 2022, respectively. We recorded $0.4 million and $0.3 million of compensation expense related to LTIP unit awards for the six months ended June 30, 2023 and 2022, respectively.

11. Earnings Per Share

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023 6	2022
Numerator:				
Net income attributable to common stockholders	$ 36,511	$ 50,063	$ 43,213	$ 57,637
Dividends declared on unvested share-based compensation	—	—	—	—
Net income available to common stockholders	$ 36,511	$ 50,063	$ 43,213	$ 57,637
Denominator:				
Weighted-average number of common shares outstanding—basic	211,673,828	212,834,222	211,543,398	212,663,838
Effect of dilutive securities:				
Unvested restricted common stock	233,614	303,062	247,680	244,911
Shares related to unvested PSUs	254,508	383,422	301,512	370,425
Weighted-average number of common shares outstanding—diluted	212,161,950	213,520,706	212,092,590	213,279,174
Earnings per share:				
Earnings per share available to common stockholders—basic	$ 0.17	$ 0.24	$ 0.20	$ 0.27
Earnings per share available to common stockholders—diluted	$ 0.17	$ 0.23	$ 0.20	$ 0.27

The common OP units held by the noncontrolling interest holders have been excluded from the denominator of the diluted EPS 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 available to common stockholders.

12. Commitments and Contingencies

Litigation

We are subject to various claims, lawsuits and legal proceedings, including routine litigation arising in the ordinary course of business regarding the operation of our hotels and other 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 and comprehensive income. The outcome of claims, lawsuits and legal proceedings brought against the Company, however, is subject to significant uncertainties.

13. Subsequent Events

On August 1, 2023, we acquired the 117-room Chico Hot Springs Resort located in Pray, Montana for $33.0 million. The acquisition was funded with corporate cash. As of June 30, 2023, we had funded $1.5 million in purchase deposits for this acquisition.

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, 2022 as updated by our subsequent 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 rising inflation and interest rates, job loss or growth trends, an increase in unemployment or a decrease in corporate earnings and investment;*
- *increased competition in the lodging industry and from alternative lodging channels or third party internet intermediaries in the markets in which we own properties;*
- *failure to effectively execute our long-term business strategy and successfully identify and complete acquisitions and dispositions;*
- *risks and uncertainties affecting hotel management, operations and renovations (including, without limitation, rising inflation, construction delays, increased construction costs, disruption in hotel operations and the risks associated with our management and franchise agreements);*
- *risks associated with the availability and terms of financing and the use of debt to fund acquisitions and renovations or refinance existing indebtedness, including the impact of higher interest rates on the cost and/or availability of financing;*
- *risks associated with our level of indebtedness and our ability to satisfy our obligations under our debt agreements;*
- *risks associated with the lodging industry overall, including, without limitation, decreases in the frequency of travel and increases in operating costs;*
- *risks and uncertainties associated with our obligations under our management agreements and franschise agreements;*
- *risks associated with the increase in labor costs at our hotels;*
- *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 or any future pandemic, epidemic or outbreak of any other highly infectious disease on the U.S., regional and global economies, travel, the hospitality industry, and on our financial condition and results of operations and our hotels;*
- *costs of compliance with government regulations, including, without limitation, the Americans with Disabilities Act;*
- *potential liability for uninsured losses and environmental contamination;*
- *risks associated with security breaches through cyber-attacks or otherwise, as well as other significant disruptions of our and our hotel managers' information technologies and systems, which support our operations and those of our hotel managers;*
- *risks associated with our potential failure to maintain our qualification as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code");*
- *possible adverse changes in tax and environmental laws; and*
- *risks associated with our dependence on key personnel whose continued service is not guaranteed.*

Overview

DiamondRock Hospitality Company is a lodging-focused real estate company operating as a real estate investment trust ("REIT") for U.S. federal income tax purposes that owns a portfolio of premium hotels and resorts. As of June 30, 2023, we owned a portfolio of 35 premium hotels and resorts that contain 9,617 guest rooms located in 24 different markets in the United States.

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

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

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

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

Our Revenues and Expenses

Our revenue is primarily derived from hotel operations, including rooms revenue, food and beverage revenue and other revenue, which consists of parking, spa, resort fees, other guest services, and tenant leases, among other items.

Our operating costs and expenses consist of the costs to provide hotel services, including rooms expense, food and beverage expense, other departmental and support expenses, management and franchise fees, and other property-level expenses. Rooms expense includes housekeeping and front office wages and payroll taxes, room supplies, laundry services and other costs. Food and beverage expense primarily includes the cost of food, beverages and associated labor costs. Other departmental and support expenses include labor and other costs associated with the other operating department revenue, as well as labor and other costs associated with administrative departments, sales and marketing, information technology systems, repairs and maintenance and utility costs. Our hotels that are subject to franchise agreements are charged a royalty fee, plus additional fees for marketing, central reservation systems and other franchisor costs, in order for the hotel properties to operate under the respective brands. Franchise fees are based on a percentage of room revenue and for certain hotels additional franchise fees are charged for food and beverage revenue. We enter into management agreements with independent third-party management companies to operate our hotels. The management companies typically earn base and incentive management fees based on the levels of revenues and profitability of each individual hotel. Other property-level expenses include property taxes, insurance, ground lease expense, and other fixed costs.

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 ("ADR");
- Revenue per Available Room ("RevPAR");
- Earnings Before Interest, Income Taxes, Depreciation and Amortization ("EBITDA"), Earnings Before Interest, Income Taxes, Depreciation and Amortization for real estate ("EBITDA*re*"), and Adjusted EBITDA; and
- Funds From Operations ("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 67% of our total revenues for the six months ended June 30, 2023 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, increasing inflation, increasing interest rates, 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 success of our hotels' brands and managers.

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” for further discussion on these financial measures.

Our Hotels

The following tables set forth certain operating information for the six months ended June 30, 2023 for each of our hotels owned during the period.

Property	Location	Number of Rooms	Occupancy (%)	ADR ($)	RevPAR ($)	% Change from 2022 RevPAR[1]
Chicago Marriott Downtown Magnificent Mile	Chicago, Illinois	1,200	55.2 %	$ 243.61	$ 134.56	31.6 %
Westin Boston Seaport District	Boston, Massachusetts	793	81.6 %	239.76	195.76	20.8 %
Salt Lake City Marriott Downtown at City Creek	Salt Lake City, Utah	510	64.1 %	195.54	125.36	24.5 %
Worthington Renaissance Fort Worth Hotel	Fort Worth, Texas	504	76.6 %	197.81	151.51	14.8 %
Westin San Diego Bayview	San Diego, California	436	77.0 %	210.13	161.75	22.8 %
Westin Fort Lauderdale Beach Resort	Fort Lauderdale, Florida	433	80.8 %	307.21	248.15	(2.8)%
Westin Washington, D.C. City Center	Washington, D.C.	410	73.0 %	234.16	171.01	36.0 %
Hilton Boston Downtown/Faneuil Hall	Boston, Massachusetts	403	69.2 %	292.45	202.29	2.8 %
The Hythe Vail	Vail, Colorado	344	59.1 %	520.67	307.67	15.0 %
Courtyard New York Manhattan/Midtown East	New York, New York	321	90.2 %	292.46	263.73	24.7 %
Atlanta Marriott Alpharetta	Atlanta, Georgia	318	68.0 %	154.36	105.04	36.6 %
The Gwen Hotel	Chicago, Illinois	311	71.8 %	286.85	206.01	7.1 %
Hilton Garden Inn New York/Times Square Central	New York, New York	282	85.5 %	238.67	204.00	0.4 %
Embassy Suites by Hilton Bethesda	Bethesda, Maryland	272	70.9 %	165.60	117.35	78.9 %
Hilton Burlington Lake Champlain	Burlington, Vermont	258	71.1 %	208.51	148.29	9.1 %
Henderson Beach Resort	Destin, Florida	243	58.7 %	450.86	264.61	(18.2)%
Hotel Palomar Phoenix	Phoenix, Arizona	242	75.9 %	251.11	190.70	14.5 %
Bourbon Orleans Hotel	New Orleans, Louisiana	220	82.3 %	250.91	206.55	42.7 %
Hotel Clio	Denver, Colorado	199	68.0 %	313.65	213.28	10.9 %
Courtyard New York Manhattan/Fifth Avenue	New York, New York	189	94.1 %	254.77	239.68	15.6 %
Margaritaville Beach House Key West	Key West, Florida	186	87.6 %	444.25	388.99	(15.8)%
The Lodge at Sonoma Resort	Sonoma, California	182	59.9 %	435.66	260.85	(1.0)%
Courtyard Denver Downtown	Denver, Colorado	177	76.2 %	209.18	159.47	15.9 %
The Lindy Renaissance Charleston Hotel	Charleston, South Carolina	167	89.3 %	365.12	326.19	2.1 %
Kimpton Shorebreak Resort	Huntington Beach, California	157	79.5 %	316.01	251.10	(2.9)%
Cavallo Point, The Lodge at the Golden Gate	Sausalito, California	142	54.8 %	591.51	324.01	(12.4)%
Havana Cabana Key West	Key West, Florida	106	87.3 %	336.84	294.11	(14.0)%
Tranquility Bay Beachfront Resort	Marathon, Florida	103	77.0 %	735.05	565.82	(20.6)%
Hotel Emblem San Francisco	San Francisco, California	96	65.3 %	252.09	164.54	8.1 %
Kimpton Fort Lauderdale Beach Resort	Fort Lauderdale, Florida	96	76.4 %	242.58	185.27	(0.6)%
L'Auberge de Sedona	Sedona, Arizona	88	62.7 %	969.79	608.25	(22.9)%
The Landing Lake Tahoe Resort & Spa	South Lake Tahoe, California	82	40.8 %	379.67	155.02	(24.4)%
Orchards Inn Sedona	Sedona, Arizona	70	64.7 %	297.81	192.81	(13.4)%
Lake Austin Spa Resort	Austin, Texas	40	61.3 %	1,110.65	680.96	(16.2)%
Henderson Park Inn	Destin, Florida	37	65.0 %	615.29	399.75	(18.2)%
TOTAL/WEIGHTED AVERAGE		9,617	71.8 %	$ 286.47	$ 205.73	7.2 %

(1) The percentage change from 2022 RevPAR reflects the comparable period in 2022 to our 2023 ownership period for our 2022 acquisitions.

Results of Operations

At June 30, 2023 and 2022, we owned 34 and 35 hotels, respectively. All properties owned during these periods have been included in our results of operations during the respective periods since their date of acquisition. Based on when a property was acquired, operating results for certain properties are not comparable for the three and six months ended June 30, 2023 and 2022. The properties detailed in the table below are hereinafter referred to as "non-comparable properties" and all other properties are referred to as "comparable properties":

Property	Location	Acquisition Date
Tranquility Bay Beachfront Resort	Marathon, Florida	January 6, 2022
Kimpton Fort Lauderdale Beach Resort	Fort Lauderdale, Florida	April 1, 2022
Lake Austin Spa Resort	Austin, Texas	November 21, 2022

Comparison of the Three Months Ended June 30, 2023 to the Three Months Ended June 30, 2022

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 June 30,		Change	
	2023	2022	$	%
Rooms	$ 197.3	$ 193.0	$ 4.3	2.2 %
Food and beverage	68.4	68.6	(0.2)	(0.3)%
Other	25.5	19.8	5.7	28.8 %
Total revenues	$ 291.2	$ 281.4	$ 9.8	3.5 %

Rooms revenues increased by $4.3 million from the three months ended June 30, 2022 to the three months ended June 30, 2023, $2.7 million of which was due to non-comparable properties. The remaining increase of $1.6 million was the result of improved occupancy and ADR at our urban hotels as group and corporate business continued to improve, partially offset by declines in occupancy and ADR at our resort hotels due to the normalizing of leisure demand.

The following are key hotel operating statistics for the three months ended June 30, 2023 and 2022. The 2022 operating statistics reflect the period in 2022 comparable to our ownership period in 2023 for hotels acquired in 2022.

	Three Months Ended June 30,		
	2023	2022	% Change
Occupancy %	76.7 %	74.8 %	1.9 %
ADR	$ 293.87	$ 300.12	(2.1)%
RevPAR	$ 225.47	$ 224.49	0.4 %

Food and beverage revenues decreased $0.2 million from the three months ended June 30, 2022 to the three months ended June 30, 2023, primarily due to non-comparable properties. Food and beverage revenues at our comparable properties were flat to 2022.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by $5.7 million from the three months ended June 30, 2022 to the three months ended June 30, 2023, $3.1 million of which was due to non-comparable properties. The remaining increase of $2.6 million was primarily due to increases in attrition and cancellation revenue, resort fees, and parking revenues at our comparable properties.

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

	Three Months Ended June 30,		Change	
	2023	2022	$	%
Rooms	45,116	42,645	2,471	5.8 %
Food and beverage	45,908	43,471	2,437	5.6 %
Other departmental and support expenses	65,445	59,521	5,924	10.0 %
Management fees	6,885	6,312	573	9.1 %
Franchise fees	9,403	8,693	710	8.2 %
Other property-level expenses	26,934	20,977	5,957	28.4 %
Total hotel operating expenses	$ 199,691	$ 181,619	$ 18,072	10.0 %

Our hotel operating expenses increased $18.1 million from the three months ended June 30, 2022 to the three months ended June 30, 2023, $4.1 million of which was due to non-comparable properties. The remaining increase in hotel operating expenses was primarily due to increased staffing levels, wage rates and benefit costs. Other property-level expenses increased due to increases in property taxes and insurance premiums.

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 increased $0.5 million, or 1.6%, from the three months ended June 30, 2022 primarily due to properties acquired during 2022.

Impairment losses. During the three months ended June 30, 2023, we recorded an impairment loss of $0.9 million related to the write-off of construction in progress that was determined not to be recoverable. No impairment loss was recorded during the three months ended June 30, 2022.

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 $0.4 million, or 4.6%, from $8.7 million for the three months ended June 30, 2022 to $8.3 million for the three months ended June 30, 2023, primarily due to decreases in legal and other professional fees.

Business interruption insurance income. During the three months ended June 30, 2023, we recognized $0.1 million of business interruption insurance income related to an insurance claim at the Worthington Renaissance Fort Worth Hotel. No business interruption insurance income was recorded during the three months ended June 30, 2022.

Interest expense. Our interest expense increased $5.9 million, from $9.7 million for the three months ended June 30, 2022 to $15.6 million for the three months ended June 30, 2023, and was comprised of the following (in millions):

	Three Months Ended June 30,	
	2023	2022
Mortgage debt interest	$ 4.1	$ 6.1
Unsecured term loan interest	10.6	3.8
Credit facility interest and unused fees	0.3	1.9
Amortization of debt issuance costs and debt premium	0.6	0.6
Interest rate swap mark-to-market	—	(2.7)
	$ 15.6	$ 9.7

The increase in interest expense is primarily related to rising interest rates on our variable rate debt, our unsecured term loans that we entered into in September 2022 and the conversion of certain of our interest rate swaps to cash flow hedges during the three months ended June 30, 2023.

Comparison of the Six Months Ended June 30, 2023 to the Six Months Ended June 30, 2022

Our results of operations for the six months ended June 30, 2023 improved relative to the six months ended June 30, 2022 as group and corporate travel demand increased.

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

	Six Months Ended June 30,		Change	
	2023	2022	$	%
Rooms	$ 358.0	$ 325.2	$ 32.8	10.1 %
Food and beverage	128.1	114.4	13.7	12.0 %
Other	48.7	38.6	10.1	26.2 %
Total revenues	$ 534.8	$ 478.2	$ 56.6	11.8 %

Rooms revenues increased by $32.8 million from the six months ended June 30, 2022 to the six months ended June 30, 2023, $7.0 million of which was due to non-comparable properties. The remaining increase of $25.8 million was the result of improved occupancy and ADR at our urban hotels as group and corporate business continued to improve, partially offset by declines in occupancy and ADR at our resort hotels due to the normalizing of leisure demand.

The following are key hotel operating statistics for the six months ended June 30, 2023 and 2022. The 2022 operating statistics reflect the period in 2022 comparable to our ownership period in 2023 for hotels acquired in 2022.

	Six Months Ended June 30,				
	2023		2022		% Change
Occupancy %		71.8 %		65.5 %	6.3 %
ADR	$	286.47	$	293.14	(2.3)%
RevPAR	$	205.73	$	191.99	7.2 %

Food and beverage revenues increased $13.7 million from the six months ended June 30, 2022 to the six months ended June 30, 2023, of which $1.1 million was due to non-comparable properties. The remaining increase of $12.6 million was primarily due to an increase in banquet revenues, particularly at our urban hotels.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by $10.1 million from the six months ended June 30, 2022 to the six months ended June 30, 2023, $6.0 million of which was due to non-comparable properties. The remaining increase of $4.1 million was primarily due to increases in resort fees and parking revenues.

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

	Six Months Ended June 30,		Change	
	2023	2022	$	%
Rooms	85,319	76,475	8,844	11.6 %
Food and beverage	89,058	76,692	12,366	16.1 %
Other departmental and support expenses	127,413	108,058	19,355	17.9 %
Management fees	11,873	10,332	1,541	14.9 %
Franchise fees	17,480	14,503	2,977	20.5 %
Other property-level expenses	51,051	42,949	8,102	18.9 %
Total hotel operating expenses	$ 382,194	$ 329,009	$ 53,185	16.2 %

Our hotel operating expenses increased $53.2 million from the six months ended June 30, 2022 to the six months ended June 30, 2023, $10.2 million of which was due to non-comparable properties. Hotel operating expenses at our comparable properties increased primarily due to higher occupancy levels, increased staffing and the related labor costs. Other property-level expenses increased due to increases in property taxes and insurance premiums.

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 increased $1.3 million, or 2.3%, from the six months ended June 30, 2022 primarily due to the acquisition of two properties in 2022, as well as the renovations and rebrandings that were completed in 2022.

Impairment losses. During the six months ended June 30, 2023, we recorded an impairment loss of $0.9 million related to the write-off of construction in progress that was determined not to be recoverable. During the six months ended June 30, 2022, we recorded an impairment loss of $2.8 million on the right-to-manage intangible asset related to rental management agreements at Tranquility Bay Beachfront Resort upon the acquisition of four third-party owned units.

Corporate expenses. Corporate expenses principally consist of employee-related costs, including base payroll, bonus, restricted stock and severance. Corporate expenses also include corporate operating costs, professional fees and directors' fees. Our corporate expenses increased $1.4 million, or 9.5%, from $14.8 million for the six months ended June 30, 2022 to $16.2 million for the six months ended June 30, 2023, primarily due to increases in employee-related costs partially offset by a decrease in professional fees. Additionally, during the six months ended June 30, 2022, we recognized the reversal of compensation expense resulting from the forfeiture of long-term incentive awards related to the resignation of our former Executive Vice President, Asset Management and Chief Operating Officer.

Business interruption insurance income. During the six months ended June 30, 2023, we recognized $0.1 million of business interruption insurance income related to an insurance claim at the Worthington Renaissance Fort Worth Hotel. During the six months ended June 30, 2022, we recognized $0.5 million of business interruption insurance income related to the impact of the Caldor wildfire at The Landing Lake Tahoe Resort & Spa, which caused the hotel to be closed for 21 days in 2021.

Interest expense. Our interest expense increased $18.9 million, from $13.8 million for the six months ended June 30, 2022 to $32.7 million for the six months ended June 30, 2023, and was comprised of the following (in millions):

	Six Months Ended June 30,			
	2023		2022	
Mortgage debt interest	$	8.2	$	12.1
Unsecured term loan interest		20.9		7.4
Credit facility interest and unused fees		0.6		3.2
Amortization of debt issuance costs and debt premium		1.0		1.3
Interest rate swap mark-to-market		2.0		(10.2)
	$	32.7	$	13.8

The increase in interest expense is primarily related to rising interest rates on our variable rate debt, our unsecured term loans that we entered into in September 2022 and the change in the fair value of certain of our interest rate swaps not designated as cash flow hedges, which were designated as cash flow hedges as of April 1, 2023.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds necessary to pay our scheduled debt service, operating expenses, ground lease payments, capital expenditures directly associated with our hotels, any share repurchases, distributions to our common and preferred stockholders, and the cost of acquiring additional hotels. One of our mortgage loans matures within one year. The principal balance of this mortgage loan is $75.3 million as of June 30, 2023. We intend to repay mortgage debt using cash flow from operations or available capacity on our senior unsecured credit facility, which is sufficient to meet the principal due within the next twelve months. On August 1, 2023, we acquired the 117-room Chico Hot Springs Resort located in Pray, Montana for $33.0 million. As of June 30, 2023, we had funded $1.5 million in deposits for this acquisition. The remainder of the acquisition price was funded at closing with corporate cash.

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 June 30, 2023, we had no cash traps in place.

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, certain redemption of limited operating partnership units (“common OP units”), ground lease payments, share repurchases, 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 our 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 us.

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 periodic borrowings on our senior unsecured credit facility. We have a preference to maintain a significant portion of our portfolio as unencumbered assets in order to provide balance sheet flexibility. We expect that our strategy will enable us to maintain a balance sheet with an appropriate amount of debt throughout all phases of the lodging cycle. We believe that it is prudent to reduce the inherent risk of highly cyclical lodging fundamentals through a low leveraged capital structure.

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

We believe that we maintain a reasonable amount of debt. As of June 30, 2023, we had $1.2 billion of debt outstanding with a weighted average interest rate of 4.88% and a weighted average maturity date of approximately 2.9 years. We have limited near-term mortgage debt maturities and 31 of our 35 hotels are unencumbered by mortgage debt. We remain committed to our core strategy of prudent leverage.

Information about our financing activities is available in Note 5 to the accompanying consolidated financial statements.

ATM Program

We maintain 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 $200.0 million. We have not sold any shares under the ATM Program.

Share Repurchase Program

Our board of directors has authorized a share repurchase program pursuant to which we are authorized to repurchase up to $200.0 million of our common stock through February 2025. During the six months ended June 30, 2023, we repurchased 318,454 shares of common stock at an average price of $7.60 per share for a total purchase price of $2.4 million.

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 Sixth Amended and Restated Credit Agreement that provides us with a $400 million senior unsecured revolving credit facility and two term loan facilities in the aggregate amount of $800 million. The revolving credit facility matures on September 27, 2026, which we may extend for an additional year upon the payment of applicable fees and satisfaction of certain standard conditions. The term loan facilities consist of a $500 million term loan that matures on January 3, 2028 and a $300 million term loan that matures on January 3, 2025. The maturity date of the $300 million term loan may be extended for an additional year upon the payment of applicable fees and satisfaction of certain standard conditions. We have the right to increase the aggregate amount of the facilities to $1.4 billion upon the satisfaction of certain standard conditions.

Additional information about the credit facilities, including a summary of significant covenants, can be found in Note 5 to the accompanying consolidated financial statements.

Sources and Uses of Cash

We expect that our principal sources of cash will include one or more of the following: net cash flow from hotel operations, sales of our equity and debt securities, debt financings and proceeds from any hotel dispositions. Our principal uses of cash are acquisitions of hotel properties, debt service and maturities, share repurchases, capital expenditures, operating costs, ground lease payments, corporate expenses, and distributions to holders of common stock, common units and preferred stock. As of June 30, 2023, we had $98.6 million of unrestricted cash, $37.5 million of restricted cash and no outstanding borrowings on our senior unsecured credit facility.

Our net cash provided by operations was $114.4 million for the six months ended June 30, 2023. 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 $51.3 million for the six months ended June 30, 2023, which consisted of $47.9 million of capital expenditures at our hotels, $1.8 million of cash paid for the acquisition of a land parcel underlying the parking structure at the Worthington Renaissance Fort Worth Hotel, and $1.5 million paid in purchase deposits for the acquisition of Chico Hot Springs Resort, which closed on August 1, 2023.

Our net cash used in financing activities was $34.3 million for the six months ended June 30, 2023, which consisted of $19.2 million of distributions paid to holders of common stock and common units, $4.9 million of distributions paid to holders of preferred stock, $4.7 million of scheduled mortgage debt principal payments, $3.0 million of shares repurchased for the payment of tax withholding obligations upon the vesting of restricted stock and $2.4 million of shares repurchased under our share repurchase program.

We currently anticipate our significant sources of cash for the remainder of the year ending December 31, 2023 will be the net cash flow from hotel operations. We expect our estimated uses of cash for the remainder of the year ending December 31, 2023 will be scheduled debt service payments, capital expenditures, distributions to preferred and common stockholders, corporate expenses, and potential share repurchases.

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 taxable REIT subsidiaries, which are all subject to tax at regular corporate rates) and to qualify for the tax benefits afforded to REITs under the Code. In order to qualify as a REIT under the Code, we generally must make distributions to our stockholders each year in an amount equal to at least:

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

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

We have paid the following dividends to holders of our common stock and distributions to holders of common OP units and LTIP units during 2023, and through the date of this report:

Payment Date	Record Date	Dividend per Share
January 12, 2023	December 30, 2022	$ 0.06
April 12, 2023	March 31, 2023	$ 0.03
July 12, 2023	June 30, 2023	$ 0.03

We have paid the following dividends per share to holders of our Series A Preferred Stock during 2023, and through the date of this report:

Payment Date	Record Date	Dividend per Share
March 31, 2023	March 17, 2023	$ 0.515625
June 30, 2023	June 20, 2023	$ 0.515625

Capital Expenditures

The management and franchise agreements for each of our hotels provide for the establishment of separate property improvement funds to cover, among other things, the cost of replacing and repairing furniture, fixtures and equipment at our hotels and other routine capital expenditures. Contributions to the property improvement fund are calculated as a percentage of hotel revenues. In addition, we may be required to pay for the cost of certain additional improvements that are not permitted to be funded from the property improvement fund under the applicable management or franchise agreement. As of June 30, 2023, we have set aside $32.6 million for capital projects in property improvement funds, which are included in restricted cash.

In 2023, we expect to spend $100 million to $115 million on capital improvements at our hotels, of which we have invested approximately $47.9 million during the six months ended June 30, 2023. Significant projects in 2023 include the following:

- ***Hilton Boston Downtown/Faneuil Hall:*** We completed a comprehensive renovation to rebrand the hotel as The Dagny, an independent lifestyle hotel.
- ***Salt Lake City Marriott:*** We are in the process of completing a renovation of the guestrooms, which is expected to be completed in the third quarter of 2023.
- ***Hilton Burlington Lake Champlain:*** We commenced a repositioning of the hotel to rebrand it as a Curio Collection hotel. The repositioning is expected to be completed in the first quarter of 2024 and includes a new restaurant concept by a well-known, award-winning chef.

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 performance. Our reconciliations to the most comparable U.S. GAAP financial measures, and our consolidated statements of operations and comprehensive income 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, EBITDA**re** ***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 EBITDA*re* 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." EBITDA*re* 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 EBITDA*re* of unconsolidated affiliates.

We believe EBITDA and EBITDA*re* 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 EBITDA*re*, 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 EBITDA*re* as measures in determining the value of hotel acquisitions and dispositions.

The Company computes FFO in accordance with standards established by 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 EBITDA*re* 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, EBITDA*re* and FFO, is beneficial to an investor's complete understanding of our consolidated operating performance. We adjust EBITDA*re* and FFO for the following items:

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	$ 39,134	$ 52,701	$ 48,322	$ 62,761
Interest expense	15,567	9,675	32,739	13,794
Income tax expense	422	691	196	637
Real estate related depreciation and amortization	27,840	27,389	55,312	54,044
EBITDA	82,963	90,456	136,569	131,236
Impairment losses	941	—	941	2,843
EBITDA*re*	83,904	90,456	137,510	134,079
Non-cash lease expense and other amortization	1,537	1,556	3,087	3,124
Hotel pre-opening costs	326	—	542	—
Hotel manager transition items	—	(13)	—	236
Severance costs [1]	—	—	—	(532)
Adjusted EBITDA	$ 85,767	$ 91,999	$ 141,139	$ 136,907

(1) Consists of severance costs incurred, or adjustments thereto, associated with the elimination of positions at our hotels, which are classified within other hotel expenses on the consolidated statements of operations and comprehensive income.

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

	Three Months Ended June 30,			Six Months Ended June 30,	
	2023	2022		2023	2022
Net income	$ 39,134	$ 52,701		48,322	$ 62,761
Real estate related depreciation and amortization	27,840	27,389		55,312	54,044
Impairment losses	941	—		941	2,843
FFO	67,915	80,090		104,575	119,648
Distributions to preferred stockholders	(2,454)	(2,454)		(4,908)	(4,908)
FFO available to common stock and unit holders	65,461	77,636		99,667	114,740
Non-cash lease expense and other amortization	1,537	1,556		3,087	3,124
Hotel pre-opening costs	326	—		542	—
Hotel manager transition items	—	(13)		—	236
Severance costs [1]	—	—		—	(532)
Fair value adjustments to interest rate swaps	19	(2,720)		2,033	(10,222)
Adjusted FFO available to common stock and unit holders	$ 67,343	$ 76,459	$—	$ 105,329	$ 107,346

(1) Consists of severance costs incurred, or adjustments thereto, associated with the elimination of positions at our hotels, which are classified within other hotel expenses on the consolidated statements of operations and comprehensive income.

Critical Accounting Estimates and Policies

Our unaudited consolidated financial statements include the accounts of DiamondRock Hospitality Company and all consolidated subsidiaries. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We evaluate our estimates and judgments, including those related to the impairment of long-lived assets, on an ongoing basis. We base our estimates on experience and on various assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies are disclosed in the notes to our consolidated financial statements. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022. The following represent certain critical accounting policies that require us to exercise our business judgment or make significant estimates:

Investment in Hotels

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

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

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

Inflation

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Generally, our management companies may adjust room rates daily, excluding previous contractually committed reservations. However, competitive pressures or other factors may limit the ability of our management companies to raise room rates. Inflation may also affect our expenses and cost of capital improvements, including, without limitation, by increasing the costs of labor, employee-related benefits, food, commodities and other materials, taxes, property and casualty insurance and utilities.

Inflation has increased recently to levels not seen in years. The United States Federal Reserve has raised, and may continue to raise, interest rates in response to concerns about inflation. Increases in interest rates, especially if coupled with reduced government spending and volatility in financial markets, may have the effect of further increasing economic uncertainty, and increasing the cost of new indebtedness and servicing our outstanding variable debt.

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

See Note 2 to the accompanying consolidated financial statements for additional information relating to recently issued accounting pronouncements.

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 June 30, 2023 was $1.2 billion, of which $425.0 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 $4.5 million annually.

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

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

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

(a) None.

(b) Not applicable.

(c) 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)
April 1 - April 30, 2023	—	$ —	—	$ 187,335
May 1 - May 31, 2023	—	$ —	—	$ 187,335
June 1 - June 30, 2023	262,054	$ 7.67	262,054	$ 185,324

(1) Represents amounts available under the Company's $200.0 million share repurchase program approved by the board of directors on September 29, 2022. The share repurchase program does not obligate the Company to acquire any particular amount of shares, and the share repurchase program may be suspended or discontinued at any time at the Company’s discretion. The share repurchase program expires on February 28, 2025.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended June 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, terminated or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

Item 6. Exhibits

(a) *Exhibits*

The following exhibits are filed, or furnished as indicated, as part of this Form 10-Q:

Exhibit	
3.1	Fifth Amendment and Restated Bylaws of DiamondRock Hospitality *(incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 1, 2023)*
31.1*	Certification of Chief Executive Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
31.2*	Certification of Chief Financial Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
32.1**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)

* Filed herewith
** Furnished herewith

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

August 4, 2023

/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)

Exhibit 31.1

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: August 4, 2023

/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: August 4, 2023

/s/ Jeffrey J. Donnelly

Jeffrey J. Donnelly

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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	/s/ Jeffrey J. Donnelly
Mark W. Brugger	Jeffrey J. Donnelly
Chief Executive Officer	Executive Vice President and Chief Financial Officer
August 4, 2023	August 4, 2023