
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from _____ to _____

Commission File Number 001-35169

RLJ LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

27-4706509

(I.R.S. Employer Identification No.)

3 Bethesda Metro Center, Suite 1000

Bethesda, Maryland

(Address of Principal Executive Offices)

20814

(Zip Code)

(301) 280-7777

(Registrant's Telephone Number, Including Area Code)

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

<u>Title of Class</u>	<u>Trading Symbol</u>	<u>Name of Exchange on Which Registered</u>
Common Shares of beneficial interest, par value \$0.01 per share	RLJ	New York Stock Exchange
\$1.95 Series A Cumulative Convertible Preferred Shares, par value \$0.01 per share	RLJ-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, 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 provided 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

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

As of October 29, 2020, 165,021,844 common shares of beneficial interest of the Registrant, \$0.01 par value per share, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RLJ Lodging Trust
Consolidated Balance Sheets
(Amounts in thousands, except share and per share data)
(unaudited)

	September 30, 2020	December 31, 2019
Assets		
Investment in hotel properties, net	\$ 4,519,443	\$ 4,614,966
Investment in unconsolidated joint ventures	7,056	15,171
Cash and cash equivalents	995,963	882,474
Restricted cash reserves	42,686	44,686
Hotel and other receivables, net of allowance of \$366 and \$251, respectively	14,302	39,762
Lease right-of-use assets	140,283	144,358
Deferred income tax asset, net	—	51,447
Prepaid expense and other assets	26,768	58,536
Total assets	\$ 5,746,501	\$ 5,851,400
Liabilities and Equity		
Debt, net	\$ 2,590,331	\$ 2,195,707
Accounts payable and other liabilities	205,730	183,408
Advance deposits and deferred revenue	37,287	57,459
Lease liabilities	119,192	121,154
Accrued interest	13,150	3,024
Distributions payable	8,743	64,165
Total liabilities	2,974,433	2,624,917
Commitments and Contingencies (Note 11)		
Equity		
Shareholders' equity:		
Preferred shares of beneficial interest, \$0.01 par value, 50,000,000 shares authorized		
Series A Cumulative Convertible Preferred Shares, \$0.01 par value, 12,950,000 shares authorized; 12,879,475 shares issued and outstanding, liquidation value of \$328,266, at September 30, 2020 and December 31, 2019	366,936	366,936
Common shares of beneficial interest, \$0.01 par value, 450,000,000 shares authorized; 165,022,236 and 169,852,246 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	1,650	1,699
Additional paid-in capital	3,073,915	3,127,982
Accumulated other comprehensive loss	(76,964)	(19,514)
Distributions in excess of net earnings	(615,283)	(274,769)
Total shareholders' equity	2,750,254	3,202,334
Noncontrolling interest:		
Noncontrolling interest in consolidated joint ventures	13,513	14,065
Noncontrolling interest in the Operating Partnership	8,301	10,084
Total noncontrolling interest	21,814	24,149
Total equity	2,772,068	3,226,483
Total liabilities and equity	\$ 5,746,501	\$ 5,851,400

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

RLJ Lodging Trust
Consolidated Statements of Operations and Comprehensive (Loss) Income
(Amounts in thousands, except share and per share data)
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Revenues				
Operating revenues				
Room revenue	\$ 72,545	\$ 314,195	\$ 319,290	\$ 1,030,722
Food and beverage revenue	3,831	39,447	35,870	133,151
Other revenue	7,556	17,482	26,845	55,245
Total revenues	<u>83,932</u>	<u>371,124</u>	<u>382,005</u>	<u>1,219,118</u>
Expenses				
Operating expenses				
Room expense	22,368	80,650	98,590	253,736
Food and beverage expense	3,167	31,425	31,348	101,544
Management and franchise fee expense	2,630	26,432	17,947	96,376
Other operating expense	49,398	90,048	168,288	288,761
Total property operating expenses	77,563	228,555	316,173	740,417
Depreciation and amortization	48,375	49,295	146,777	162,654
Property tax, insurance and other	25,315	28,798	79,356	90,595
General and administrative	9,313	11,262	32,754	34,187
Transaction costs	(116)	(211)	(86)	773
Total operating expenses	<u>160,450</u>	<u>317,699</u>	<u>574,974</u>	<u>1,028,626</u>
Other income	334	315	1,193	939
Interest income	284	2,691	3,829	4,935
Interest expense	(25,984)	(23,333)	(73,591)	(68,632)
Gain (loss) on sale of hotel properties, net	391	(1,037)	485	(25,872)
(Loss) income before equity in loss from unconsolidated joint ventures	(101,493)	32,061	(261,053)	101,862
Equity in loss from unconsolidated joint ventures	(7,806)	(135)	(8,196)	(2,919)
(Loss) income before income tax (expense) benefit	(109,299)	31,926	(269,249)	98,943
Income tax (expense) benefit	(64,620)	529	(51,665)	(4,475)
Net (loss) income	<u>(173,919)</u>	<u>32,455</u>	<u>(320,914)</u>	<u>94,468</u>
Net (income) loss attributable to noncontrolling interests:				
Noncontrolling interest in consolidated joint ventures	(21)	104	1,816	360
Noncontrolling interest in the Operating Partnership	839	(96)	1,599	(329)
Preferred distributions - consolidated joint venture	—	—	—	(186)
Redemption of preferred equity - consolidated joint venture	—	—	—	(1,153)
Net (loss) income attributable to RLJ	<u>(173,101)</u>	<u>32,463</u>	<u>(317,499)</u>	<u>93,160</u>
Preferred dividends	(6,279)	(6,279)	(18,836)	(18,836)
Net (loss) income attributable to common shareholders	<u>\$ (179,380)</u>	<u>\$ 26,184</u>	<u>\$ (336,335)</u>	<u>\$ 74,324</u>
Basic per common share data:				
Net (loss) income per share attributable to common shareholders	<u>\$ (1.10)</u>	<u>\$ 0.15</u>	<u>\$ (2.04)</u>	<u>\$ 0.43</u>
Weighted-average number of common shares	<u>163,609,865</u>	<u>170,495,699</u>	<u>164,763,540</u>	<u>171,976,429</u>

Diluted per common share data:

Net (loss) income per share attributable to common shareholders	\$ (1.10)	\$ 0.15	\$ (2.04)	\$ 0.43
Weighted-average number of common shares	<u>163,609,865</u>	<u>170,600,787</u>	<u>164,763,540</u>	<u>172,066,473</u>

Comprehensive (loss) income:

Net (loss) income	\$ (173,919)	\$ 32,455	\$ (320,914)	\$ 94,468
Unrealized gain (loss) on interest rate derivatives	5,609	(5,679)	(57,450)	(41,460)
Reclassification of unrealized gain on discontinued cash flow hedges to interest expense	—	—	—	(2,250)
Comprehensive (loss) income	<u>(168,310)</u>	<u>26,776</u>	<u>(378,364)</u>	<u>50,758</u>
Comprehensive (income) loss attributable to noncontrolling interests:				
Noncontrolling interest in consolidated joint ventures	(21)	104	1,816	360
Noncontrolling interest in the Operating Partnership	839	(96)	1,599	(329)
Preferred distributions - consolidated joint venture	—	—	—	(186)
Redemption of preferred equity - consolidated joint venture	—	—	—	(1,153)
Comprehensive (loss) income attributable to RLJ	<u>\$ (167,492)</u>	<u>\$ 26,784</u>	<u>\$ (374,949)</u>	<u>\$ 49,450</u>

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

RLJ Lodging Trust
Consolidated Statements of Changes in Equity
(Amounts in thousands, except share data)
(unaudited)

	Shareholders' Equity					Noncontrolling Interest				
	Preferred Stock		Common Stock			Distributions in excess of net earnings	Accumulated Other Comprehensive Loss	Operating Partnership	Consolidated Joint Ventures	Total Equity
	Shares	Amount	Shares	Par Value	Additional Paid-in Capital					
Balance at December 31, 2019	12,879,475	\$366,936	169,852,246	\$1,699	\$3,127,982	\$ (274,769)	\$ (19,514)	\$ 10,084	\$ 14,065	\$3,226,483
Net loss	—	—	—	—	—	(317,499)	—	(1,599)	(1,816)	(320,914)
Unrealized loss on interest rate derivatives	—	—	—	—	—	—	(57,450)	—	—	(57,450)
Redemption of Operating Partnership units	—	—	—	—	—	—	—	(8)	—	(8)
Contributions from consolidated joint venture partners	—	—	—	—	—	—	—	—	1,264	1,264
Issuance of restricted stock	—	—	801,463	8	(8)	—	—	—	—	—
Amortization of share-based compensation	—	—	—	—	9,934	—	—	—	—	9,934
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	—	—	(133,704)	(1)	(1,444)	—	—	—	—	(1,445)
Shares acquired as part of a share repurchase program	—	—	(5,489,335)	(56)	(62,549)	—	—	—	—	(62,605)
Forfeiture of restricted stock	—	—	(8,434)	—	—	—	—	—	—	—
Distributions on preferred shares	—	—	—	—	—	(18,836)	—	—	—	(18,836)
Distributions on common shares and units	—	—	—	—	—	(4,179)	—	(176)	—	(4,355)
Balance at September 30, 2020	<u>12,879,475</u>	<u>\$366,936</u>	<u>165,022,236</u>	<u>\$1,650</u>	<u>\$3,073,915</u>	<u>\$ (615,283)</u>	<u>\$ (76,964)</u>	<u>\$ 8,301</u>	<u>\$ 13,513</u>	<u>\$2,772,068</u>

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

RLJ Lodging Trust
Consolidated Statements of Changes in Equity
(Amounts in thousands, except share data)
(unaudited)

	Shareholders' Equity						Noncontrolling Interest			Total Equity
	Preferred Stock		Common Stock				Accumulated Other Comprehensive Loss	Operating Partnership	Consolidated Joint Ventures	
	Shares	Amount	Shares	Par Value	Additional Paid-in Capital	Distributions in excess of net earnings				
Balance at June 30, 2020	12,879,475	\$366,936	165,092,953	\$1,651	\$3,071,063	\$ (434,242)	\$ (82,573)	\$ 9,144	\$ 13,492	\$2,945,471
Net loss (income)	—	—	—	—	—	(173,101)	—	(839)	21	(173,919)
Unrealized gain on interest rate derivatives	—	—	—	—	—	—	5,609	—	—	5,609
Amortization of share-based compensation	—	—	—	—	3,447	—	—	—	—	3,447
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	—	—	(70,717)	(1)	(595)	—	—	—	—	(596)
Distributions on preferred shares	—	—	—	—	—	(6,279)	—	—	—	(6,279)
Distributions on common shares and units	—	—	—	—	—	(1,661)	—	(4)	—	(1,665)
Balance at September 30, 2020	<u>12,879,475</u>	<u>\$366,936</u>	<u>165,022,236</u>	<u>\$1,650</u>	<u>\$3,073,915</u>	<u>\$ (615,283)</u>	<u>\$ (76,964)</u>	<u>\$ 8,301</u>	<u>\$ 13,513</u>	<u>\$2,772,068</u>

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

RLJ Lodging Trust
Consolidated Statements of Changes in Equity
(Amounts in thousands, except share data)
(unaudited)

	Shareholders' Equity							Noncontrolling Interest			Total Equity
	Preferred Stock		Common Stock					Operating Partnership	Consolidated Joint Ventures	Preferred Equity in a Consolidated Joint Venture	
	Shares	Amount	Shares	Par Value	Additional Paid-in Capital	Distributions in excess of net earnings	Accumulated Other Comprehensive Income (Loss)				
Balance at December 31, 2018	12,879,475	\$366,936	174,019,616	\$1,740	\$3,195,381	\$ (150,476)	\$ 16,195	\$ 10,827	\$ 11,908	\$ 44,430	\$3,496,941
Net income (loss)	—	—	—	—	—	93,160	—	329	(360)	1,339	94,468
Unrealized loss on interest rate derivatives	—	—	—	—	—	—	(41,460)	—	—	—	(41,460)
Reclassification of unrealized gain on discontinued cash flow hedges to interest expense	—	—	—	—	—	—	(2,250)	—	—	—	(2,250)
Redemption of Operating Partnership units	—	—	—	—	—	—	—	(9)	—	—	(9)
Contributions from consolidated joint venture partners	—	—	—	—	—	—	—	—	2,446	—	2,446
Issuance of restricted stock	—	—	530,436	5	(5)	—	—	—	—	—	—
Amortization of share-based compensation	—	—	—	—	9,249	—	—	—	—	—	9,249
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	—	—	(73,046)	(1)	(1,292)	—	—	—	—	—	(1,293)
Shares acquired as part of a share repurchase program	—	—	(3,836,582)	(38)	(65,597)	—	—	—	—	—	(65,635)
Forfeiture of restricted stock	—	—	(8,060)	—	—	—	—	—	—	—	—
Distributions on preferred shares	—	—	—	—	—	(18,836)	—	—	—	—	(18,836)
Distributions on common shares and units	—	—	—	—	—	(170,762)	—	(879)	—	—	(171,641)
Preferred distributions - consolidated joint venture	—	—	—	—	—	—	—	—	—	(186)	(186)
Redemption of preferred equity - consolidated joint venture	—	—	—	—	—	—	—	—	—	(45,583)	(45,583)
Balance at September 30, 2019	<u>12,879,475</u>	<u>\$366,936</u>	<u>170,632,364</u>	<u>\$1,706</u>	<u>\$3,137,736</u>	<u>\$ (246,914)</u>	<u>\$ (27,515)</u>	<u>\$ 10,268</u>	<u>\$ 13,994</u>	<u>\$ —</u>	<u>\$ 3,256,211</u>

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

RLJ Lodging Trust
Consolidated Statements of Changes in Equity
(Amounts in thousands, except share data)
(unaudited)

	Shareholders' Equity						Noncontrolling Interest		Total Equity	
	Preferred Stock		Common Stock				Accumulated Other Comprehensive Loss	Operating Partnership		Consolidated Joint Ventures
	Shares	Amount	Shares	Par Value	Additional Paid-in Capital	Distributions in excess of net earnings				
Balance at June 30, 2019	12,879,475	\$366,936	173,459,015	\$1,735	\$3,182,351	\$ (216,583)	\$ (21,836)	\$ 10,441	\$ 13,957	\$3,337,001
Net income (loss)	—	—	—	—	—	32,463	—	96	(104)	32,455
Unrealized loss on interest rate derivatives	—	—	—	—	—	—	(5,679)	—	—	(5,679)
Contributions from consolidated joint venture partners	—	—	—	—	—	—	—	—	141	141
Amortization of share-based compensation	—	—	—	—	3,217	—	—	—	—	3,217
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	—	—	(38,166)	—	(636)	—	—	—	—	(636)
Shares acquired as part of a share repurchase program	—	—	(2,787,367)	(29)	(47,196)	—	—	—	—	(47,225)
Forfeiture of restricted stock	—	—	(1,118)	—	—	—	—	—	—	—
Distributions on preferred shares	—	—	—	—	—	(6,279)	—	—	—	(6,279)
Distributions on common shares and units	—	—	—	—	—	(56,515)	—	(269)	—	(56,784)
Balance at September 30, 2019	<u>12,879,475</u>	<u>\$366,936</u>	<u>170,632,364</u>	<u>\$1,706</u>	<u>\$3,137,736</u>	<u>\$ (246,914)</u>	<u>\$ (27,515)</u>	<u>\$ 10,268</u>	<u>\$ 13,994</u>	<u>\$ 3,256,211</u>

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

RLJ Lodging Trust
Consolidated Statements of Cash Flows
(Amounts in thousands)
(unaudited)

	For the nine months ended September 30,	
	2020	2019
Cash flows from operating activities		
Net (loss) income	\$ (320,914)	\$ 94,468
Adjustments to reconcile net (loss) income to cash flow (used in) provided by operating activities:		
(Gain) loss on sale of hotel properties, net	(485)	25,872
Depreciation and amortization	146,777	162,654
Amortization of deferred financing costs	3,214	3,018
Other amortization	(1,797)	(1,499)
Unrealized (gain) loss on discontinued cash flow hedges	(18)	402
Equity in loss from unconsolidated joint ventures	8,196	2,919
Distributions of income from unconsolidated joint ventures	—	1,295
Amortization of share-based compensation	9,217	8,708
Deferred income taxes	51,447	2,950
Changes in assets and liabilities:		
Hotel and other receivables, net	25,460	(5,270)
Prepaid expense and other assets	25,164	2,942
Accounts payable and other liabilities	(23,006)	(1,606)
Advance deposits and deferred revenue	(20,172)	2,905
Accrued interest	10,126	5,793
Net cash flow (used in) provided by operating activities	(86,791)	305,551
Cash flows from investing activities		
Proceeds from the sale of hotel properties, net	485	623,575
Improvements and additions to hotel properties	(57,645)	(117,871)
Contributions to unconsolidated joint ventures	(100)	(603)
Distributions from unconsolidated joint ventures in excess of earnings	1,576	2,436
Net cash flow (used in) provided by investing activities	(55,684)	507,537
Cash flows from financing activities		
Borrowings under Revolver	400,000	140,000
Repayment of borrowings under Revolver	—	(140,000)
Proceeds from mortgage loans	—	381,000
Scheduled mortgage loan principal payments	(2,526)	(3,172)
Repayments of mortgage loans	—	(374,500)
Repurchase of common shares under a share repurchase program	(62,605)	(65,635)
Repurchase of common shares to satisfy employee tax withholding requirements	(1,445)	(1,293)
Distributions on preferred shares	(18,836)	(18,836)
Distributions on common shares	(59,351)	(171,978)
Distributions on and redemption of Operating Partnership units	(431)	(888)
Payments of deferred financing costs	(2,106)	(4,687)
Preferred distributions - consolidated joint venture	—	(312)
Redemption of preferred equity - consolidated joint venture	—	(45,583)
Contributions from consolidated joint venture partners	1,264	2,446
Net cash flow provided by (used in) financing activities	253,964	(303,438)
Net change in cash, cash equivalents, and restricted cash reserves	111,489	509,650
Cash, cash equivalents, and restricted cash reserves, beginning of year	927,160	384,842
Cash, cash equivalents, and restricted cash reserves, end of period	\$ 1,038,649	\$ 894,492

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

RLJ Lodging Trust
Notes to the Consolidated Financial Statements
(unaudited)

1. General

Organization

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

Substantially all of the Company's assets and liabilities are held by, and all of its operations are conducted through, RLJ Lodging Trust, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. As of September 30, 2020, there were 165,794,529 units of limited partnership interest in the Operating Partnership ("OP units") outstanding and the Company owned, through a combination of direct and indirect interests, 99.5% of the outstanding OP units.

As of September 30, 2020, the Company owned 104 hotel properties with approximately 22,700 rooms, located in 23 states and the District of Columbia. The Company, through wholly-owned subsidiaries, owned a 100% interest in 100 of its hotel properties, a 98.3% controlling interest in the DoubleTree Metropolitan Hotel New York City, a 95% controlling interest in The Knickerbocker, and 50% interests in entities owning two hotel properties. The Company consolidates its real estate interests in the 102 hotel properties in which it holds a controlling financial interest, and the Company records the real estate interests in the two hotel properties in which it holds an indirect 50% interest using the equity method of accounting. The Company leases 103 of the 104 hotel properties to its taxable REIT subsidiaries ("TRS"), of which the Company owns a controlling financial interest.

Liquidity and Management's Plans

In response to the near elimination of travel and hotel demand resulting from the spread of the novel strain of coronavirus (COVID-19) and the related government mandates, the Company had previously announced the suspension of operations at 57 of its hotel properties. As government mandated stay-in-place restrictions were lifted, the Company developed a framework to open the suspended hotel properties. The Company had reopened 47 of its hotel properties as of September 30, 2020, and subsequent to the end of the quarter has reopened 3 hotel properties. The Company continues to evaluate reopening the remaining 7 suspended hotel properties based on market conditions. The remaining suspended hotel properties are located within the central business districts of New York City and San Francisco, or are part of a cluster where the Company owns multiple hotels in the same immediate area. In the event stay-in-place restrictions are reinstated, the Company would consider temporarily suspending hotel operations where demand is inadequate.

The ongoing effects of the COVID-19 pandemic on the Company's operations continue to have a material adverse impact on its financial results and liquidity, and such adverse impact may continue well beyond the containment of such outbreak. Since the extent to which the COVID-19 pandemic impacts our operations will depend on future developments that are highly uncertain, the Company cannot estimate the impact on its business, financial condition or near- or longer-term financial or operational results with reasonable certainty.

Given the impact on lodging demand, the Company has taken various actions to help mitigate the effects of the COVID-19 pandemic on its operating results and to preserve liquidity. Operational measures the Company has taken include:

- **Suspension of Hotel Operations:** The Company suspended operations at many of its hotel properties. As government mandated stay-in-place restrictions have been lifted, the Company has reopened most of the suspended hotel properties.
- **Cost Containment Initiatives:** The Company continues to operate with reduced operating expenses by implementing stringent operational cost containment measures. These measures include significantly reduced staffing, reduced energy costs, elimination of non-essential amenities and services and the closure of several floors and most food and beverage outlets at properties that remain open.
- **Capital Investment Reduction:** The Company reduced its 2020 capital expenditure program by deferring all capital investments, other than completing projects that are substantially underway and nearing completion.

- Return on Investment ("ROI") Project Suspensions: The Company suspended most of the 2020 ROI projects. In addition, the Company has taken aggressive actions to increase liquidity and preserve cash at the corporate level including:

- Common Stock Dividend: The Company's board of trustees authorized the first, second and third quarter common cash dividends of \$0.01 per common share, which reflects a significant reduction compared to the Company's dividend payout prior to the COVID-19 pandemic.
- Share Repurchase: The Company suspended all repurchases of its common shares and Series A Preferred Shares (defined below), as applicable.
- Increased Liquidity: The Company enhanced its liquidity position by maintaining \$400.0 million drawn on its \$600.0 million revolving credit facility. As of September 30, 2020, the Company had approximately \$1.0 billion of cash and cash equivalents and restricted cash reserves.

2. Summary of Significant Accounting Policies

The Company's Annual Report on Form 10-K for the year ended December 31, 2019 contains a discussion of the Company's significant accounting policies. Other than noted below, there have been no significant changes to the Company's significant accounting policies since December 31, 2019.

Basis of Presentation and Principles of Consolidation

The unaudited consolidated financial statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to financial information. The unaudited financial statements include all adjustments that are necessary, in the opinion of management, to fairly state the consolidated balance sheets, statements of operations and comprehensive income, statements of changes in equity and statements of cash flows.

The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2019, included in the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2020.

The consolidated financial statements include the accounts of the Company, the Operating Partnership and its wholly-owned subsidiaries, and joint ventures in which the Company has a majority voting interest and control. For the controlled subsidiaries that are not wholly-owned, the third-party ownership interest represents a noncontrolling interest, which is presented separately in the consolidated financial statements. The Company also records the real estate interests in two joint ventures in which it holds an indirect 50% interest using the equity method of accounting. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the amounts of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Given the additional and unforeseen effects from the COVID-19 pandemic, these estimates have become more challenging, and actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which modifies the measurement approach for credit losses on financial assets measured on an amortized cost basis from an "incurred loss" method to an "expected loss" method. In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. The Company adopted this new standard on January 1, 2020. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The guidance modifies the disclosure requirements for fair value measurements by removing or modifying some of the disclosures, while also adding new disclosures. The Company adopted this new standard on January 1, 2020. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2020, FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The guidance provides optional expedients for applying GAAP to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued at the end of 2021 because of reference rate reform. The guidance is effective immediately and expires on December 31, 2022. Based on the Company's assessment, the adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

3. Investment in Hotel Properties

Investment in hotel properties consisted of the following (in thousands):

	September 30, 2020	December 31, 2019
Land and improvements	\$ 1,089,864	\$ 1,088,436
Buildings and improvements	4,076,944	4,039,012
Furniture, fixtures and equipment	696,914	685,699
	5,863,722	5,813,147
Accumulated depreciation	(1,344,279)	(1,198,181)
Investment in hotel properties, net	<u>\$ 4,519,443</u>	<u>\$ 4,614,966</u>

For the three and nine months ended September 30, 2020, the Company recognized depreciation expense related to its investment in hotel properties of approximately \$48.2 million and \$146.1 million, respectively. For the three and nine months ended September 30, 2019, the Company recognized depreciation expense related to its investment in hotel properties of approximately \$48.9 million and \$160.9 million, respectively.

Impairment

In connection with the preparation of the unaudited consolidated financial statements for the three and nine months ended September 30, 2020 and 2019, the Company evaluated the recoverability of the carrying values of its hotel properties. The Company performed an undiscounted cash flow analysis as of September 30, 2020 for certain of its hotel properties. Based on this analysis, the Company concluded that there were no impairments for the three and nine months ended September 30, 2020 and 2019.

4. Investment in Unconsolidated Joint Ventures

As of September 30, 2020 and December 31, 2019, the Company owned 50% interests in joint ventures that owned two hotel properties. During the three months ended September 30, 2020, one of the unconsolidated joint ventures determined the property ground lease will likely terminate no later than October 31, 2021 and the property will revert to the ground lessor at that time. As a result, the Company recorded an impairment loss of \$6.5 million to write down the Company's investment in this joint venture. The impairment loss is included in equity in loss from unconsolidated joint ventures in the accompanying consolidated statements of operations and comprehensive income.

During the nine months ended September 30, 2019, the Company sold two hotels located in Myrtle Beach, South Carolina. In addition, the joint ventures that were associated with these two hotels sold their assets. The Company had owned 50% interests in these joint ventures. The Company recorded a loss of \$2.9 million related to the sale, which is included in equity in loss from unconsolidated joint ventures in the accompanying consolidated statements of operations. Refer to Note 5, *Sale of Hotel Properties*, for more information regarding the sale of the hotels.

The Company accounts for the investments in its unconsolidated joint ventures under the equity method of accounting. The Company makes adjustments to the equity in loss from unconsolidated joint ventures related to the difference between the Company's basis in the investment in the unconsolidated joint ventures as compared to the historical basis of the assets and liabilities of the joint ventures. As of September 30, 2020 and December 31, 2019, the unconsolidated joint ventures' debt consisted entirely of non-recourse mortgage debt.

The following table summarizes the components of the Company's investments in unconsolidated joint ventures (in thousands):

	September 30, 2020	December 31, 2019
Equity basis of the joint venture investments	\$ (6,585)	\$ (4,236)
Cost of the joint venture investments in excess of the joint venture book value	13,641	19,407
Investment in unconsolidated joint ventures	<u>\$ 7,056</u>	<u>\$ 15,171</u>

The following table summarizes the components of the Company's equity in loss from unconsolidated joint ventures (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Operating (loss) income	\$ (993)	\$ 145	\$ (824)	\$ 989
Depreciation of cost in excess of book value	(280)	(280)	(839)	(985)
Impairment loss	(6,533)	—	(6,533)	—
Loss on sale	—	—	—	(2,923)
Equity in loss from unconsolidated joint ventures	<u>\$ (7,806)</u>	<u>\$ (135)</u>	<u>\$ (8,196)</u>	<u>\$ (2,919)</u>

5. Sale of Hotel Properties

During the nine months ended September 30, 2019, the Company sold 42 hotel properties in four separate transactions for a total sales price of approximately \$653.4 million. In connection with these transactions, the Company recorded a net loss of \$25.9 million, which is included in gain (loss) on sale of hotel properties, net, in the accompanying consolidated statements of operations and comprehensive income.

On June 25, 2019, the Company sold a portfolio of 21 hotels for \$311.9 million. In connection with this transaction, the Company recorded a gain on sale of \$44.4 million, which is included in gain (loss) on sale of hotel properties, net, in the accompanying consolidated statements of operations and comprehensive income.

On June 27, 2019, the Company sold two resort hotels in Myrtle Beach, South Carolina for \$153.3 million. In connection with this transaction, the Company recorded a loss on sale of \$21.5 million, which is included in gain (loss) on sale of hotel properties, net, in the accompanying consolidated statements of operations and comprehensive income.

On August 14, 2019, the Company sold a portfolio of 18 hotels for \$175.4 million. In connection with this transaction, the Company recorded a loss on sale of \$49.0 million, which is included in gain (loss) on sale of hotel properties, net, in the accompanying consolidated statements of operations and comprehensive income.

On September 12, 2019, the Company sold a hotel in Columbia, Maryland for \$12.7 million. In connection with this transaction, the Company recorded a gain on sale of \$0.3 million, which is included in gain (loss) on sale of hotel properties, net, in the accompanying consolidated statements of operations and comprehensive income.

The following table discloses the hotel properties that were sold during the nine months ended September 30, 2019:

Hotel Property Name	Location	Sale Date	Rooms
Courtyard Boulder Longmont	Longmont, CO	June 25, 2019	78
Courtyard Salt Lake City Airport	Salt Lake City, UT	June 25, 2019	154
Courtyard Fort Lauderdale SW Miramar	Miramar, FL	June 25, 2019	128
Courtyard Austin Airport	Austin, TX	June 25, 2019	150
Fairfield Inn & Suites San Antonio Downtown	San Antonio, TX	June 25, 2019	110
Hampton Inn & Suites Clearwater St. Petersburg	Clearwater, FL	June 25, 2019	128
Hampton Inn Fort Walton Beach	Fort Walton, FL	June 25, 2019	100
Hampton Inn & Suites Denver Tech Center	Denver, CO	June 25, 2019	123
Hampton Inn West Palm Beach Airport Central	West Palm Beach, FL	June 25, 2019	105
Hilton Garden Inn Bloomington	Bloomington, IN	June 25, 2019	168
Hilton Garden Inn West Palm Beach Airport	West Palm Beach, FL	June 25, 2019	100
Hilton Garden Inn Durham Raleigh Research Triangle Park	Durham, NC	June 25, 2019	177
Residence Inn Longmont Boulder	Longmont, CO	June 25, 2019	84
Residence Inn Detroit Novi	Novi, MI	June 25, 2019	107
Residence Inn Chicago Oak Brook	Oak Brook, IL	June 25, 2019	156
Residence Inn Fort Lauderdale Plantation	Plantation, FL	June 25, 2019	138
Residence Inn Salt Lake City Airport	Salt Lake City, UT	June 25, 2019	104
Residence Inn San Antonio Downtown Market Square	San Antonio, TX	June 25, 2019	95
Residence Inn Fort Lauderdale SW Miramar	Miramar, FL	June 25, 2019	130
Residence Inn Silver Spring	Silver Spring, MD	June 25, 2019	130
Springhill Suites Boulder Longmont	Longmont, CO	June 25, 2019	90
Embassy Suites Myrtle Beach Oceanfront Resort	Myrtle Beach, SC	June 27, 2019	255
Hilton Myrtle Beach Resort	Myrtle Beach, SC	June 27, 2019	385
Courtyard Austin Northwest Arboretum	Austin, TX	August 14, 2019	102
Courtyard Denver West Golden	Golden, CO	August 14, 2019	110
Courtyard Boulder Louisville	Louisville, CO	August 14, 2019	154
Courtyard Louisville Northeast	Louisville, KY	August 14, 2019	114
Courtyard South Bend Mishawaka	Mishawaka, IN	August 14, 2019	78
Hampton Inn Houston Galleria	Houston, TX	August 14, 2019	176
Hyatt House Houston Galleria	Houston, TX	August 14, 2019	147
Hyatt House Austin Arboretum	Austin, TX	August 14, 2019	131
Hyatt House Dallas Lincoln Park	Dallas, TX	August 14, 2019	155
Hyatt House Dallas Uptown	Dallas, TX	August 14, 2019	141
Residence Inn Austin Northwest Arboretum	Austin, TX	August 14, 2019	84
Residence Inn Austin North Parmer Lane	Austin, TX	August 14, 2019	88
Residence Inn Denver West Golden	Golden, CO	August 14, 2019	88
Residence Inn Boulder Louisville	Louisville, CO	August 14, 2019	88
Residence Inn Louisville Northeast	Louisville, KY	August 14, 2019	102
Springhill Suites Austin North Parmer Lane	Austin, TX	August 14, 2019	132
Springhill Suites Louisville Hurstbourne North	Louisville, KY	August 14, 2019	142
Springhill Suites South Bend Mishawaka	Mishawaka, IN	August 14, 2019	87
Residence Inn Columbia	Columbia, MD	September 12, 2019	108
		Total	<u>5,422</u>

6. Revenue

The Company recognized revenue from the following geographic markets (in thousands):

	For the three months ended September 30, 2020				For the three months ended September 30, 2019			
	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue
Southern California	\$ 13,925	\$ 496	\$ 1,566	\$ 15,987	\$ 37,153	\$ 4,062	\$ 2,991	\$ 44,206
South Florida	7,743	847	883	9,473	18,296	4,123	1,912	24,331
Northern California	7,044	123	796	7,963	52,812	4,560	1,514	58,886
Chicago	6,633	981	289	7,903	19,915	3,334	576	23,825
Washington, DC	3,720	18	273	4,011	13,708	448	610	14,766
New York City	3,385	23	106	3,514	34,085	4,062	1,289	39,436
Denver	2,730	341	274	3,345	15,016	2,961	446	18,423
Houston	2,775	29	341	3,145	12,850	815	1,017	14,682
Austin	1,522	53	329	1,904	15,287	2,109	850	18,246
Louisville	742	85	66	893	9,652	4,507	629	14,788
Other	22,326	835	2,633	25,794	85,421	8,466	5,648	99,535
Total	\$ 72,545	\$ 3,831	\$ 7,556	\$ 83,932	\$ 314,195	\$ 39,447	\$ 17,482	\$ 371,124

	For the nine months ended September 30, 2020				For the nine months ended September 30, 2019			
	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue
Southern California	\$ 42,848	\$ 3,627	\$ 4,364	\$ 50,839	\$ 99,299	\$ 11,298	\$ 7,605	\$ 118,202
South Florida	41,315	5,487	3,126	49,928	92,990	15,117	6,164	114,271
Northern California	43,271	3,923	2,584	49,778	155,915	14,446	4,520	174,881
New York City	22,298	2,163	1,105	25,566	92,785	11,417	3,449	107,651
Chicago	18,511	3,588	894	22,993	54,953	9,851	1,588	66,392
Houston	15,177	750	1,481	17,408	44,626	2,798	3,411	50,835
Washington DC	14,475	388	912	15,775	46,156	1,315	1,770	49,241
Denver	10,180	2,615	697	13,492	46,409	9,127	1,150	56,686
Austin	9,555	1,342	2,088	12,985	62,612	7,471	2,871	72,954
Louisville	6,932	3,863	937	11,732	32,921	12,867	1,752	47,540
Other	94,728	8,124	8,657	111,509	302,056	37,444	20,965	360,465
Total	\$ 319,290	\$ 35,870	\$ 26,845	\$ 382,005	\$ 1,030,722	\$ 133,151	\$ 55,245	\$ 1,219,118

Trade Receivables

The Company has historically only experienced de minimis credit losses in hotel-level trade receivables. As of September 30, 2020, the Company reviewed its allowance for doubtful accounts and concluded that it was adequate. Because of the adverse impact of the COVID-19 pandemic, the Company could experience a delay in payment and collections.

7. Debt

The Company's debt consisted of the following (in thousands):

	September 30, 2020	December 31, 2019
Senior Notes	\$ 496,940	\$ 500,484
Revolver and Term Loans, net	1,569,024	1,168,793
Mortgage loans, net	524,367	526,430
Debt, net	<u>\$ 2,590,331</u>	<u>\$ 2,195,707</u>

Senior Notes

The Company's senior unsecured notes are referred to as the "Senior Notes." The Company's Senior Notes consisted of the following (in thousands):

	Interest Rate	Maturity Date	Outstanding Borrowings at	
			September 30, 2020	December 31, 2019
Senior unsecured notes (1) (2) (3)	6.00%	June 2025	\$ 496,940	\$ 500,484

- (1) Requires payments of interest only through maturity.
- (2) The senior unsecured notes include \$22.1 million and \$25.6 million at September 30, 2020 and December 31, 2019, respectively, related to acquisition related fair value adjustments on the senior unsecured notes.
- (3) The Company has the option to redeem the senior unsecured notes at a price of 103.0% of face value.

The Senior Notes are subject to a maximum unsecured leverage maintenance covenant, which is based on asset value that is calculated at historical cost. In addition, the Senior Notes are subject to various incurrence covenants that limit the ability of the Company's subsidiary, FelCor Lodging Limited Partnership, to incur additional debt if these covenants are violated. As of September 30, 2020, the Company was in compliance with all maintenance and incurrence covenants associated with the Senior Notes.

Revolver and Term Loans

The Company has the following unsecured credit agreements in place:

- \$600.0 million revolving credit facility with a scheduled maturity date of May 18, 2024 and a one year extension option if certain conditions are satisfied (the "Revolver");
- \$150.0 million term loan with a scheduled maturity date of January 22, 2022 (the "\$150 Million Term Loan Maturing 2022");
- \$400.0 million term loan with a scheduled maturity date of January 25, 2023 (the "\$400 Million Term Loan Maturing 2023");
- \$225.0 million term loan with a scheduled maturity date of January 25, 2023 (the "\$225 Million Term Loan Maturing 2023"); and
- \$400.0 million term loan with a scheduled maturity date of May 18, 2025 (the "\$400 Million Term Loan Maturing 2025").

The \$150 Million Term Loan Maturing 2022, the \$400 Million Term Loan Maturing 2023, the \$225 Million Term Loan Maturing 2023, and the \$400 Million Term Loan Maturing 2025 are collectively the "Term Loans."

The Company's unsecured credit agreements consisted of the following (in thousands):

	Interest Rate at September 30, 2020 (1)	Maturity Date	Outstanding Borrowings at	
			September 30, 2020	December 31, 2019
Revolver (2)	3.49%	May 2024	\$ 400,000	\$ —
\$150 Million Term Loan Maturing 2022	3.88%	January 2022	150,000	150,000
\$400 Million Term Loan Maturing 2023	4.58%	January 2023	400,000	400,000
\$225 Million Term Loan Maturing 2023	4.58%	January 2023	225,000	225,000
\$400 Million Term Loan Maturing 2025	3.77%	May 2025	400,000	400,000
			1,575,000	1,175,000
Deferred financing costs, net (3)			(5,976)	(6,207)
Total Revolver and Term Loans, net			\$ 1,569,024	\$ 1,168,793

- (1) Interest rate at September 30, 2020 gives effect to interest rate hedges.
- (2) At September 30, 2020 and December 31, 2019, there was \$200.0 million and \$600.0 million, respectively, undrawn on the Revolver. The Company also has the ability to extend the maturity date for an additional one year period ending May 2025 if certain conditions are satisfied.
- (3) Excludes \$3.7 million and \$3.4 million as of September 30, 2020 and December 31, 2019, respectively, related to deferred financing costs on the Revolver, which are included in prepaid expense and other assets in the accompanying consolidated balance sheets.

The Revolver and Term Loans are subject to various financial covenants. A summary of the most restrictive covenants is as follows:

	Covenant	Compliance
Leverage ratio (1)	$\leq 7.00x$	N/A (3)
Fixed charge coverage ratio (2)	$\geq 1.50x$	N/A (3)
Secured indebtedness ratio	$\leq 45.0\%$	N/A (3)
Unencumbered indebtedness ratio	$\leq 60.0\%$	N/A (3)
Unencumbered debt service coverage ratio	$\geq 2.00x$	N/A (3)
Maintain minimum liquidity level	$\geq \$125.0$ million	Yes

- (1) Leverage ratio is net indebtedness, as defined in the Revolver and Term Loan agreements, to corporate earnings before interest, taxes, depreciation, and amortization ("EBITDA"), as defined in the Revolver and Term Loan agreements.
- (2) Fixed charge coverage ratio is Adjusted EBITDA, generally defined in the Revolver and Term Loan agreements as EBITDA less furniture, fixtures and equipment ("FF&E") reserves, to fixed charges, which is generally defined in the Revolver and Term Loan agreements as interest expense, all regularly scheduled principal payments, preferred dividends paid, and cash taxes paid.
- (3) The Company is not currently required to comply with these covenants, see details below.

In June 2020, the Company amended its Revolver and Term Loans. The amendments suspend the testing of all existing financial maintenance covenants under the Revolver and the Term Loan agreements for all periods through and including the fiscal quarter ending March 31, 2021 (the "Covenant Relief Period"). In addition, for periods following the Covenant Relief Period, the amendments modify the covenant thresholds for the leverage ratio and unencumbered debt service coverage ratio as follows:

- Increasing the maximum leverage ratio to 8.50x for the first two quarters following the Covenant Relief Period, 8.00x for the third and fourth quarters following the Covenant Relief Period, 7.50x for the fifth quarter following the Covenant Relief Period, and returning to 7.00x for the quarter ending September 30, 2022.
- Reducing the minimum unencumbered debt service coverage ratio to 1.65x for the first three quarters following the Covenant Relief Period until the minimum unencumbered debt service coverage ratio returns to 2.00x for the quarter ending March 31, 2022.
- The Company is required to maintain a minimum liquidity level of \$125.0 million.

Pursuant to the amendments and through the date that the financial statements are delivered for the quarter ending June 30, 2021 (the "Restriction Period"), the Company is subject to the following restrictions:

- The net cash proceeds from asset sales, equity issuances and incurrences of indebtedness will, subject to various exceptions, be required to be applied as a mandatory prepayment of certain amounts outstanding under the Revolver and the Term Loans.
- Additional negative covenants that limit the ability of the Company and its subsidiaries to incur additional indebtedness, make prepayments of other indebtedness, make dividends and distributions (with certain exceptions, including for the payment of a quarterly cash dividend of \$0.01 per common share, the payment of a quarterly cash dividend on the Company's Series A Cumulative Convertible Preferred Shares and other payments for purposes of maintaining REIT status) and stock repurchases, make approximately \$260.0 million of capital expenditures, and make investments, including up to \$200.0 million of acquisitions or mergers, in each case, subject to various exceptions.
- Requirement to pledge the equity interests in certain subsidiaries that own unencumbered properties to secure the Revolver and Term Loans. The equity pledge requirement is also required to be satisfied following the Restriction Period until such time as the leverage ratio is no greater than 6.50x for two consecutive fiscal quarters.

The amendments further provide that, until the earlier of (1) the earlier of July 1, 2022 or the day after the end of the fifth quarter immediately following the end of the Covenant Relief Period and (2) such time as the leverage ratio is less than or equal to 7.00x, borrowings under the Revolver and the Term Loan agreements will bear interest, at the Company's election, at a per annum rate of (i) in the case of the Revolver, (a) LIBOR plus a margin of 230 basis points or (b) a base rate plus a margin of 130 basis points, and (ii) in the case of each of the Term Loans, (a) LIBOR plus a margin of 225 basis points or (b) a base rate plus a margin of 125 basis points. The amendments also add a floor of 0.25% to the LIBOR interest rate determination, subject to certain exceptions, under both the Revolver and the Term Loan agreements.

At the Company's election, the Restriction Period and the Covenant Relief Period may be terminated early if the Company is at such time able to comply with the applicable financial covenants. If the Company assesses that it is unlikely to meet the financial covenant thresholds for periods following the Covenant Relief Period, then the Company will seek an extension of the Covenant Relief Period.

Mortgage Loans

The Company's mortgage loans consisted of the following (in thousands):

	Number of Assets Encumbered	Interest Rate at September 30, 2020	Maturity Date		Outstanding Borrowings at	
					September 30, 2020	December 31, 2019
Mortgage loan (1)	7	1.67 %	April 2022	(5)	\$ 200,000	\$ 200,000
Mortgage loan (2)	1	5.25 %	June 2022		30,554	31,215
Mortgage loan (3)	3	4.95 %	October 2022		87,410	89,299
Mortgage loan (4)	1	4.94 %	October 2022		28,177	28,785
Mortgage loan (1)	4	1.75 %	April 2024	(5)	85,000	85,000
Mortgage loan (1)	3	1.75 %	April 2024	(5)	96,000	96,000
	<u>19</u>				527,141	530,299
Deferred financing costs, net					(2,774)	(3,869)
Total mortgage loans, net					<u>\$ 524,367</u>	<u>\$ 526,430</u>

(1) The hotels encumbered by the mortgage loan are cross-collateralized. Requires payments of interest only through maturity.

(2) Includes \$0.3 million and \$0.5 million at September 30, 2020 and December 31, 2019, respectively, related to a fair value adjustment on a mortgage loan.

(3) Includes \$1.0 million and \$1.4 million at September 30, 2020 and December 31, 2019, respectively, related to fair value adjustments on the mortgage loans.

(4) Includes \$0.3 million and \$0.4 million at September 30, 2020 and December 31, 2019, respectively, related to a fair value adjustment on the mortgage loan.

(5) The mortgage loan provides two one year extension options.

Certain mortgage agreements are subject to various maintenance covenants requiring the Company to maintain a minimum debt yield or debt service coverage ratio ("DSCR"). Failure to meet the debt yield or DSCR thresholds is not an event of default, but instead triggers a cash trap event. During the cash trap event, the lender or servicer of the mortgage loan controls cash outflows until the loan is covenant compliant. In addition certain mortgage loans have other requirements including continued operation and maintenance of the hotel property. While operations at certain hotel properties securing the mortgage loans had been temporarily suspended, the business operations remained that of a hotel, not another form of business, and the hotel properties were maintained. At September 30, 2020, five mortgage loans failed to meet the DSCR threshold and were in a cash trap event. The Company was in compliance with all other maintenance covenants associated with the other mortgage loan at September 30, 2020.

Interest Expense

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Senior Notes	\$ 5,942	\$ 5,954	\$ 17,825	\$ 17,842
Revolver and Term Loans	15,730	10,805	39,087	31,795
Mortgage loans	4,368	5,001	13,483	15,575
Amortization of deferred financing costs	1,147	1,116	3,214	3,018
Undesignated interest rate swaps	(1,203)	457	(18)	402
Total interest expense	<u>\$ 25,984</u>	<u>\$ 23,333</u>	<u>\$ 73,591</u>	<u>\$ 68,632</u>

8. Derivatives and Hedging Activities

The following interest rate swaps have been designated as cash flow hedges (in thousands):

Hedge type	Interest rate	Maturity	Notional value at		Fair value at	
			September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Swap-cash flow	1.15%	April 2021	\$ 100,000	\$ 100,000	\$ (649)	\$ 607
Swap-cash flow	1.20%	April 2021	100,000	100,000	(681)	538
Swap-cash flow	2.15%	April 2021	75,000	75,000	(972)	(590)
Swap-cash flow	1.91%	April 2021	75,000	75,000	(854)	(337)
Swap-cash flow	1.61%	June 2021	50,000	50,000	(617)	(32)
Swap-cash flow	1.56%	June 2021	50,000	50,000	(593)	13
Swap-cash flow	1.71%	June 2021	50,000	50,000	(657)	(109)
Swap-cash flow	2.29%	December 2022	200,000	200,000	(10,188)	(4,587)
Swap-cash flow	2.29%	December 2022	125,000	125,000	(6,362)	(2,859)
Swap-cash flow	2.38%	December 2022	200,000	200,000	(10,627)	(5,155)
Swap-cash flow	2.38%	December 2022	100,000	100,000	(5,311)	(2,574)
Swap-cash flow (1)	2.75%	November 2023	100,000	100,000	(7,939)	(3,590)
Swap-cash flow (2)	2.51%	December 2023	75,000	75,000	(5,365)	(2,120)
Swap-cash flow (2)	2.39%	December 2023	75,000	75,000	(5,093)	(1,858)
Swap-cash flow	1.35%	September 2021	49,000	49,000	(601)	181
Swap-cash flow	1.28%	September 2022	100,000	100,000	(2,343)	690
Swap-cash flow (3)	1.24%	September 2025	150,000	150,000	(6,060)	2,268
Swap-cash flow (4)	1.16%	April 2024	50,000	—	(1,532)	—
Swap-cash flow (4)	1.20%	April 2024	50,000	—	(1,595)	—
Swap-cash flow (4)	1.15%	April 2024	50,000	—	(1,519)	—
Swap-cash flow (4)	1.10%	April 2024	50,000	—	(1,443)	—
Swap-cash flow (4)	0.98%	April 2024	25,000	—	(630)	—
Swap-cash flow (4)	0.95%	April 2024	25,000	—	(607)	—
Swap-cash flow (4)	0.93%	April 2024	25,000	—	(592)	—
Swap-cash flow (4)	0.90%	April 2024	25,000	—	(569)	—
Swap-cash flow	0.85%	December 2024	50,000	—	(1,448)	—
Swap-cash flow	0.75%	December 2024	50,000	—	(1,232)	—
Swap-cash flow (5)	0.65%	January 2026	50,000	—	(885)	—
			<u>\$ 2,124,000</u>	<u>\$ 1,674,000</u>	<u>\$ (76,964)</u>	<u>\$ (19,514)</u>

- (1) Effective in November 2020.
(2) Effective in January 2021.
(3) Effective in September 2021.
(4) Effective in April 2021.
(5) Effective in July 2021.

The following interest rate swaps have not been designated as hedging instruments (in thousands):

Derivative type	Interest rate	Maturity	Notional value at		Fair value at	
			September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Interest rate swap (1)	1.80%	September 2020	\$ —	\$ 30,195	\$ —	\$ (34)
Interest rate swap (1)	1.80%	September 2020	—	75,030	—	(86)
Interest rate swap (1)	1.80%	September 2020	—	32,025	—	(37)
Interest rate swap (1)	1.81%	October 2020	140,378	142,500	(355)	(219)
			<u>\$ 140,378</u>	<u>\$ 279,750</u>	<u>\$ (355)</u>	<u>\$ (376)</u>

- (1) During the year ended December 31, 2019, the Company discontinued accounting for these interest rate swaps as cash flow hedges. The Company recognizes all changes in the fair value of these interest rate swaps in interest expense in the consolidated statements of operations and comprehensive income.

As of September 30, 2020 and December 31, 2019, the aggregate fair value of the interest rate swap liabilities of \$77.3 million and \$24.2 million, respectively, was included in accounts payable and other liabilities in the accompanying consolidated balance sheets. As of December 31, 2019, the aggregate fair value of the interest rate swap assets of \$4.3 million was included in prepaid expense and other assets in the accompanying consolidated balance sheets.

As of September 30, 2020 and December 31, 2019, there was approximately \$77.0 million and \$19.5 million, respectively, of unrealized losses included in accumulated other comprehensive loss related to interest rate hedges that are effective in offsetting the variable cash flows. There was no ineffectiveness recorded on the designated hedges during the three or nine month periods ended September 30, 2020 or 2019. For the three and nine months ended September 30, 2020, approximately \$6.9 million and \$13.2 million, respectively, of the amounts included in accumulated other comprehensive loss were reclassified into interest expense for the interest rate swaps that have been designated as cash flow hedges. For the three and nine months ended September 30, 2019, \$1.1 million and \$5.6 million, respectively, of the amounts included in accumulated other comprehensive loss were reclassified into interest expense for the interest rate swaps that have been designated as cash flow hedges. Approximately \$27.3 million of the unrealized losses included in accumulated other comprehensive loss at September 30, 2020 is expected to be reclassified into interest expense within the next 12 months.

9. Fair Value

Fair Value Measurement

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The fair value hierarchy has three levels of inputs, both observable and unobservable:

- Level 1 — Inputs include quoted market prices in an active market for identical assets or liabilities.
- Level 2 — Inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data.
- Level 3 — Inputs are unobservable and corroborated by little or no market data.

Fair Value of Financial Instruments

The Company used the following market assumptions and/or estimation methods:

- Cash and cash equivalents, restricted cash reserves, hotel and other receivables, accounts payable and other liabilities — The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate fair value because of their short term maturities.
- Debt — The Company estimated the fair value of the Senior Notes by using publicly available trading prices, which are Level 2 inputs in the fair value hierarchy. The Company estimated the fair value of the Revolver and Term Loans by using a discounted cash flow model and incorporating various inputs and assumptions for the effective borrowing

rates for debt with similar terms, which are Level 3 inputs in the fair value hierarchy. The Company estimated the fair value of the mortgage loans by using a discounted cash flow model and incorporating various inputs and assumptions for the effective borrowing rates for debt with similar terms and the loan to estimated fair value of the collateral, which are Level 3 inputs in the fair value hierarchy.

The fair value of the Company's debt was as follows (in thousands):

	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior Notes	\$ 496,940	\$ 467,765	\$ 500,484	\$ 497,835
Revolver and Term Loans, net	1,569,024	1,525,375	1,168,793	1,176,068
Mortgage loans, net	524,367	512,744	526,430	532,249
Debt, net	\$ 2,590,331	\$ 2,505,884	\$ 2,195,707	\$ 2,206,152

Recurring Fair Value Measurements

The following table presents the Company's fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2020 (in thousands):

	Fair Value at September 30, 2020			
	Level 1	Level 2	Level 3	Total
Interest rate swap liability	\$ —	\$ (77,319)	\$ —	\$ (77,319)
Total	\$ —	\$ (77,319)	\$ —	\$ (77,319)

The following table presents the Company's fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 (in thousands):

	Fair Value at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Interest rate swap asset	\$ —	\$ 4,297	\$ —	\$ 4,297
Interest rate swap liability	—	(24,187)	—	(24,187)
Total	\$ —	\$ (19,890)	\$ —	\$ (19,890)

The fair values of the derivative financial instruments are determined using widely accepted valuation techniques including a discounted cash flow analysis on the expected cash flows for each derivative. The Company determined that the significant inputs, such as interest yield curves and discount rates, used to value its derivatives fall within Level 2 of the fair value hierarchy and that the credit valuation adjustments associated with the Company's counterparties and its own credit risk utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As of September 30, 2020, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

10. Income Taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it distribute at least 90% of its REIT taxable income, subject to certain adjustments and excluding any net capital gain, to shareholders. The Company's intention is to adhere to the REIT qualification requirements and to maintain its qualification for taxation as a REIT. As a REIT, the Company is generally not subject to federal corporate income tax on the portion of taxable income that is distributed to shareholders. If the Company fails to qualify for taxation as a REIT in any taxable year, the Company will be subject to U.S. federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and it may not be able to qualify as a REIT for four subsequent taxable years. As a REIT, the Company may be subject to certain state and local taxes on its income and property, and to U.S. federal income and excise taxes on undistributed taxable income. The Company's TRSs will generally be subject to U.S. federal, state, and local income taxes at the applicable rates.

The Company accounts for income taxes using the asset and liability method. Under this 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 income tax bases, and for net operating loss, capital loss and tax credit carryforwards. The deferred tax assets and liabilities are measured using the enacted income tax rates in effect for the year in which those temporary differences are expected to be realized or settled. The effect on the deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when 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. Based upon the available objective evidence at September 30, 2020, the Company determined it was more likely than not that the deferred tax assets related to the net operating loss ("NOL") carryforwards of its primary TRS would not be utilized in future periods. The Company considered all available evidence, both positive and negative, including cumulative losses in recent years and its current forecast of future income in its analysis. As a result, the Company recorded a full valuation allowance against these deferred tax assets and recorded a deferred tax expense of \$64.5 million during the three months ended September 30, 2020.

The Company had no accruals for tax uncertainties as of September 30, 2020 and December 31, 2019.

11. Commitments and Contingencies

Restricted Cash Reserves

The Company is obligated to maintain cash reserve funds for future capital expenditures at the hotels (including the periodic replacement or refurbishment of FF&E as determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents). The management agreements, franchise agreements and/or mortgage loan documents require the Company to reserve cash ranging typically from 3.0% to 5.0% of the individual hotel's revenues. Any unexpended amounts will remain the property of the Company upon termination of the management agreements, franchise agreements or mortgage loan documents. As of September 30, 2020 and December 31, 2019, approximately \$42.7 million and \$44.7 million, respectively, was available in the restricted cash reserves for future capital expenditures, real estate taxes and insurance. In addition, due to the effects of the COVID-19 pandemic on its operations, the Company has worked with the hotel brands, third-party managers and lenders to allow the use of available restricted cash reserves to cover operating shortfalls at certain hotels.

Litigation

Other than the legal proceeding mentioned below, neither the Company nor any of its subsidiaries is currently involved in any regulatory or legal proceedings that management believes will have a material and adverse effect on the Company's financial position, results of operations or cash flows.

Prior to the Company's merger with FelCor Lodging Trust, Inc. ("FelCor"), an affiliate of InterContinental Hotels Group PLC ("IHG"), which previously managed three of FelCor's hotels, notified FelCor that National Retirement Fund ("NRF") had assessed an employee withdrawal liability, with required quarterly payments including interest, in connection with the termination of IHG's management of those hotels. In October 2020, the Company entered into an agreement with IHG and NRF resolving this dispute.

Management Agreements

As of September 30, 2020, 103 of the Company's hotel properties were operated pursuant to long-term management agreements with initial terms ranging from one to 25 years. This number includes 29 hotel properties that receive the benefits of a franchise agreement pursuant to management agreements with Hilton, Hyatt, or Marriott. Each management company receives a base management fee between 1.75% and 3.5% of hotel revenues. Management agreements that include the benefits of a franchise agreement incur a base management fee between 3.0% and 7.0% of hotel revenues. The management companies are also eligible to receive an incentive management fee if hotel operating income, as defined in the management agreements, exceeds certain thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Company has received a priority return on its investment in the hotel.

Management fees are included in management and franchise fee expense in the accompanying consolidated statements of operations and comprehensive income. For the three and nine months ended September 30, 2020, the Company incurred management fee expense of approximately \$2.3 million and \$10.9 million, respectively. For the three and nine months ended September 30, 2019, the Company incurred management fee expense of approximately \$9.0 million and \$36.8 million, respectively.

Franchise Agreements

As of September 30, 2020, 73 of the Company's hotel properties were operated under franchise agreements with initial terms ranging from one to 30 years. This number excludes 29 hotel properties that receive the benefits of a franchise agreement pursuant to management agreements with Hilton, Hyatt, or Marriott. In addition, one hotel is not operated with a hotel brand so it does not have a franchise agreement. Franchise agreements allow the hotel properties to operate under the respective brands. Pursuant to the franchise agreements, the Company pays a royalty fee, between 3.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs between 1.0% and 4.3% of room revenue. Certain hotels are also charged a royalty fee of 3.0% of food and beverage revenues.

Franchise fees are included in management and franchise fee expense in the accompanying consolidated statements of operations and comprehensive income. For the three and nine months ended September 30, 2020, the Company incurred franchise fee expense of approximately \$4.7 million and \$20.3 million, respectively. For the three and nine months ended September 30, 2019, the Company incurred franchise fee expense of approximately \$17.4 million and \$59.6 million, respectively.

Wyndham Agreements

Prior to January 1, 2020, the Wyndham management agreements guaranteed minimum levels of annual net operating income at each of the Wyndham-managed hotels. In 2019, the Company entered into an agreement with Wyndham to terminate the net operating income guarantee effective December 31, 2019 and received termination payments totaling \$36.0 million from Wyndham, which amount is included in advance deposits and deferred revenue in the accompanying consolidated balance sheets. Effective January 1, 2020, the Company began recognizing the termination payments over the estimated term of the transitional agreements as a reduction to management and franchise fee expense in the consolidated statements of operations and comprehensive income. For the three and nine months ended September 30, 2020, the Company recognized approximately \$4.4 million and \$13.2 million, respectively, as a reduction to management and franchise fee expense related to the amortization of the termination payments.

Other

During the three and nine months ended September 30, 2020, the Company incurred approximately \$8.0 million and \$8.2 million, respectively, in corporate- and property-level severance costs as a result of the COVID-19 pandemic. This amount includes \$6.7 million for the three and nine months ended September 30, 2020 related to severance for associates at the Company's New York City hotels operating under collective bargaining agreements. The severance costs are included in other operating expense in the accompanying consolidated statements of operations and comprehensive income.

12. Equity

Common Shares of Beneficial Interest

On February 14, 2020, the Company's board of trustees approved a new share repurchase program to repurchase up to \$250.0 million of common shares from March 1, 2020 to February 28, 2021 (the "2020 Share Repurchase Program"). During

the nine months ended September 30, 2020, the Company repurchased and retired 5,489,335 common shares for approximately \$62.6 million, of which \$26.0 million was repurchased under a share repurchase program authorized by the Company's board of trustees in 2019, which expired February 29, 2020 (the "2019 Share Repurchase Program"), and \$36.6 million was repurchased under the 2020 Share Repurchase Program. As of September 30, 2020, the 2020 Share Repurchase Program had a remaining capacity of \$213.4 million. In April 2020, however, the Company suspended further repurchases of its common shares pursuant to the 2020 Share Repurchase Program due to the effects of the COVID-19 pandemic.

During the nine months ended September 30, 2019, the Company repurchased and retired 3,836,582 common shares for approximately \$65.6 million, of which \$10.3 million was repurchased under a share repurchase program that expired February 28, 2019 and \$55.3 million was repurchased under the 2019 Share Repurchase Program.

During the nine months ended September 30, 2020, the Company declared a cash dividend of \$0.01 per common share in each of the first, second and third quarters of 2020. During the nine months ended September 30, 2019, the Company declared a cash dividend of \$0.33 per common share in each of the first, second and third quarters of 2019.

Series A Preferred Shares

In April 2020, the Company suspended repurchases of its Series A Preferred Shares pursuant to the 2020 Share Repurchase Program due to the effects of the COVID-19 pandemic. During the nine months ended September 30, 2020 and 2019, the Company did not repurchase any Series A Preferred Shares.

During the nine months ended September 30, 2020 and 2019, the Company declared a cash dividend of \$0.4875 on each Series A Preferred Share in each of the first, second and third quarters of 2020 and 2019.

Noncontrolling Interest in Consolidated Joint Ventures

The Company consolidates the joint venture that owns the DoubleTree Metropolitan Hotel New York City, which has a third-party partner that owns a noncontrolling 1.7% ownership interest in the joint venture. In addition, the Company consolidates the joint venture that owns The Knickerbocker, which has a third-party partner that owns a noncontrolling 5% ownership interest in the joint venture. The third-party ownership interests are included in the noncontrolling interest in consolidated joint ventures on the consolidated balance sheets.

Noncontrolling Interest in the Operating Partnership

The Company consolidates the Operating Partnership, which is a majority-owned limited partnership that has a noncontrolling interest. The outstanding OP units held by the limited partners are redeemable for cash, or at the option of the Company, for a like number of common shares. As of September 30, 2020, 772,293 outstanding OP units were held by the limited partners. The noncontrolling interest is included in the noncontrolling interest in the Operating Partnership on the consolidated balance sheets.

13. Equity Incentive Plan

The Company may issue share-based awards to officers, employees, non-employee trustees and other eligible persons under the RLJ Lodging Trust 2015 Equity Incentive Plan (the "2015 Plan"). The 2015 Plan provides for a maximum of 7,500,000 common shares to be issued in the form of share options, share appreciation rights, restricted share awards, unrestricted share awards, share units, dividend equivalent rights, long-term incentive units, other equity-based awards and cash bonus awards.

Share Awards

From time to time, the Company may award unvested restricted shares under the 2015 Plan as compensation to officers, employees and non-employee trustees. The issued shares vest over a period of time as determined by the board of trustees at the date of grant. The Company recognizes compensation expense for time-based unvested restricted shares on a straight-line basis over the vesting period based upon the fair market value of the shares on the date of issuance, adjusted for forfeitures.

Non-employee trustees may also elect to receive unrestricted shares under the 2015 Plan as compensation that would otherwise be paid in cash for their services. The shares issued to non-employee trustees in lieu of cash compensation are unrestricted and include no vesting conditions. The Company recognizes compensation expense for the unrestricted shares issued in lieu of cash compensation on the date of issuance based upon the fair market value of the shares on that date.

A summary of the unvested restricted shares as of September 30, 2020 is as follows:

	2020	
	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2020	940,202	\$ 20.21
Granted (1)	801,463	11.95
Vested	(406,980)	20.29
Forfeited	(8,434)	19.43
Unvested at September 30, 2020	1,326,251	\$ 15.20

- (1) During the nine months ended September 30, 2020, the Company issued restricted shares to officers and employees that vest on an annual basis over service periods between two and four years.

For the three and nine months ended September 30, 2020, the Company recognized approximately \$2.3 million and \$6.6 million, respectively, of share-based compensation expense related to restricted share awards. For the three and nine months ended September 30, 2019, the Company recognized approximately \$2.2 million and \$6.5 million, respectively, of share-based compensation expense related to restricted share awards. As of September 30, 2020, there was \$16.2 million of total unrecognized compensation costs related to unvested restricted share awards and these costs are expected to be recognized over a weighted-average period of 2.5 years. The total fair value of the shares vested (calculated as the number of shares multiplied by the vesting date share price) during the nine months ended September 30, 2020 and 2019 was approximately \$4.5 million and \$4.1 million, respectively.

Performance Units

From time to time, the Company may award performance units under the 2015 Plan as compensation to officers and employees. The performance units vest over a four year period, including three years of performance-based vesting (the “performance units measurement period”) plus an additional one year of time-based vesting. These performance units may convert into restricted shares at a range of 0% to 200% of the number of performance units granted contingent upon the Company achieving an absolute total shareholder return (40% of award) and a relative total shareholder return (60% of award) over the measurement period at specified percentiles of the peer group, as defined by the awards. If at the end of the performance units measurement period the target criterion is met, then 50% of the performance units that are earned will vest at the end of the measurement period. The remaining 50% convert to restricted shares that will vest on the one year anniversary of the end of the measurement period. The award recipients will not be entitled to receive any dividends prior to the date of conversion. For any restricted shares issued upon conversion, the award recipient will be entitled to receive payment of an amount equal to all dividends that would have been paid if such restricted shares had been issued at the beginning of the performance units measurement period. The fair value of the performance units is determined using a Monte Carlo simulation, and an expected term equal to the requisite service period for the awards of four years. The Company estimates the compensation expense for the performance units on a straight-line basis using a calculation that recognizes 50% of the grant date fair value over three years and 50% of the grant date fair value over four years.

A summary of the performance unit awards is as follows:

Date of Award	Number of Units Granted	Grant Date Fair Value	Conversion Range	Risk Free Interest Rate	Volatility
February 2017 (1)	259,000	\$14.93	0% to 150%	1.57%	25.73%
February 2018	264,000	\$13.99	0% to 150%	2.42%	27.44%
February 2019	260,000	\$19.16	0% to 200%	2.52%	27.19%
February 2020	489,000	\$12.06	0% to 200%	1.08%	23.46%

- (1) In February 2020, following the end of the measurement period, the Company did not meet certain target criterion and no performance units were converted into restricted shares.

For the three and nine months ended September 30, 2020, the Company recognized approximately \$0.9 million and \$2.6 million, respectively, of share-based compensation expense related to the performance unit awards. For the three and nine months ended September 30, 2019, the Company recognized approximately \$0.7 million and \$2.2 million, respectively, of

share-based compensation expense related to the performance unit awards. As of September 30, 2020, there was \$8.1 million of total unrecognized compensation costs related to the performance unit awards and these costs are expected to be recognized over a weighted-average period of 2.5 years.

As of September 30, 2020, there were 762,185 common shares available for future grant under the 2015 Plan, which includes potential common shares that may convert from performance units if certain target criterion is met.

14. Earnings per Common Share

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

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating shares and are considered in the computation of earnings per share pursuant to the two-class method. If there were any undistributed earnings allocable to the participating shares, they would be deducted from net income attributable to common shareholders used in the basic and diluted earnings per share calculations.

The limited partners' outstanding OP units (which may be redeemed for common shares under certain circumstances) have been excluded from the diluted earnings per share calculation as there was no effect on the amounts for the three and nine months ended September 30, 2020 and 2019, since the limited partners' share of income would also be added back to net income attributable to common shareholders.

The computation of basic and diluted earnings per common share is as follows (in thousands, except share and per share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net (loss) income attributable to RLJ	\$ (173,101)	\$ 32,463	\$ (317,499)	\$ 93,160
Less: Preferred dividends	(6,279)	(6,279)	(18,836)	(18,836)
Less: Dividends paid on unvested restricted shares	(13)	(342)	(42)	(1,032)
Less: Undistributed earnings attributable to unvested restricted shares	—	—	—	—
Net (loss) income attributable to common shareholders excluding amounts attributable to unvested restricted shares	<u>\$ (179,393)</u>	<u>\$ 25,842</u>	<u>\$ (336,377)</u>	<u>\$ 73,292</u>
Denominator:				
Weighted-average number of common shares - basic	163,609,865	170,495,699	164,763,540	171,976,429
Unvested restricted shares	—	105,088	—	90,044
Weighted-average number of common shares - diluted	<u>163,609,865</u>	<u>170,600,787</u>	<u>164,763,540</u>	<u>172,066,473</u>
Net (loss) income per share attributable to common shareholders - basic	<u>\$ (1.10)</u>	<u>\$ 0.15</u>	<u>\$ (2.04)</u>	<u>\$ 0.43</u>
Net (loss) income per share attributable to common shareholders - diluted	<u>\$ (1.10)</u>	<u>\$ 0.15</u>	<u>\$ (2.04)</u>	<u>\$ 0.43</u>

15. Supplemental Information to Statements of Cash Flows (in thousands)

	For the nine months ended September 30,	
	2020	2019
Reconciliation of cash, cash equivalents, and restricted cash reserves		
Cash and cash equivalents	\$ 995,963	\$ 845,882
Restricted cash reserves	42,686	48,610
Cash, cash equivalents, and restricted cash reserves	<u>\$ 1,038,649</u>	<u>\$ 894,492</u>
Interest paid	<u>\$ 64,446</u>	<u>\$ 63,586</u>
Income taxes paid	<u>\$ 1,495</u>	<u>\$ 2,520</u>
Operating cash flow lease payments for operating leases	<u>\$ 9,013</u>	<u>\$ 11,505</u>
Supplemental investing and financing transactions		
In connection with the sale of hotel properties, the Company recorded the following:		
Sale of hotel properties	\$ —	\$ 640,681
Transaction costs	485	(9,224)
Operating prorations	—	(7,882)
Proceeds from the sale of hotel properties, net	<u>\$ 485</u>	<u>\$ 623,575</u>
Supplemental non-cash transactions		
Accrued capital expenditures	<u>\$ 6,520</u>	<u>\$ 6,857</u>

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report, as well as the information contained in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 26, 2020 (the "Annual Report"), which is accessible on the SEC's website at www.sec.gov.

Statement Regarding Forward-Looking Information

The following information contains certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements generally are identified by the use of the words "believe," "project," "expect," "anticipate," "estimate," "plan," "may," "will," "will continue," "intend," "should," or similar expressions. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, beliefs and expectations, such forward-looking statements are not predictions of future events or guarantees of future performance and our actual results could differ materially from those set forth in the forward-looking statements.

Currently, one of the most significant factors that could cause actual outcomes to differ materially from our forward-looking statements is the continued adverse effect of the current pandemic of the novel coronavirus, or COVID-19, on our financial condition, results of operations, cash flows and performance, the real estate market and the global economy and financial markets. The extent to which the COVID-19 pandemic impacts us will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the pandemic and its impact on the demand for travel and on levels of consumer confidence, the actions governments, businesses and individuals take in response to the pandemic, including limiting or banning travel, the impact of the COVID-19 pandemic and actions taken in response to the pandemic on global and regional economies, travel and economic activity, and the pace of recovery when the COVID-19 pandemic subsides, among others. Moreover, investors are cautioned to interpret many of the risks identified under the section

entitled "Risk Factors" in our Form 10-K for the year ended December 31, 2019 as being heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic.

Additional factors that might cause such a difference include the following: increased direct competition, changes in government regulations or accounting rules, changes in local, national and global real estate conditions, declines in the lodging industry, seasonality of the lodging industry, risks related to natural disasters, such as earthquakes and hurricanes, hostilities, including future terrorist attacks or fear of hostilities that affect travel and epidemics and/or pandemics, including COVID-19, third-party operator risk, change in operational costs, ramp up of the future economic recovery and re-opening of hotels, our ability to obtain lines of credit or permanent financing on satisfactory terms, changes in interest rates, duration and access to capital through offerings of our common and preferred shares of beneficial interest, or debt, our ability to identify suitable acquisitions, our ability to close on identified acquisitions and integrate those businesses and inaccuracies of our accounting estimates. Given these uncertainties, undue reliance should not be placed on such statements.

Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. We caution investors not to place undue reliance on these forward-looking statements and urge investors to carefully review the disclosures we make concerning risks and uncertainties in the sections entitled "Forward-Looking Statements," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report, as well as the risks, uncertainties and other factors discussed in this Quarterly Report on Form 10-Q and identified in other documents filed by us with the SEC.

Overview

We are a self-advised and self-administered Maryland real estate investment trust ("REIT") that owns primarily premium-branded, high-margin, focused-service and compact full-service hotels. Our hotels are concentrated in markets that we believe exhibit multiple demand generators and attractive long-term growth prospects. We believe premium-branded, focused-service and compact full-service hotels with these characteristics generate high levels of Revenue per Available Room ("RevPAR"), strong operating margins and attractive returns.

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

As of September 30, 2020, we owned 104 hotel properties with approximately 22,700 rooms, located in 23 states and the District of Columbia. We owned, through wholly-owned subsidiaries, a 100% interest in 100 of our hotel properties, a 98.3% controlling interest in the DoubleTree Metropolitan Hotel New York City, a 95% controlling interest in The Knickerbocker, and 50% interests in entities owning two hotel properties. We consolidate our real estate interests in the 102 hotel properties in which we hold a controlling financial interest, and we record the real estate interests in the two hotel properties in which we hold an indirect 50% interest using the equity method of accounting. We lease 103 of the 104 hotel properties to our taxable REIT subsidiaries ("TRS"), of which we own a controlling financial interest.

For U.S. federal income tax purposes, we elected to be taxed as a REIT commencing with our taxable year ended December 31, 2011. Substantially all of our assets and liabilities are held by, and all of our operations are conducted through, our operating partnership RLJ Lodging Trust, L.P. (the "Operating Partnership"). We are the sole general partner of the Operating Partnership. As of September 30, 2020, we owned, through a combination of direct and indirect interests, 99.5% of the units of limited partnership interest in the Operating Partnership ("OP units").

COVID-19

The global outbreak of a novel strain of coronavirus (COVID-19) and the public health measures that have been undertaken in response have had, and will likely continue to have, a material adverse impact on the global economy and all aspects of our business.

Significant events affecting travel, including the COVID-19 pandemic, typically have an impact on booking patterns, with the full extent of the impact generally determined by the duration of the event and its impact on travel decisions. The effects of the COVID-19 pandemic, including related government restrictions, border closings, quarantining, "shelter-in-place" orders and "social distancing," have essentially halted all non-essential travel and also resulted in a dramatic increase in national

unemployment and possible lasting changes in consumer behavior that will create headwinds for our hotel properties even after the current government restrictions are lifted. Since we cannot estimate when the COVID-19 pandemic and the responsive measures to combat it will end, we cannot estimate the ultimate operational and financial impact of COVID-19 on our business. The effects of the COVID-19 pandemic have significantly impacted our operations during the third quarter of 2020, and combined with macroeconomic trends such as the current economic recession, reduced consumer spending, including on travel, and significantly increased unemployment, lead us to believe that the ongoing effects of the COVID-19 pandemic on our operations continue to have a material adverse impact on our financial results and liquidity and such adverse impact may continue well beyond the containment of such outbreak.

We have taken various actions to mitigate the effects of the COVID-19 pandemic by strengthening our balance sheet and liquidity position. Operational measures we have taken include:

- **Suspension of Hotel Operations:** We previously announced the suspension of operations at 57 of our hotel properties. The decision to suspend operations was made in response to the elimination of lodging demand resulting from the COVID-19 pandemic and the related government and health official mandates in many markets. As government mandated stay-in-place restrictions have been lifted, we developed a framework to open hotels in a socially and financially responsible way. We had reopened 47 of the 57 suspended hotel properties as of September 30, 2020, and subsequent to the end of the quarter have reopened 3 hotel properties. We will continue to evaluate reopening the remaining 7 suspended hotel properties based on market conditions. In the event stay-in-place restrictions are reinstated, we would consider temporarily suspending hotel operations where demand is inadequate.
- **Cost Containment Initiatives:** We continue to work in concert with our hotel management companies to materially reduce operating expenses and preserve liquidity by putting stringent operational cost containment measures in place. Such measures include significantly reducing staffing at our hotel properties, eliminating non-essential amenities and services, and closing several floors and most food and beverage outlets at our hotel properties that remain open.
- **Capital Investment Reduction:** We reduced our 2020 capital expenditure program by deferring all capital investments, other than completing projects that are substantially underway and are nearing completion. Near-term, we will take appropriate steps to protect and preserve the hotel properties.
- **Return On Investment ("ROI") Project Suspensions:** We reviewed all 2020 ROI initiatives and suspended most of these projects.

At the corporate level, we have taken and continue to take aggressive actions to increase liquidity and preserve cash including:

- **Common Stock Dividend:** Our board of trustees authorized first, second and third quarter common cash dividends of \$0.01 per common share, which reflects a significant reduction compared to our dividend payout prior to the COVID-19 pandemic. We will continue to monitor our financial performance and the economic outlook to assess whether it is appropriate to resume a regular quarterly common dividend at a level determined to be prudent based on the economic outlook, or, alternatively, to declare and pay any required dividend at the end of 2020.
- **Share Repurchase:** We suspended all repurchases of our common shares and Series A Preferred Shares, as applicable.
- **Increased Liquidity:** We enhanced our liquidity position by maintaining \$400.0 million drawn on our \$600.0 million corporate line of credit. As of September 30, 2020, we had approximately \$1.0 billion of cash and cash equivalents and restricted cash reserves. By maintaining the \$400.0 million drawn on our credit facility, we have ensured significant liquidity to meet our obligations over an extended period of time.

For more information, see "Part II - Item 1A. Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q.

Our Customers

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

Group business is typically defined as a minimum of 10 guestrooms booked together as part of the same piece of business. Group business may or may not use the meeting space at any given hotel. Given the limited meeting space at the majority of our hotels, group business that utilizes meeting space represents a small component of our customer base.

A number of our hotel properties are affiliated with brands marketed toward extended-stay customers. Extended-stay customers are generally defined as those staying five nights or longer.

Our Revenues and Expenses

Our revenues are primarily derived from the operation of hotels, including the sale of rooms, food and beverage revenue and other revenue, which consists of parking fees, resort fees, gift shop sales and other guest service fees.

Our operating costs and expenses consist of the costs to provide hotel services, including room expense, food and beverage expense, management and franchise fees and other operating expenses. Room expense includes housekeeping and front office wages and payroll taxes, reservation systems, room supplies, laundry services and other costs. Food and beverage expense primarily includes the cost of food, the cost of beverages and the associated labor costs. Other operating 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, 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. Our hotels are managed by independent, third-party management companies under long-term agreements pursuant to which the management companies typically earn base and incentive management fees based on the levels of revenues and profitability of each individual hotel property. We generally receive a cash distribution from the management companies on a monthly basis, which reflects hotel-level sales less hotel-level operating expenses.

Key Indicators of Financial Performance

We use a variety of operating, financial and other information to evaluate the operating performance of our business. These key indicators include financial information that is prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as well as other financial measures that are non-GAAP measures. In addition, we use other information that may not be financial in nature, including industry standard statistical information and comparative data. We use this information to measure the operating performance of our individual hotels, groups of hotels and/or business as a whole. We also use these metrics to evaluate the hotels in our portfolio and potential acquisition opportunities to determine each hotel's contribution to cash flow and its potential to provide attractive long-term total returns. The key indicators include:

- Average Daily Rate ("ADR")
- Occupancy
- RevPAR

ADR, Occupancy and RevPAR are commonly used measures within the lodging industry to evaluate operating performance. RevPAR is an important statistic for monitoring operating performance at the individual hotel property level and across our entire business. We evaluate individual hotel RevPAR performance on an absolute basis with comparisons to budget and prior periods, as well as on a regional and company-wide basis. ADR and RevPAR include only room revenue.

We also use non-GAAP measures such as FFO, Adjusted FFO, EBITDA, EBITDAre and Adjusted EBITDA to evaluate the operating performance of our business. For a more in depth discussion of the non-GAAP measures, please refer to the "Non-GAAP Financial Measures" section.

Critical Accounting Policies

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. It is possible that the actual amounts may differ significantly from these estimates and assumptions. We evaluate our estimates, assumptions and judgments on an ongoing basis, based on information that is available to us, our business and industry experience, and various other matters that we believe are reasonable and appropriate for consideration under the circumstances. Our Annual Report on Form 10-K for the year ended December 31, 2019 contains a discussion of our critical accounting policies. There have been no significant changes to our critical accounting policies since December 31, 2019.

Results of Operations

At September 30, 2020 and 2019, we owned 104 and 109 hotel properties, respectively. Based on when a hotel property is acquired, sold or closed for renovation, the operating results for certain hotel properties are not comparable for the three and nine months ended September 30, 2020 and 2019. The non-comparable hotel properties include 47 dispositions that were completed in 2019.

COVID-19

Beginning in March 2020, we experienced a significant decline in occupancy and RevPAR due to the COVID-19 pandemic. We believe the ongoing effects of the COVID-19 pandemic on our operations continue to have a material adverse impact on our financial results and liquidity, and such adverse impact may continue well beyond the containment of such outbreak. The economic downturn resulting from the COVID-19 pandemic has significantly impacted our business and the overall lodging industry. Certain of our hotel properties have temporarily suspended all operations and, while our other hotel properties are operating in a limited capacity, as a result of these operational changes, the results of operations for the three and nine months ended September 30, 2020 will not be comparable to the same periods in 2019.

Comparison of the three months ended September 30, 2020 to the three months ended September 30, 2019

	For the three months ended September 30,		\$ Change	% Change
	2020	2019		
(amounts in thousands)				
Revenues				
Operating revenues				
Room revenue	\$ 72,545	\$ 314,195	\$ (241,650)	(76.9)%
Food and beverage revenue	3,831	39,447	(35,616)	(90.3)%
Other revenue	7,556	17,482	(9,926)	(56.8)%
Total revenues	<u>83,932</u>	<u>371,124</u>	<u>(287,192)</u>	<u>(77.4)%</u>
Expenses				
Operating expenses				
Room expense	22,368	80,650	(58,282)	(72.3)%
Food and beverage expense	3,167	31,425	(28,258)	(89.9)%
Management and franchise fee expense	2,630	26,432	(23,802)	(90.0)%
Other operating expense	49,398	90,048	(40,650)	(45.1)%
Total property operating expenses	77,563	228,555	(150,992)	(66.1)%
Depreciation and amortization	48,375	49,295	(920)	(1.9)%
Property tax, insurance and other	25,315	28,798	(3,483)	(12.1)%
General and administrative	9,313	11,262	(1,949)	(17.3)%
Transaction costs	(116)	(211)	95	(45.0)%
Total operating expenses	160,450	317,699	(157,249)	(49.5)%
Other income	334	315	19	6.0 %
Interest income	284	2,691	(2,407)	(89.4)%
Interest expense	(25,984)	(23,333)	(2,651)	11.4 %
Gain (loss) on sale of hotel properties, net	391	(1,037)	1,428	— %
(Loss) income before equity in loss from unconsolidated joint ventures	(101,493)	32,061	(133,554)	— %
Equity in loss from unconsolidated joint ventures	(7,806)	(135)	(7,671)	— %
(Loss) income before income tax (expense) benefit	(109,299)	31,926	(141,225)	— %
Income tax (expense) benefit	(64,620)	529	(65,149)	— %
Net (loss) income	(173,919)	32,455	(206,374)	— %
Net (income) loss attributable to noncontrolling interests:				
Noncontrolling interest in consolidated joint ventures	(21)	104	(125)	— %
Noncontrolling interest in the Operating Partnership	839	(96)	935	— %
Net (loss) income attributable to RLJ	(173,101)	32,463	(205,564)	— %
Preferred dividends	(6,279)	(6,279)	—	— %
Net (loss) income attributable to common shareholders	<u>\$ (179,380)</u>	<u>\$ 26,184</u>	<u>\$ (205,564)</u>	<u>— %</u>

Revenues

Total revenues decreased \$287.2 million, or 77.4%, to \$83.9 million for the three months ended September 30, 2020 from \$371.1 million for the three months ended September 30, 2019. The decrease was the result of a \$241.7 million decrease in room revenue, a \$35.6 million decrease in food and beverage revenue, and a \$9.9 million decrease in other revenue.

Room Revenue

Room revenue decreased \$241.7 million, or 76.9%, to \$72.5 million for the three months ended September 30, 2020 from \$314.2 million for the three months ended September 30, 2019. The decrease was the result of a \$14.3 million decrease in room revenue attributable to the non-comparable properties and a \$227.4 million decrease in room revenue attributable to the comparable properties. The decrease in room revenue from the comparable properties was attributable to a 75.8% decrease in RevPAR due to the impact of the COVID-19 pandemic.

The following are the quarter-to-date key hotel operating statistics for the comparable properties owned at September 30, 2020 and 2019, respectively:

	For the three months ended September 30,		% Change
	2020	2019	
Occupancy	29.3 %	81.1 %	(63.9)%
ADR	\$ 119.26	\$ 178.15	(33.1)%
RevPAR	\$ 34.92	\$ 144.39	(75.8)%

Food and Beverage Revenue

Food and beverage revenue decreased \$35.6 million, or 90.3%, to \$3.8 million for the three months ended September 30, 2020 from \$39.4 million for the three months ended September 30, 2019. The decrease was the result of a \$0.9 million decrease in food and beverage revenue attributable to the non-comparable properties and a \$34.7 million decrease in food and beverage revenue attributable to the comparable properties due to the impact of the COVID-19 pandemic.

Other Revenue

Other revenue, which includes revenue derived from ancillary sources such as parking fees, resort fees, gift shop sales and other guest service fees, decreased \$9.9 million, or 56.8%, to \$7.6 million for the three months ended September 30, 2020 from \$17.5 million for the three months ended September 30, 2019. The decrease was due to a \$0.5 million decrease in other revenue attributable to the non-comparable properties and a \$9.4 million decrease in other revenue attributable to the comparable properties due to the impact of the COVID-19 pandemic.

Property Operating Expenses

Property operating expenses decreased \$151.0 million, or 66.1%, to \$77.6 million for the three months ended September 30, 2020 from \$228.6 million for the three months ended September 30, 2019. The decrease was due to an \$11.1 million decrease in property operating expenses attributable to the non-comparable properties and a \$139.9 million decrease in property operating expenses attributable to the comparable properties.

The components of our property operating expenses for the comparable properties owned at September 30, 2020 and 2019, respectively, were as follows (in thousands):

	For the three months ended September 30,		\$ Change	% Change
	2020	2019		
Room expense	\$ 22,369	\$ 76,965	\$ (54,596)	(70.9)%
Food and beverage expense	3,168	30,764	(27,596)	(89.7)%
Management and franchise fee expense	2,728	24,635	(21,907)	(88.9)%
Other operating expense	49,404	85,176	(35,772)	(42.0)%
Total property operating expenses	\$ 77,669	\$ 217,540	\$ (139,871)	(64.3)%

The decrease in property operating expenses attributable to the comparable properties was due to the impact of the COVID-19 pandemic. Management and franchise fee expense for the three months ended September 30, 2020 included a reduction to management and franchise fee expense of \$4.4 million related to the recognition of the Wyndham termination payment. Other operating expense for the three months ended September 30, 2020 included property-level severance expense of approximately \$7.5 million. This amount includes \$6.7 million related to severance for associates at our New York City hotels operating under collective bargaining agreements.

Depreciation and Amortization

Depreciation and amortization expense decreased \$0.9 million, or 1.9%, to \$48.4 million for the three months ended September 30, 2020 from \$49.3 million for the three months ended September 30, 2019. The decrease was a result of a \$0.7 million decrease in depreciation and amortization expense attributable to the non-comparable properties, and a \$0.2 million decrease in depreciation and amortization expense attributable to the comparable properties.

Property Tax, Insurance and Other

Property tax, insurance and other expense decreased \$3.5 million, or 12.1%, to \$25.3 million for the three months ended September 30, 2020 from \$28.8 million for the three months ended September 30, 2019. The decrease was attributable to a \$1.1 million decrease in property tax, insurance and other expense attributable to the non-comparable properties and a \$2.3 million decrease in property tax, insurance and other expense attributable to the comparable properties. The decrease in property tax, insurance and other expense attributable to the comparable properties was primarily attributable to a decrease in rent expense due to rent abatements and the impact of COVID-19 on percentage rent obligations, which was partially offset by an increase in property insurance premiums.

General and Administrative

General and administrative expense decreased \$1.9 million, or 17.3%, to \$9.3 million for the three months ended September 30, 2020 from \$11.3 million for the three months ended September 30, 2019. The overall decrease was primarily attributable to the reversal of an excess accrued liability related to the settlement of National Retirement Fund matter of \$1.8 million, and a net decrease in other general and administrative expenses of \$0.6 million resulting from our response to COVID-19. These decreases were partially offset by an increase in compensation costs related to corporate-level severance of \$0.5 million.

Interest Expense

The components of our interest expense for the three months ended September 30, 2020 and 2019 were as follows (in thousands):

	For the three months ended September 30,		\$ Change	% Change
	2020	2019		
Senior Notes	\$ 5,942	\$ 5,954	\$ (12)	(0.2)%
Revolver and Term Loans	15,730	10,805	4,925	45.6 %
Mortgage loans	4,368	5,001	(633)	(12.7)%
Amortization of deferred financing costs	1,147	1,116	31	2.8 %
Undesignated interest rate swaps	(1,203)	457	(1,660)	— %
Total interest expense	<u>\$ 25,984</u>	<u>\$ 23,333</u>	<u>\$ 2,651</u>	11.4 %

Interest expense increased \$2.7 million, or 11.4%, to \$26.0 million for the three months ended September 30, 2020 from \$23.3 million for the three months ended September 30, 2019. The increase was primarily attributable to the outstanding balance of \$400.0 million on the Revolver, and an increase in pricing as a result of the amendment of the Revolver and Term Loans in June 2020. These increases were partially offset by unrealized gains on certain discontinued cash flow hedges.

Equity in Loss from Unconsolidated Joint Ventures

Equity in loss from unconsolidated joint ventures increased \$7.7 million to a loss of \$7.8 million for the three months ended September 30, 2020 from a loss of \$0.1 million for the three months ended September 30, 2019. The increase is primarily attributable to the impact of COVID-19 and an impairment loss of \$6.5 million related to one of our unconsolidated joint ventures during the three months ended September 30, 2020. The impairment loss is related to the write down of our investment in this joint venture as we determined the property ground lease will likely terminate no later than October 31, 2021 and the property will revert to the ground lessor at that time.

Income Taxes

As part of our structure, we own TRSs that are subject to federal and state income taxes. Our effective tax rate was (59.1)% and (1.7)% for the three months ended September 30, 2020 and 2019, respectively. Income tax expense increased \$65.1 million to \$64.6 million for the three months ended September 30, 2020, compared to a benefit of \$0.5 million for the three months ended September 30, 2019. The increase in income tax expense was primarily due to recording a \$64.5 million valuation allowance on 100% of our deferred tax assets as of September 30, 2020.

Comparison of the nine months ended September 30, 2020 to the nine months ended September 30, 2019

	For the nine months ended September 30,		\$ Change	% Change
	2020	2019		
(amounts in thousands)				
Revenues				
Operating revenues				
Room revenue	\$ 319,290	\$ 1,030,722	\$ (711,432)	(69.0)%
Food and beverage revenue	35,870	133,151	(97,281)	(73.1)%
Other revenue	26,845	55,245	(28,400)	(51.4)%
Total revenues	<u>382,005</u>	<u>1,219,118</u>	<u>(837,113)</u>	<u>(68.7)%</u>
Expenses				
Operating expenses				
Room expense	98,590	253,736	(155,146)	(61.1)%
Food and beverage expense	31,348	101,544	(70,196)	(69.1)%
Management and franchise fee expense	17,947	96,376	(78,429)	(81.4)%
Other operating expense	168,288	288,761	(120,473)	(41.7)%
Total property operating expenses	<u>316,173</u>	<u>740,417</u>	<u>(424,244)</u>	<u>(57.3)%</u>
Depreciation and amortization	146,777	162,654	(15,877)	(9.8)%
Property tax, insurance and other	79,356	90,595	(11,239)	(12.4)%
General and administrative	32,754	34,187	(1,433)	(4.2)%
Transaction costs	(86)	773	(859)	— %
Total operating expenses	<u>574,974</u>	<u>1,028,626</u>	<u>(453,652)</u>	<u>(44.1)%</u>
Other income	1,193	939	254	27.1 %
Interest income	3,829	4,935	(1,106)	(22.4)%
Interest expense	(73,591)	(68,632)	(4,959)	7.2 %
Gain (loss) on sale of hotel properties, net	485	(25,872)	26,357	— %
(Loss) income before equity in loss from unconsolidated joint ventures	<u>(261,053)</u>	<u>101,862</u>	<u>(362,915)</u>	<u>— %</u>
Equity in loss from unconsolidated joint ventures	<u>(8,196)</u>	<u>(2,919)</u>	<u>(5,277)</u>	<u>— %</u>
(Loss) income before income tax expense	<u>(269,249)</u>	<u>98,943</u>	<u>(368,192)</u>	<u>— %</u>
Income tax expense	<u>(51,665)</u>	<u>(4,475)</u>	<u>(47,190)</u>	<u>— %</u>
Net (loss) income	<u>(320,914)</u>	<u>94,468</u>	<u>(415,382)</u>	<u>— %</u>
Net loss (income) attributable to noncontrolling interests:				
Noncontrolling interest in consolidated joint ventures	1,816	360	1,456	— %
Noncontrolling interest in the Operating Partnership	1,599	(329)	1,928	— %
Preferred distributions - consolidated joint venture	—	(186)	186	(100.0)%
Redemption of preferred equity - consolidated joint venture	—	(1,153)	1,153	(100.0)%
Net (loss) income attributable to RLJ	<u>(317,499)</u>	<u>93,160</u>	<u>(410,659)</u>	<u>— %</u>
Preferred dividends	<u>(18,836)</u>	<u>(18,836)</u>	<u>—</u>	<u>— %</u>
Net (loss) income attributable to common shareholders	<u>\$ (336,335)</u>	<u>\$ 74,324</u>	<u>\$ (410,659)</u>	<u>— %</u>

Revenues

Total revenues decreased \$837.1 million, or 68.7%, to \$382.0 million for the nine months ended September 30, 2020 from \$1.2 billion for the nine months ended September 30, 2019. The decrease was the result of a \$711.4 million decrease in room revenue, a \$97.3 million decrease in food and beverage revenue, and a \$28.4 million decrease in other revenue.

Room Revenue

Room revenue decreased \$711.4 million, or 69.0%, to \$319.3 million for the nine months ended September 30, 2020 from \$1.0 billion for the nine months ended September 30, 2019. The decrease was the result of a \$122.1 million decrease in room revenue attributable to the non-comparable properties and a \$589.4 million decrease in room revenue attributable to the comparable properties. The decrease in room revenue from the comparable properties was attributable to a 65.0% decrease in RevPAR primarily due to the impact of the COVID-19 pandemic.

The following are the year-to-date key hotel operating statistics for the comparable properties owned at September 30, 2020 and 2019, respectively:

	For the nine months ended September 30,		% Change
	2020	2019	
Occupancy	33.8 %	80.1 %	(57.8)%
ADR	\$ 152.72	\$ 184.04	(17.0)%
RevPAR	\$ 51.61	\$ 147.42	(65.0)%

Food and Beverage Revenue

Food and beverage revenue decreased \$97.3 million, or 73.1%, to \$35.9 million for the nine months ended September 30, 2020 from \$133.2 million for the nine months ended September 30, 2019. The decrease was the result of a \$13.2 million decrease in food and beverage revenue attributable to the non-comparable properties and a \$84.1 million decrease in food and beverage revenue attributable to the comparable properties. The decrease in food and beverage revenue attributable to the comparable properties was primarily due to the impact of the COVID-19 pandemic.

Other Revenue

Other revenue, which includes revenue derived from ancillary sources such as parking fees, resort fees, gift shop sales and other guest service fees, decreased \$28.4 million, or 51.4%, to \$26.8 million for the nine months ended September 30, 2020 from \$55.2 million for the nine months ended September 30, 2019. The decrease was due to a \$6.7 million decrease in other revenue attributable to the non-comparable properties and a \$21.7 million decrease in other revenue attributable to the comparable properties due to the impact of the COVID-19 pandemic.

Property Operating Expenses

Property operating expenses decreased \$424.2 million, or 57.3%, to \$316.2 million for the nine months ended September 30, 2020 from \$740.4 million for the nine months ended September 30, 2019. The decrease was due to a \$87.8 million decrease in property operating expenses attributable to the non-comparable properties and a \$336.4 million decrease in property operating expenses attributable to the comparable properties.

The components of our property operating expenses for the comparable properties owned at September 30, 2020 and 2019, respectively, were as follows (in thousands):

	For the nine months ended September 30,		\$ Change	% Change
	2020	2019		
Room expense	\$ 98,575	\$ 226,615	\$ (128,040)	(56.5)%
Food and beverage expense	31,348	93,026	(61,678)	(66.3)%
Management and franchise fee expense	18,079	81,330	(63,251)	(77.8)%
Other operating expense	168,030	251,489	(83,459)	(33.2)%
Total property operating expenses	\$ 316,032	\$ 652,460	\$ (336,428)	(51.6)%

The decrease in property operating expenses attributable to the comparable properties was due to the impact of the COVID-19 pandemic. Management and franchise fee expense for the nine months ended September 30, 2020 included a reduction in management and franchise fee expense of \$13.2 million related to the recognition of the Wyndham termination payment. Other operating expense for the nine months ended September 30, 2020 included property-level severance expense of approximately \$7.7 million. This amount includes \$6.7 million related to severance for associates at our New York City hotels operating under collective bargaining agreements.

Depreciation and Amortization

Depreciation and amortization expense decreased \$15.9 million, or 9.8%, to \$146.8 million for the nine months ended September 30, 2020 from \$162.7 million for the nine months ended September 30, 2019. The decrease was primarily related to a \$16.1 million decrease in depreciation and amortization expense attributable to the non-comparable properties.

Property Tax, Insurance and Other

Property tax, insurance and other expense decreased \$11.2 million, or 12.4%, to \$79.4 million for the nine months ended September 30, 2020 from \$90.6 million for the nine months ended September 30, 2019. The decrease was attributable to a \$9.0 million decrease in property tax, insurance and other expense attributable to the non-comparable properties and a \$2.3 million decrease in property tax, insurance and other expense attributable to the comparable properties. The decrease in property tax, insurance and other expense attributable to the comparable properties was primarily attributable to a decrease in rent expense due to rent abatements and the impact of COVID-19 on percentage rent obligations, partially offset by an increase in property insurance premiums.

General and Administrative

General and administrative expense decreased \$1.4 million, or 4.2%, to \$32.8 million for the nine months ended September 30, 2020 from \$34.2 million for the nine months ended September 30, 2019. The overall decrease was primarily attributable to the reversal of an excess accrued liability related to the settlement of National Retirement Fund matter of \$1.8 million, and a net decrease in other general and administrative expenses of \$0.7 million resulting from our response to COVID-19. These decreases were partially offset by an increase in compensation costs related to corporate-level severance of \$0.5 million, and an increase in expenses outside of the normal course of operations of \$0.6 million.

Interest Expense

The components of our interest expense for the nine months ended September 30, 2020 and 2019 were as follows (in thousands):

	For the nine months ended September 30,		\$ Change	% Change
	2020	2019		
Senior Notes	\$ 17,825	\$ 17,842	\$ (17)	(0.1)%
Revolver and Term Loans	39,087	31,795	7,292	22.9 %
Mortgage loans	13,483	15,575	(2,092)	(13.4)%
Amortization of deferred financing costs	3,214	3,018	196	6.5 %
Undesignated interest rate swaps	(18)	402	(420)	— %
Total interest expense	<u>\$ 73,591</u>	<u>\$ 68,632</u>	<u>\$ 4,959</u>	7.2 %

Interest expense increased \$5.0 million, or 7.2%, to \$73.6 million for the nine months ended September 30, 2020 from \$68.6 million for the nine months ended September 30, 2019. The increase in interest expense was primarily attributable to the outstanding balance of \$400.0 million on the Revolver, and an increase in pricing as a result of the amendment of the Revolver and Term Loans in June 2020. These increases were partially offset by a decrease related to refinancing transactions that occurred during the year ended December 31, 2019, and unrealized gains on certain discontinued cash flow hedges.

Equity in Loss from Unconsolidated Joint Ventures

Equity in loss from unconsolidated joint ventures increased \$5.3 million to a loss of \$8.2 million for the nine months ended September 30, 2020 from a loss of \$2.9 million for the nine months ended September 30, 2019. The increase is primarily attributable to the impact of COVID-19 and an impairment loss of \$6.5 million related to one of our unconsolidated joint ventures during the nine months ended September 30, 2020. The impairment loss is related to the write down of our investment in this joint venture as we determined the property ground lease will likely terminate no later than October 31, 2021 and the property will revert to the ground lessor at that time. This was partially offset by the impact of a loss on the sale of certain assets in June 2019 by unconsolidated joint ventures that did not recur in 2020.

Income Taxes

As part of our structure, we own TRSs that are subject to federal and state income taxes. Our effective tax rates were (19.2)% and 4.5% for the nine months ended September 30, 2020 and 2019, respectively. Income tax expense increased \$47.2 million to \$51.7 million for the nine months ended September 30, 2020 from \$4.5 million for the nine months ended September 30, 2019. The increase in income tax expense was primarily due to recording a \$64.5 million valuation allowance on 100% of our deferred tax assets as of September 30, 2020.

Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our performance: (1) FFO, (2) Adjusted FFO, (3) EBITDA, (4) EBITDAre and (5) Adjusted EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as a measure of our operating performance. FFO, Adjusted FFO, EBITDA, EBITDAre, and Adjusted EBITDA, as calculated by us, may not be comparable to FFO, Adjusted FFO, EBITDA, EBITDAre and Adjusted EBITDA as reported by other companies that do not define such terms exactly as we define such terms.

Funds From Operations

We calculate funds from operations ("FFO") in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"), which defines FFO as net income or loss, excluding gains or losses from sales of real estate, impairment, the cumulative effect of changes in accounting principles, plus depreciation and amortization, and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most real estate industry investors consider FFO to be helpful in evaluating a real estate company's operations. We believe that the presentation of FFO provides useful information to investors regarding our operating performance and can facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common shareholders. Our calculation of FFO may not be comparable to measures calculated by other companies who do not use the NAREIT definition of FFO or do not calculate FFO per diluted share in accordance with NAREIT guidance. Additionally, FFO may not be helpful when comparing us to non-REITs. We present FFO attributable to common shareholders, which includes our OP units, because our OP units may be redeemed for common shares. We believe it is meaningful for the investor to understand FFO attributable to all common shares and OP units.

We further adjust FFO for certain additional items that are not in NAREIT's definition of FFO, such as hotel transaction costs, non-cash income tax expense or benefit, the amortization of share-based compensation, and certain other expenses that we consider outside the normal course of operations. We believe that Adjusted FFO provides useful supplemental information to investors regarding our ongoing operating performance that, when considered with net income and FFO, is beneficial to an investor's understanding of our operating performance.

The following table is a reconciliation of our GAAP net (loss) income to FFO attributable to common shareholders and unitholders and Adjusted FFO attributable to common shareholders and unitholders for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Net (loss) income	\$ (173,919)	\$ 32,455	\$ (320,914)	\$ 94,468
Preferred dividends	(6,279)	(6,279)	(18,836)	(18,836)
Preferred distributions - consolidated joint venture	—	—	—	(186)
Redemption of preferred equity - consolidated joint venture	—	—	—	(1,153)
Depreciation and amortization	48,375	49,295	146,777	162,654
(Gain) loss on sale of hotel properties, net	(391)	1,037	(485)	25,872
Noncontrolling interest in consolidated joint ventures	(21)	104	1,816	360
Adjustments related to consolidated joint ventures (1)	(75)	(75)	(224)	(224)
Adjustments related to unconsolidated joint ventures (2)	7,008	504	7,991	4,733
FFO	(125,302)	77,041	(183,875)	267,688
Transaction costs	(116)	(211)	(86)	773
Amortization of share-based compensation	3,195	2,948	9,217	8,708
Non-cash income tax expense (benefit)	64,510	(1,102)	51,447	2,950
Unrealized (gain)/loss on discontinued cash flow hedges	(1,203)	468	(18)	412
Corporate- and property-level severance (3)	7,981	—	8,190	—
Other expenses (4)	(1,733)	40	(744)	484
Adjusted FFO	\$ (52,668)	\$ 79,184	\$ (115,869)	\$ 281,015

- (1) Includes depreciation and amortization expense allocated to the noncontrolling interest in the consolidated joint ventures.
- (2) Includes our ownership interest in the depreciation and amortization expense, impairment loss, and loss on sale of the unconsolidated joint ventures.
- (3) Includes corporate-level severance of \$0.5 million for both the three and nine months ended September 30, 2020 and property-level severance of \$7.5 million and \$7.7 million for the three and nine months ended September 30, 2020, respectively. Property-level severance for the three and nine months ended September 30, 2020 includes \$6.7 million related to severance for associates at our New York City hotels operating under collective bargaining agreements.
- (4) Represents income and expenses outside of the normal course of operations, including debt modification costs, legal and other costs, and hurricane-related costs that were not reimbursed by insurance. Other expenses for the three and nine months ended September 30, 2020 includes a benefit of \$1.8 million due to the reversal of an excess accrued liability related to the settlement of the National Retirement Fund matter.

EBITDA and EBITDAre

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

In addition to EBITDA, we present EBITDAre in accordance with NAREIT guidelines, which defines EBITDAre as net income or loss excluding interest expense, income tax expense, depreciation and amortization expense, gains or losses from sales of real estate, impairment, and adjustments for unconsolidated joint ventures. We believe that the presentation of EBITDAre provides useful information to investors regarding our operating performance and can facilitate comparisons of operating performance between periods and between REITs.

We also present Adjusted EBITDA, which includes additional adjustments for items such as gains or losses on extinguishment of indebtedness, transaction costs, the amortization of share-based compensation, and certain other expenses that we consider outside the normal course of operations. We believe that Adjusted EBITDA provides useful supplemental

information to investors regarding our ongoing operating performance that, when considered with net income, EBITDA, and EBITDAre, is beneficial to an investor's understanding of our operating performance.

The following table is a reconciliation of our GAAP net (loss) income to EBITDA, EBITDAre and Adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Net (loss) income	\$ (173,919)	\$ 32,455	\$ (320,914)	\$ 94,468
Depreciation and amortization	48,375	49,295	146,777	162,654
Interest expense, net of interest income	25,700	20,642	69,762	63,697
Income tax expense (benefit)	64,620	(529)	51,665	4,475
Adjustments related to unconsolidated joint ventures (1)	596	628	1,823	2,182
EBITDA	(34,628)	102,491	(50,887)	327,476
Impairment loss of unconsolidated joint ventures (2)	6,533	—	6,533	—
(Gain) loss on sale of hotel properties, net	(391)	1,037	(485)	25,872
Loss on sale of unconsolidated joint ventures (3)	—	—	—	2,923
EBITDAre	(28,486)	103,528	(44,839)	356,271
Transaction costs	(116)	(211)	(86)	773
Amortization of share-based compensation	3,195	2,948	9,217	8,708
Corporate- and property-level severance (4)	7,981	—	8,190	—
Other expenses (5)	(1,733)	40	(744)	484
Adjusted EBITDA	\$ (19,159)	\$ 106,305	\$ (28,262)	\$ 366,236

- (1) Includes our ownership interest in the interest, depreciation, and amortization expense of the unconsolidated joint ventures.
- (2) Includes our ownership interest in the impairment loss of one of our unconsolidated joint ventures.
- (3) Includes our ownership interest in the loss on sale of the unconsolidated joint ventures associated with two resort hotel properties we owned in Myrtle Beach, SC.
- (4) Includes corporate-level severance of \$0.5 million for both the three and nine months ended September 30, 2020 and property-level severance of \$7.5 million and \$7.7 million for the three and nine months ended September 30, 2020, respectively. Property-level severance for the three and nine months ended September 30, 2020 includes \$6.7 million related to severance for associates at our New York City hotels operating under collective bargaining agreements.
- (5) Represents income and expenses outside of the normal course of operations, including debt modification costs, legal and other costs, and hurricane-related costs that were not reimbursed by insurance. Other expenses for the three and nine months ended September 30, 2020 includes a benefit of \$1.8 million due to the reversal of an excess accrued liability related to the settlement of the National Retirement Fund matter.

Liquidity and Capital Resources

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

- recurring maintenance and capital expenditures necessary to maintain our hotel properties in accordance with brand standards;
- operating shortfalls in hotel properties where operations were suspended and hotels with low occupancy;
- interest expense and scheduled principal payments on outstanding indebtedness;
- distributions necessary to qualify for taxation as a REIT; and
- corporate and other general and administrative expenses.

Our long-term liquidity requirements consist primarily of the funds necessary to pay for renovations and other capital expenditures that need to be made periodically with respect to our hotel properties, and scheduled debt payments, at maturity or otherwise.

Due to the COVID-19 pandemic and the effects of government and health official mandates to avoid nonessential travel, we previously announced the suspension of operations at 57 of our hotel properties. As government mandated stay-in-place restrictions have been lifted, we developed a framework to open hotels in a socially and financially responsible way. We had reopened 47 of the 57 suspended hotels as of September 30, 2020, and subsequent to the end of the quarter have reopened 3 hotels. We will continue to operate open hotels under aggressive operating cost containment plans, including significantly reduced staffing, elimination of non-essential amenities and services, and the closure of several floors and most food and beverage outlets. Significant events affecting travel, including the COVID-19 pandemic, typically have an impact on booking patterns, with the full extent of the impact generally determined by the duration of the event and its impact on travel decisions. We believe the ongoing effects of the COVID-19 pandemic on our operations continue to have a material adverse impact on our financial results and liquidity, and such adverse impact may continue well beyond the containment of such outbreak.

We can make no assurances that the assumptions used to estimate our liquidity requirements will remain accurate because the magnitude, duration and speed of the COVID-19 pandemic are uncertain. These uncertainties make it difficult to predict the impact on our business, financial condition or near- or longer-term financial or operational results with certainty.

We have taken further actions to improve our liquidity position, including capital expenditure and operating expense reductions, suspending ROI initiatives, and reducing dividend payments on our common shares.

As of September 30, 2020, we had \$1.0 billion of cash and cash equivalents and restricted cash reserves. In March 2020, we drew down \$400.0 million from our \$600.0 million Revolver in order to increase our cash position and preserve financial flexibility in light of the impact of the COVID-19 pandemic on our results of operations and liquidity.

In June 2020, we amended our Revolver and unsecured Term Loans. Key terms of the amendments include the following:

- Waiver of quarterly financial covenants through the first quarter of 2021, unless we satisfy the requirements for early termination of the covenant waiver period.
- After the end of the covenant waiver period, certain covenant thresholds have been modified through the second quarter of 2022.
- The addition of a covenant to maintain a minimum liquidity of \$125.0 million through the end of the covenant waiver period.
- An increase in pricing until such time that certain requirements are met to revert back to the pre-amendments pricing formulation.
- Imposition of certain restrictions during the covenant relief period including restrictions on share repurchases, dividend and distribution payments (with certain exceptions, including for the payment of a quarterly cash dividend of \$0.01 per common share, the payment of a quarterly cash dividend of \$0.4875 per share on our Series A Preferred Shares and other payments for purposes of maintaining REIT status).
- Addition of limitations on the incurrence of additional indebtedness, asset sales, investments and discretionary capital expenditures, in each case subject to various exceptions and requiring certain mandatory repayments, and a requirement to pledge the equity interests in certain subsidiaries that own unencumbered properties to secure the Revolver and Term Loans until such time that our leverage ratio is no greater than 6.50x for two consecutive quarters.
- We are permitted to make investments during the covenant relief period, including up to \$200.0 million of hotel acquisitions, depending on the outstanding balance on the Revolver, and approximately \$260.0 million of capital expenditures, depending on overall liquidity.

Based on these actions and our assumptions regarding the impact of the COVID-19 pandemic, we expect to have sufficient liquidity to satisfy our obligations over an extended period of time.

Sources and Uses of Cash

As of September 30, 2020, we had \$1.0 billion of cash, cash equivalents and restricted cash reserves as compared to \$927.2 million at December 31, 2019.

Cash flows from Operating Activities

The net cash flow used in operating activities totaled \$86.8 million and the net cash flow provided by operating activities totaled \$305.6 million for the nine months ended September 30, 2020 and 2019, respectively. Our cash flows used in or provided by operating activities generally consist of the net cash generated by or operating shortfalls from our hotel operations, the cash paid for corporate expenses and other working capital changes. Refer to the "Results of Operations" section for further discussion of our operating results for the nine months ended September 30, 2020 and 2019.

Cash flows from Investing Activities

The net cash flow used in investing activities totaled \$55.7 million for the nine months ended September 30, 2020 primarily due to \$57.6 million in routine capital improvements and additions to our hotel properties.

The net cash flow provided by investing activities totaled \$507.5 million for the nine months ended September 30, 2019 primarily due to \$623.6 million of net cash proceeds from the sale of 42 hotel properties, partially offset by \$117.9 million in routine capital improvements and additions to our hotel properties.

Cash flows from Financing Activities

The net cash flow provided by financing activities totaled \$254.0 million for the nine months ended September 30, 2020 primarily due to \$400.0 million in borrowings on the Revolver. The net cash flow provided by financing activities was partially offset by \$78.6 million in distributions to shareholders and unitholders, \$62.6 million paid to repurchase common shares under a share repurchase program, \$2.1 million in deferred financing cost payments, \$2.5 million in scheduled mortgage loan principal payments, and \$1.4 million paid to repurchase common shares to satisfy employee tax withholding requirements.

The net cash flow used in financing activities totaled \$303.4 million for the nine months ended September 30, 2019 primarily due to a payment of \$374.5 million to repay a mortgage loan, \$191.7 million in distributions to shareholders and unitholders, a payment of \$45.6 million to redeem the preferred equity in a consolidated joint venture, \$65.6 million paid to repurchase common shares under a share repurchase program, \$4.7 million in deferred financing cost payments and \$3.2 million in scheduled mortgage loan principal payments. The net cash flow used in financing activities was partially offset by \$381.0 million in proceeds from mortgage loans.

Capital Expenditures and Reserve Funds

We maintain each of our hotel properties in good repair and condition and in conformity with applicable laws and regulations, franchise agreements and management agreements. The cost of routine improvements and alterations are paid out of furniture, fixtures, and equipment ("FF&E") reserves, which are funded by a portion of each hotel property's gross revenues. Routine capital expenditures may be administered by the property management companies. However, we have approval rights over the capital expenditures as part of the annual budget process for each of our hotel properties.

From time to time, certain of our hotel properties may undergo renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, public space, meeting space, and/or restaurants, in order to better compete with other hotels and alternative lodging options in our markets. In addition, upon acquisition of a hotel property we often are required to complete a property improvement plan in order to bring the hotel up to the respective franchisor's standards. If permitted by the terms of the management agreement, funding for a renovation will first come from the FF&E reserves. To the extent that the FF&E reserves are not available or sufficient to cover the cost of the renovation, we will fund all or the remaining portion of the renovation with cash and cash equivalents on hand, our Revolver and/or other sources of available liquidity.

With respect to some of our hotels that are operated under franchise agreements with major national hotel brands and for some of our hotels subject to first mortgage liens, we are obligated to maintain FF&E reserve accounts for future capital expenditures at these hotels. The amount funded into each of these reserve accounts is generally determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents for each of the respective hotels, and typically ranges between 3.0% and 5.0% of the respective hotel's total gross revenue. As of September 30, 2020, approximately \$35.8 million was held in FF&E reserve accounts for future capital expenditures. In addition, due to the effects of the COVID-19

pandemic on our operations, we have worked with the brands, third-party managers, and lenders to allow the use of available restricted cash reserves to cover operating shortfalls at certain hotels.

Off-Balance Sheet Arrangements

As of September 30, 2020, we owned 50% interests in joint ventures that owned two hotel properties. We own more than 50% of the operating lessee for one of these hotels and the other hotel is operated without a lease. None of our trustees, officers or employees holds an ownership interest in any of these joint ventures or entities.

One of the 50% unconsolidated joint ventures that owns a hotel property has \$20.0 million of non-recourse mortgage debt, of which our pro rata portion was \$10.0 million, none of which is reflected as a liability on our consolidated balance sheet. Our liabilities with regard to the non-recourse debt and the liabilities of our subsidiaries that are members or partners in joint ventures are generally limited to guaranties of the borrowing entity's obligations to pay for the lender's losses caused by misconduct, fraud or misappropriation of funds by the venture and other typical exceptions from the non-recourse provisions in the mortgages, such as for environmental liabilities. In addition, this joint venture is subject to two ground leases with terms expiring in 2044 and 2094.

The other 50% unconsolidated joint venture that owns a hotel property is subject to a ground lease with an initial term expiring in 2021. During the quarter ended September 30, 2020, we determined that this property ground lease will likely terminate no later than October 31, 2021 and the property will revert to the ground lessor at that time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk includes the risks that arise from changes in interest rates, equity prices and other market changes that affect market sensitive instruments. Our primary market risk exposure is to changes in interest rates on our variable rate debt. As of September 30, 2020, we had approximately \$2.0 billion of total variable rate debt outstanding (or 75.9% of total indebtedness) with a weighted-average interest rate of 3.58% per annum. After taking into consideration the effect of interest rate swaps, 82.9% of our total indebtedness was fixed or effectively fixed. As of September 30, 2020, if market interest rates on our variable rate debt not subject to interest rate swaps were to increase by 1.00%, or 100 basis points, interest expense would decrease future earnings and cash flows by approximately \$4.4 million annually, taking into account our existing contractual hedging arrangements.

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable. We have entered into derivative financial instruments such as interest rate swaps to mitigate our interest rate risk or to effectively lock the interest rate on a portion of our variable rate debt. We do not enter into derivative or interest rate transactions for speculative purposes.

The following table provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations outstanding as of September 30, 2020, the following table presents the principal repayments and related weighted-average interest rates by contractual maturity dates (in thousands):

	2020	2021	2022	2023	2024	Thereafter	Total
Fixed rate debt (1)	\$ 572	\$ 3,558	\$ 140,386	\$ —	\$ —	\$ 474,888	\$ 619,404
Weighted-average interest rate	5.01 %	5.01 %	5.01 %	— %	— %	6.00 %	5.77 %
Variable rate debt (1)	\$ —	\$ —	\$ 350,000	\$ 625,000	\$ 581,000	\$ 400,000	\$ 1,956,000
Weighted-average interest rate (2)	— %	— %	2.61 %	4.58 %	2.95 %	3.77 %	3.58 %
Total (3)	\$ 572	\$ 3,558	\$ 490,386	\$ 625,000	\$ 581,000	\$ 874,888	\$ 2,575,404

(1) Excludes \$6.0 million and \$2.8 million of net deferred financing costs on the Term Loans and mortgage loans, respectively.

(2) The weighted-average interest rate gives effect to interest rate swaps, as applicable.

(3) Excludes a total of \$23.7 million related to fair value adjustments on debt.

Our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during future periods, prevailing interest rates and our hedging strategies at that time.

Changes in market interest rates on our fixed rate debt impact the fair value of our debt, but such changes have no impact to our consolidated financial statements. As of September 30, 2020, the estimated fair value of our fixed rate debt was \$612.9 million, which is based on having the same debt service requirements that could have been borrowed at the date presented, at prevailing current market interest rates. If interest rates were to rise by 1.00%, or 100 basis points, and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease by approximately \$2.7 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company's management, under the supervision and participation of the Company's Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2020.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15 and 15d-15 of the Exchange Act) during the period ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The nature of the operations of our hotels exposes our hotel properties, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. Other than routine litigation arising out of the ordinary course of business, the Company is not presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, please refer to the "Risk Factors" sections in our Annual Report, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (the "Q1 Quarterly Report") and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "Q2 Quarterly Report"), each of which is accessible on the SEC's website at www.sec.gov. Except for the additional risk factors set forth in our Q1 Quarterly Report and in our Q2 Quarterly Report, there have been no material changes to the risk factors previously disclosed in our Annual Report.

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

Unregistered Sales of Equity Securities

The Company did not sell any securities during the quarter ended September 30, 2020 that were not registered under the Securities Act of 1933, as amended (the "Securities Act").

Issuer Purchases of Equity Securities

The following table summarizes all of the share repurchases during the three months ended September 30, 2020:

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (2)
July 1, 2020 through July 31, 2020	396	\$ 8.06	—	26,638,808
August 1, 2020 through August 31, 2020	18,920	\$ 8.65	—	22,603,480
September 1, 2020 through September 30, 2020	51,401	\$ 8.36	—	24,639,360
Total	70,717		—	

- (1) Includes surrendered common shares owned by certain employees to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted common shares of beneficial interest issued under the 2015 Plan.
- (2) The maximum number of shares that may yet be repurchased under the share repurchase program is calculated by dividing the total dollar amount available to repurchase shares by the closing price of our common shares on the last business day of the respective month.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits required to be filed by Item 601 of Regulation S-K are noted below:

Exhibit Index

Exhibit Number	Description of Exhibit
3.1	Articles of Amendment and Restatement of Declaration of Trust of RLJ Lodging Trust (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registrant's Registration Statement on Form S-11 (File. No. 333-172011) filed on May 5, 2011)
3.2	Articles of Amendment to Articles of Amendment and Restatement of Declaration of Trust of RLJ Lodging Trust (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 7, 2015)
3.3	Articles of Amendment to Articles of Amendment and Restatement of Declaration of Trust of RLJ Lodging Trust (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 5, 2016)
3.4	Articles Supplementary to Articles of Amendment and Restatement of Declaration of Trust (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 26, 2015)
3.5	Articles Supplementary designating RLJ Lodging Trust's \$1.95 Series A Cumulative Convertible Preferred Shares, par value \$0.01 per share (incorporated by reference to Exhibit 3.5 to the Registrant's Form 8-A filed on August 30, 2017)
3.6	Third Amended and Restated Bylaws of RLJ Lodging Trust (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on May 5, 2016)
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)

Submitted electronically with this report
 Submitted electronically with this report
 Submitted electronically with this report
 Submitted electronically with this report
 Submitted electronically with this report
 Submitted electronically with this report
 Submitted electronically with this report

*Filed 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.

RLJ LODGING TRUST

Dated: November 5, 2020

/s/ LESLIE D. HALE

Leslie D. Hale

President and Chief Executive Officer

Dated: November 5, 2020

/s/ SEAN M. MAHONEY

Sean M. Mahoney

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

Dated: November 5, 2020

/s/ CHRISTOPHER A. GORMSEN

Christopher A. Gormsen

Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Leslie D. Hale, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RLJ Lodging Trust;
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 trustees (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.

RLJ LODGING TRUST

Dated: November 5, 2020

/s/ LESLIE D. HALE

Leslie D. Hale

President and Chief Executive Officer

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Sean M. Mahoney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RLJ Lodging Trust;
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 trustees (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.

RLJ LODGING TRUST

Dated: November 5, 2020

/s/ SEAN M. MAHONEY

Sean M. Mahoney

Executive Vice President and Chief Financial Officer

**Certification Pursuant To
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of RLJ Lodging Trust (the "Company") on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leslie D. Hale, President and Chief Executive Officer of the Company, and I, Sean M. Mahoney, Executive Vice President and Chief Financial Officer of the Company, certify, to our knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

RLJ LODGING TRUST

Dated: November 5, 2020

/s/ LESLIE D. HALE

Leslie D. Hale

President and Chief Executive Officer

/s/ SEAN M. MAHONEY

Sean M. Mahoney

Executive Vice President and Chief Financial Officer