



RLJ | Lodging Trust

2021 ANNUAL REPORT

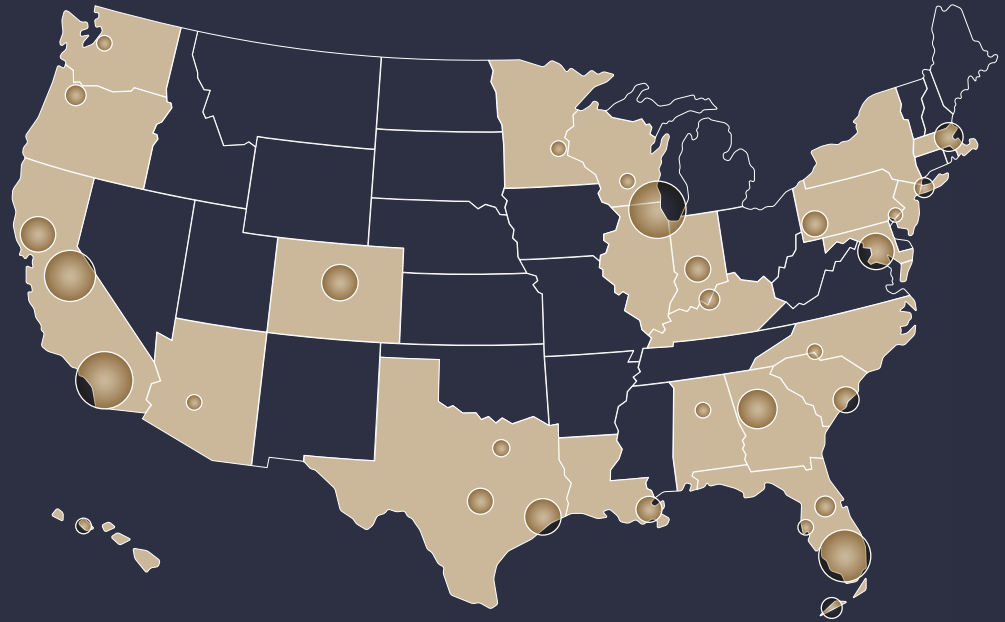
RLJ LODGING TRUST (“RLJ”) is a self-advised, publicly traded real estate investment trust that owns premium-branded, rooms-oriented, high-margin, focused-service and compact full-service hotels located within the heart of demand locations. Our hotels are geographically diverse and concentrated in major urban markets that provide multiple demand generators from business, leisure and other travelers.

Urban Markets (Number of Hotels)

22
STATES

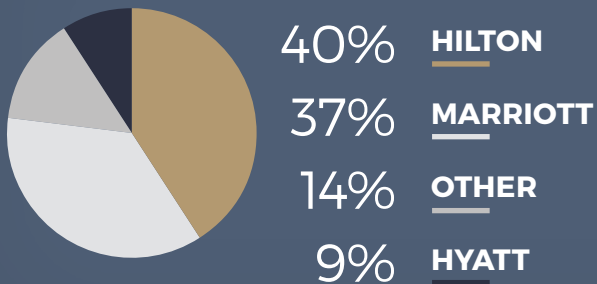
97
HOTELS

21.5K
ROOMS

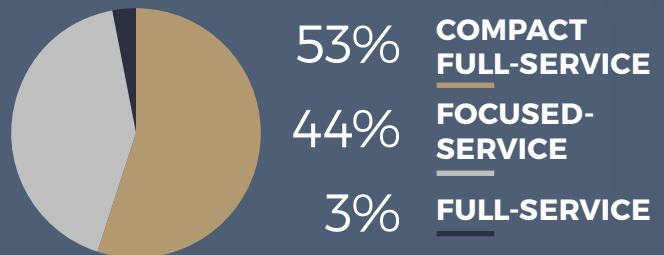


Lodging Segments (% of Hotel Rooms)

BRAND



SERVICE LEVEL



Note: As of March 2022

Cover images

TOP AND BOTTOM: MOXY DENVER CHERRY CREEK, DENVER, CO

MIDDLE: AC HOTEL BOSTON DOWNTOWN, BOSTON, MA

STRONG EXECUTION

Well-positioned for the entire cycle

To our shareholders,

We enter 2022 encouraged by the acceleration in lodging demand that emerged throughout 2021 and exceeded our expectations. Against this improving backdrop, we were very active and successfully executed on a number of our strategic objectives. Most notably, we accretively match-funded three high-quality acquisitions with proceeds from non-core dispositions, advanced on our internal growth catalysts, which we expect to unlock \$23 to \$28 million of incremental EBITDA, and refinanced over \$1 billion of debt to further strengthen our balance sheet. We were able to successfully execute on all of these initiatives due to the unwavering commitment of the entire RLJ team and continued support of all of our partners.

As we look beyond 2021, RLJ remains well positioned to benefit from the continuation of the industry's recovery and drive outsized performance this entire cycle.

RECOVERY ACCELERATING

The recovery of lodging fundamentals in 2021 was driven by a significant increase in vaccination rates and the easing of restrictions, which drove a meaningful increase in lodging demand across all travel segments. Specifically, the industry benefited from the continuation of robust leisure demand, which allowed many resort markets to exceed 2019 levels as consumers demonstrated their desire to travel. Notably, there was clear evidence of the acceleration in both group and business transient demand as small groups began meeting and business travel resumed, in many cases, in advance of returning to corporate offices. Similar to industry trends, our portfolio saw sequential improvement throughout the year with our fourth quarter RevPAR recovering to 75% of 2019 levels.

Looking ahead, we expect the positive momentum in lodging fundamentals to continue to accelerate. We also expect group and business transient to drive the next leg of the lodging recovery, which should accelerate the recovery of urban markets. Our portfolio is especially poised to benefit from these trends given our exposure to urban markets, where we generate two-thirds of our EBITDA.



EMBASSY SUITES TAMPA DOWNTOWN
CONVENTION CENTER, TAMPA, FL



HAMPTON INN & SUITES ATLANTA MIDTOWN,
ATLANTA, GA



LOUISVILLE MARRIOTT DOWNTOWN, LOUISVILLE, KY



MOXY DENVER CHERRY CREEK, DENVER, CO

MULTIPLE CHANNELS OF GROWTH

External and internal growth initiatives will drive “above cycle” growth



MULTIPLE CHANNELS OF GROWTH

As the industry’s recovery gained momentum in 2021, we executed on both our external growth and internal value creation initiatives.

During the year, we accretively match-funded approximately \$200 million of high-quality acquisitions with proceeds from assets that were sold at a significantly higher EBITDA multiple. This accretive capital recycling is expected to create an incremental \$8 million of stabilized Hotel EBITDA, while preserving our investment capacity. Our 2021 acquisitions include:

- The Hampton Inn & Suites Atlanta Midtown, which opened in 2020 and is located in the heart of the high-growth, Midtown Atlanta submarket;
- The AC Hotel Boston Downtown, which opened in 2018 and boasts an A+ location within the Ink Block development of Boston’s highly desirable South End neighborhood; and,
- The Moxy Cherry Creek, which opened in late 2017 and is located within the upscale, lifestyle-oriented Cherry Creek submarket of Denver.

These acquisitions are consistent with our strategy of owning premium-branded, rooms-oriented, high-margin hotels located within the heart of demand in high-growth markets, and are expected to generate accretive RevPAR and EBITDA, which will enhance our portfolio metrics and growth profile.

Over the last three years, our capital recycling efforts have significantly enhanced the overall quality of our portfolio, which is evidenced by an 8% increase in absolute RevPAR, a 12% increase in Hotel EBITDA per key, and a 50-basis point improvement in Hotel EBITDA margin. Based on every metric, our portfolio today is of the highest quality we have had since our inception as a public company in 2011.

\$8M

INCREMENTAL EBITDA FROM

~\$200M

OF ACCRETIVE
CAPITAL RECYCLING

\$23–\$28M

INCREMENTAL EBITDA
FROM UNLOCKING
EMBEDDED VALUE

STRONG LIQUIDITY

Flexibility and optionality will drive value creation

VALUE CREATION

In addition to driving our external growth, this past year we made significant progress towards realizing the incremental value embedded in our portfolio. During the year, we outlined the building blocks of our unique and compelling internal growth catalysts that are expected to generate \$23 to \$28 million in incremental stabilized EBITDA on an annualized basis. Specifically:

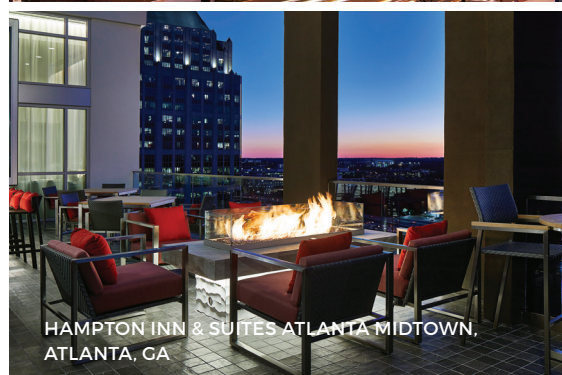
- We remain on track to complete our conversions in Santa Monica, Mandalay Beach and Charleston by the end of 2022;
- We continue to execute on revenue enhancement projects such as space reconfigurations related to guestrooms, F&B outlets, and other underutilized areas; and,
- We are finalizing our margin enhancement initiatives that are expected to generate 50 basis points of incremental margin expansion above post-COVID operating synergies.

The significant progress we made in 2021 with respect to our external and internal growth initiatives has given us multiple channels of growth to drive EBITDA expansion throughout this cycle.

PRUDENT BALANCE SHEET MANAGEMENT

The ability to simultaneously execute on multiple channels of growth is made possible by our prudent and disciplined approach to balance sheet management, which ensures that we have ample liquidity and a resilient balance sheet. During 2021, we recapitalized over \$1 billion of debt, driven by two highly successful bond offerings. The financing proceeds were used to repay all of our 2022 and the majority of our 2023 maturing debt, as well as redeem our 6% FelCor senior notes. All of these actions resulted in over a 50-basis point reduction in our cost of debt and extended our maturities by 1.8 years. Additionally, we successfully amended our credit agreements, which provided incremental flexibility to execute on our strategic initiatives.

We entered 2022 with over \$1 billion of liquidity, no debt maturities until 2023, and a flexible balance sheet to support all of our growth initiatives.



\$1B+
IN LIQUIDITY

~50 BPS
REDUCTION IN
INTEREST RATE

CORPORATE RESPONSIBILITY

Aligning our execution with our commitment to ESG



STRENGTHENING OUR COMMITMENT TO ESG

As we execute on our growth initiatives to deliver significant value to our shareholders, we also consider our impact on each of our stakeholders, including our employees, guests, communities and the environment. This year, to bolster our efforts, we established a corporate responsibility committee reporting to our Board of Trustees.

We have a strong track record of supporting ESG initiatives. Specifically:

- We support our communities through inclusive labor practices, policies, philanthropic volunteer, and donation programs;
- We have a market-leading, diverse and inclusive culture at all levels of RLJ;
- We invest in energy, carbon and water efficiency projects across our portfolio, actively monitor their progress and continually seek to identify opportunities for reductions; and,
- We remain committed to ensuring that we continue to operate under the highest standards of ethics, risk mitigation and accountability and we adhere to a robust code of business conduct and ethical standards.

ESG has long been embedded in RLJ's corporate identity and is aligned with our core values. In 2022, we will continue to build upon our commitment by further enhancing our disclosures to highlight our initiatives.

WELL POSITIONED FOR 2022 AND BEYOND

Over the past two years, we have successfully navigated an incredibly challenging period for our industry, while positioning our portfolio to drive above cycle growth. Our ability to effectively navigate through the unprecedented impact of the pandemic on the lodging industry further validates the benefits of our portfolio, the resilience of our operating model, and the strength of our conservative balance sheet.

As we look ahead to 2022, our priorities will build upon our achievements from last year, which were made possible by the tremendous efforts of our dedicated team of seasoned professionals and the ongoing support of our partners and stakeholders.

Overall, we are encouraged by the resurgence in travel demand that we are seeing today. This resurgence not only reinforces our belief in the positive trajectory of lodging fundamentals, but also bolsters our confidence in our strategic initiatives that are underway. RLJ is well positioned to drive outsized growth this year and beyond. We thank you for your support and will continue to work tirelessly on your behalf to create meaningful shareholder value.

ROBERT L. JOHNSON
EXECUTIVE CHAIRMAN

LESLIE D. HALE
PRESIDENT & CEO

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2021

OR

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

For the transition period from _____ to _____

Commission File Number 001-35169

RLJ LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)
3 Bethesda Metro Center, Suite 1000
Bethesda, Maryland
(Address of Principal Executive Offices)

27-4706509
(I.R.S. Employer
Identification No.)

20814
(Zip Code)

(301) 280-7777

(Registrant's Telephone Number, Including Area Code)

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

Title of Class	Trading Symbol	Name of Exchange on Which Registered
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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the 160,754,343 common shares of beneficial interest held by non-affiliates of the Registrant was approximately \$2,448,288,644 based on the closing price of \$15.23 as reported on the New York Stock Exchange for such common shares of beneficial interest on June 30, 2021.

As of February 17, 2022, 166,478,328 common shares of beneficial interest of the Registrant, \$0.01 par value per share, were outstanding.

Documents Incorporated by Reference

Portions of the Definitive Proxy Statement for our 2022 Annual Meeting of Shareholders are incorporated by reference into Part III of this report. We expect to file our proxy statement within 120 days after December 31, 2021.

TABLE OF CONTENTS

<u>Item No.</u>		<u>Form 10-K Report Page</u>
PART I		
Item 1.	Business	4
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	27
Item 2.	Properties	27
Item 3.	Legal Proceedings	32
Item 4.	Mine Safety Disclosures	32
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	33
Item 6.	Reserved	35
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	35
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	49
Item 8.	Financial Statements and Supplementary Data	50
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	50
Item 9A.	Controls and Procedures	50
Item 9B.	Other Information	51
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	52
Item 11.	Executive Compensation	52
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	52
Item 13.	Certain Relationships and Related Transactions and Director Independence . . .	52
Item 14.	Principal Accountant Fees and Services	52
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	53
Item 16.	Form 10-K Summary	59

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, 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, 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,” “may” 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 material 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 will continue to impact us will depend on future developments, which are highly uncertain and cannot be predicted with confidence. These future developments may include, among others, 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, the impact of the pandemic on global and regional economies, travel and economic activity, public adoption rates of COVID-19 vaccines, including booster shots, and their effectiveness against emerging variants of COVID-19, such as the Delta and Omicron variants, and the pace of recovery when the COVID-19 pandemic subsides. Moreover, investors are cautioned to interpret many of the risks identified under the section entitled “Risk Factors” within this Annual Report on Form 10-K as being heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic.

Additional factors that might cause actual outcomes to differ materially from our forward-looking statements include the following: the current global economic uncertainty, increased direct and indirect 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, epidemics and/or pandemics, including the COVID-19 pandemic, our ability to obtain lines of credit or permanent financing on satisfactory terms, changes in interest rates, 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. A discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” within this Annual Report on Form 10-K. 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. Except where the context suggests otherwise, we define certain terms in this Annual Report on Form 10-K as follows:

- “our company,” “we,” “us” and “our” refer to RLJ Lodging Trust, a Maryland real estate investment trust, together with its consolidated subsidiaries, including RLJ Lodging Trust, L.P., a Delaware limited partnership, which we refer to as the “Operating Partnership”;
- “our hotel properties” refers to the 98 hotels owned by us as of December 31, 2021;
- a “compact full-service hotel” typically refers to any hotel with (1) less than 300 guestrooms and less than 12,000 square feet of meeting space, or (2) more than 300 guestrooms where, unlike traditional full-service hotels, the operations focus primarily on the rental of guestrooms such that a significant majority of its total revenue is generated from room rentals rather than other sources, such as food and beverage;

- a “focused-service hotel” typically refers to any hotel where the operations focus primarily on the rental of guestrooms and that offers services and amenities to a lesser extent than a traditional full-service or compact full-service hotel. For example, a focused-service hotel may have a restaurant, but, unlike a restaurant in a traditional full-service or compact full-service hotel, it may not offer three meals per day and may not offer room service. In addition, a focused-service hotel differs from a compact full-service hotel in that it typically has less than 2,000 square feet of meeting space, if any at all;
- “TRS” refers to each of our taxable REIT subsidiaries that are wholly-owned, directly or indirectly, by the Operating Partnership and any disregarded subsidiaries of our TRSs;
- “Average Daily Rate” (“ADR”) represents the total hotel room revenues divided by the total number of rooms sold in a given period;
- “Occupancy” represents the total number of hotel rooms sold in a given period divided by the total number of rooms available; and
- “Revenue Per Available Room” (“RevPAR”) is the product of ADR and Occupancy.

For a more in depth discussion of ADR, Occupancy and RevPAR, please refer to the “Key Indicators of Operating Performance” section.

PART I

Item 1. Business

Our Company

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. We are one of the largest U.S. publicly-traded lodging REITs in terms of both number of hotels and number of rooms. 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 RevPAR, strong operating margins and attractive returns.

As of December 31, 2021, we owned 98 hotel properties with approximately 21,700 rooms, located in 22 states and the District of Columbia. We owned, through wholly-owned subsidiaries, a 100% interest in 96 of our hotel properties, a 95.0% controlling interest in The Knickerbocker, and a 50% interest in an entity owning one hotel property. We consolidate our real estate interests in the 97 hotel properties in which we hold a controlling financial interest, and we record the real estate interests in one hotel property in which we hold an indirect 50% interest using the equity method of accounting. We lease 97 of the 98 hotel properties to our TRSs, of which we own a controlling financial interest.

For U.S. federal income tax purposes, we elect to be taxed as a REIT. Substantially all of our assets and liabilities are held by, and all of our operations are conducted through, the Operating Partnership. We are the sole general partner of the Operating Partnership. As of December 31, 2021, 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 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 could have lasting changes in consumer behavior that could create headwinds for our hotel properties. 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 the COVID-19 pandemic on our business.

The effects of the COVID-19 pandemic have significantly impacted our operations, and combined with macroeconomic trends such as reduced business spending, including on travel, and a labor shortage, which has led to higher labor costs, lead us to believe that the ongoing effects of the COVID-19 pandemic on our operations will continue to have an adverse impact on our financial results.

The Lodging Industry

The lodging industry in the United States consists of public and private entities that operate in an extremely diversified market under a variety of brand names. The key participants in the lodging industry are as follows:

- *Owners* — own the hotel property and typically enter into a management agreement with an independent third party to manage the hotel property. The hotel properties may be branded and operated under the manager’s brand or branded under a separate franchise agreement.
- *Franchisors* — own a brand or brands and provide the franchised hotels with brand recognition, marketing support and worldwide reservation systems.
- *Managers* — responsible for the day-to-day operation of the hotel property, including the employment of the hotel staff, the determination of room rates, the development of sales and marketing plans, the preparation of operating and capital expenditure budgets and the preparation of financial reports for the owner.

Our Investment and Business Strategies

Our objective is to generate strong returns for our shareholders by acquiring and owning primarily premium-branded, focused-service and compact full-service hotels at prices where we believe we can generate attractive returns on investment and long-term value appreciation through proactive asset management. We also intend to selectively dispose of hotel properties when we believe the returns have been maximized or the hotel properties no longer meet our strategy in order to have investment capacity for other opportunities, which may include acquisitions. We intend to pursue this objective through the following investment and business strategies:

Investment Strategies

- *Targeted ownership of premium-branded, focused-service and compact full-service hotels.* We believe that premium-branded, focused-service and compact full-service 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 generated by traditional full-service hotels, while achieving higher profit margins due to their more efficient operating model and less volatile cash flows.
- *Use of premium hotel brands.* We believe in affiliating our hotels with premium brands owned by leading international franchisors such as Marriott, Hilton and Hyatt. We believe that utilizing premium brands provides significant advantages because of their guest loyalty programs, worldwide reservation systems, effective product segmentation, global distribution and strong customer awareness.
- *Focus on high-growth markets.* We focus on owning and acquiring hotel properties in markets that we believe exhibit multiple demand generators and attractive long-term growth prospects. As a result, we believe that these hotel properties generate higher returns on investment.

Business Strategies

- *Maximize returns from our hotel properties.* We believe that our hotel properties have the potential to generate improvements in RevPAR and earnings before interest, taxes, depreciation and amortization (“EBITDA”) as a result of our proactive asset management and the anticipated long-term recovery of the United States economy. We actively monitor and advise our third-party management companies on most aspects of our hotels’ operations, including property positioning, physical design, capital planning and investment, guest experience and overall strategic direction. We regularly review opportunities to further invest in our hotel properties in an effort to enhance quality and attractiveness, increase long-term value and generate attractive returns on investment.
- *Pursue a disciplined hotel acquisition strategy.* We seek to acquire additional hotel properties at prices below replacement cost where we believe we can generate attractive returns on investment. We intend to target newly or recently built hotel properties and we will also target acquisition opportunities where we can enhance value by pursuing proactive investment strategies such as renovation, repositioning or rebranding.
- *Pursue opportunistic capital recycling.* We may opportunistically and selectively sell hotel properties whose returns appear to have been maximized. To the extent that we sell our hotel properties, except as may be required by our debt agreements, we intend to redeploy the capital into other investment opportunities, including without limitation, acquisitions and internal value creation opportunities.
- *Maintain a flexible balance sheet.* We intend to continue to maintain a flexible capital structure that allows us to execute our strategy. We believe that a strong balance sheet is a key competitive advantage that affords us a lower cost of capital and positions us for growth. We structure our debt profile to maintain financial flexibility and a balanced maturity schedule with access to different forms of financing.

Our Hotels

Our hotel properties operate under strong, premium brands, with approximately 88% of our hotel properties operating under existing relationships with Marriott, Hilton or Hyatt. The following table sets forth the brand affiliations of our hotel properties as of December 31, 2021:

Brand Affiliations	Number of hotels	Percentage of total hotels	Number of rooms	Percentage of total rooms
Marriott				
Courtyard	12	12.3%	2,664	12.3%
Residence Inn	10	10.2%	1,444	6.7%
Marriott	5	5.1%	1,738	8.0%
Fairfield Inn & Suites	4	4.1%	552	2.5%
Renaissance	3	3.1%	782	3.6%
SpringHill Suites	3	3.1%	437	2.0%
AC Hotel	1	1.0%	205	0.9%
Moxy	1	1.0%	170	0.8%
Subtotal	39	39.9%	7,992	36.8%
Hilton				
Embassy Suites	20	20.4%	5,539	25.6%
Hilton Garden Inn	5	5.1%	1,125	5.2%
DoubleTree	4	4.1%	920	4.2%
Hampton Inn/Hampton Inn & Suites	3	3.1%	499	2.3%
Homewood Suites	2	2.0%	345	1.6%
Hilton	1	1.0%	231	1.1%
Subtotal	35	35.7%	8,659	40.0%
Hyatt				
Hyatt House	7	7.1%	1,188	5.5%
Hyatt Place	3	3.1%	466	2.2%
Hyatt Centric	2	2.0%	266	1.2%
Subtotal	12	12.2%	1,920	8.9%
Wyndham				
Wyndham	7	7.1%	2,241	10.3%
Subtotal	7	7.1%	2,241	10.3%
Other Brand Affiliation	5	5.1%	858	4.0%
Total	98	100.0%	21,670	100.0%

Asset Management

We have a dedicated team of asset management professionals that proactively work with our third-party management companies to maximize profitability at each of our hotels to the extent permitted under the REIT rules. Our asset management team monitors the performance of our hotels on a daily basis and holds frequent ownership meetings with corporate operations executives and key personnel at the hotels. Our asset management team works closely with our third-party management companies on key aspects of each hotel's operation, including, among others, revenue management, market positioning, cost structure, capital and operational budgeting, as well as the identification and evaluation of return on investment initiatives and overall business strategy. In addition, we retain approval rights on key staffing positions at many of our hotels, such as the hotel's general manager and director of sales. We believe that our strong asset management process helps to ensure that each hotel is being operated to our and our franchisors' standards, that our hotel properties are being adequately maintained in order to preserve the value of the asset and to ensure the safety of our customers, and that our management companies are maximizing revenues, profits and operating margins.

Competition

The U.S. lodging industry is highly competitive. Our hotel properties compete with other participants in the lodging industry for guests in each of their markets on the basis of several factors, including, among others, location, quality of accommodations, convenience, brand affiliation, room rates, service levels, amenities and the availability of lodging and event space. Competition is often specific to the individual markets in which our hotel properties are located and includes competition from existing and new hotels in the focused-service and compact full-service hotel segments and non-traditional accommodations for travelers, such as online services that market homes and condominiums as an alternative to hotel rooms. We believe that hotels, such as our hotels, that are affiliated with leading national brands, such as the Marriott, Hilton and Hyatt brands, will enjoy competitive advantages associated with operating under such brands.

We face competition for the acquisition of hotel properties from institutional pension funds, private equity funds, REITs, hotel companies and other parties who are engaged in the acquisition of hotel properties. Some of these competitors may have substantially greater financial and operational resources and access to capital, a lower cost of capital and/or greater knowledge of the markets in which we seek to invest. This competition may reduce the number of suitable investment opportunities offered to us and decrease the attractiveness of the terms on which we may acquire our targeted hotel investments, including the cost thereof.

Seasonality

The lodging industry is seasonal in nature, which can cause quarterly fluctuations in our revenues. For example, our hotels in the northeastern metropolitan areas experience lower revenues and profits during the winter months of December through March, while our hotels in Florida generally have higher revenues in the months of January through April. This seasonality can be expected to cause periodic fluctuations in a hotel's room revenues, occupancy levels, room rates, operating expenses and cash flows.

Our Financing Strategy

Over time, we intend to finance our long-term growth with equity issuances and debt financing with staggered maturities. Our strategy with respect to our debt profile is to primarily have unsecured debt and a greater percentage of fixed rate and hedged floating rate debt as compared to unhedged floating rate debt. Our debt is currently comprised of unsecured senior notes, unsecured credit agreements, and mortgage loans secured by certain hotel properties. We have a mix of fixed and floating rate debt; however, all of our debt currently either bears interest at fixed rates or effectively bears interest at fixed rates due to interest rate swaps on the debt.

Organizational Structure

We conduct our business through a traditional umbrella partnership real estate investment trust ("UPREIT") in which our hotel properties are indirectly owned by the Operating Partnership, through limited partnerships, limited liability companies or other subsidiaries. We are the sole general partner of the Operating Partnership and, as of December 31, 2021, we owned 99.5% of the OP units in the Operating Partnership. In the future, we may issue OP units from time to time in connection with acquiring hotel properties, financing, compensation or other reasons.

In order for the income from our hotel operations to constitute "rents from real property" for purposes of the gross income tests required for REIT qualification, we cannot directly or indirectly operate any of our hotel properties. Accordingly, we lease our hotels, and we intend to lease any hotels we acquire in the future, to subsidiaries of our TRSs ("TRS lessees"), which are owned by us. Our TRS lessees have engaged, or will engage, third-party management companies to manage our hotel properties, and any hotel properties we acquire in the future, on market terms.

Our TRS lessees pay rent to us that we intend to treat as "rents from real property," provided that the third-party management companies engaged by our TRS lessees to manage our hotel properties are deemed to be "eligible independent contractors" and certain other requirements are met. Our TRSs are subject to U.S. federal, state and local income taxes applicable to corporations.

Regulation

General

Our hotel properties are subject to various U.S. federal, state and local laws, ordinances and regulations, including regulations relating to common areas and fire and life safety requirements. We believe that each of our hotel properties has the necessary permits and approvals to operate its business.

Americans with Disabilities Act

Our hotel properties must comply with the applicable provisions of the Americans with Disabilities Act of 1990 and the Accessibility Guidelines promulgated thereunder (the “ADA”), to the extent that such hotels are “public accommodations” as defined by the ADA. The ADA may require the removal of structural barriers to access by persons with disabilities in certain public areas of our hotels where such removal is readily achievable. We believe that our hotel properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, non-compliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our hotels and to make alterations as appropriate in this respect.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator (including tenants) of real estate may be subject to liability related to contamination resulting from the presence or discharge of hazardous or toxic substances at that property and may be required to investigate and clean up such contamination at that property or emanating from that property. These costs could be substantial and liability under these laws may attach without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. The presence of contamination or the failure to remediate contamination at our hotels may expose us to third-party liability for cleanup costs, property damage or bodily injury, natural resource damages and costs or expenses related to liens or property use restrictions and materially and adversely affect our ability to sell, lease or develop the real estate or to incur debt using the real estate as collateral.

Our hotel properties are subject to various federal, state, and local environmental, health and safety laws and regulations. Our hotel properties incur costs to comply with these laws and regulations and could be subject to fines and penalties for non-compliance. The costs of complying with environmental, health and safety laws could increase as new laws are enacted and existing laws are modified.

Some of our hotel properties contain asbestos-containing building materials. We believe that the asbestos is appropriately contained in accordance with current environmental regulations and that we have no need for any immediate remediation or current plans to remove the asbestos.

We believe that our hotel properties are in compliance, in all material respects, with all federal, state and local environmental ordinances and regulations regarding hazardous or toxic substances and other environmental matters, the violation of which could have a material adverse effect on us. Although we have not received written notice from any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental matters in connection with any of our present properties, we can offer no assurance that a material environmental claim will not be asserted against us in the future.

Insurance

We carry comprehensive general liability, fire, extended coverage, business interruption, rental loss of income coverage and umbrella liability coverage on all of our hotels, including earthquake, wind, flood and hurricane coverage on hotels in areas where we believe such coverages are warranted, in each case with limits of liability that we deem adequate. Similarly, we are insured against the risk of direct physical damage in amounts we believe to be adequate to reimburse us, on a replacement cost basis, for the costs incurred

to repair or rebuild each hotel, including loss of income during the reconstruction period. We have selected policy specifications and insured limits which we believe to be appropriate given the relative risk of loss, the cost of the coverage and industry practice. Certain of our properties in our portfolio are located in areas known to be subject to hurricanes and we believe that we have appropriate insurance for those risks, although they are subject to higher deductibles than ordinary property insurance. We do not carry insurance for generally uninsurable risks, including, but not limited to losses caused by communicable or infectious diseases, war or governmental actions such as government seizures of property. In addition, we do not carry cyber insurance. In the opinion of our management, our hotels are adequately insured.

Human Capital

As of December 31, 2021, we had 76 employees. We strive to maintain a workplace that is free from discrimination or harassment on the basis of race, color, sex, religion, age, ethnicity, national origin, disability, sexual orientation, gender identification or any other status protected by applicable laws. We conduct annual trainings to prevent discrimination and harassment and monitor employee conduct year-round.

Our key human capital management objectives are to attract, recruit, hire, develop and promote a deep and diverse bench of talent that translates into a strong and successful workforce. To support these objectives, our human resources programs are designed to develop talent to prepare them for critical roles and leadership positions for the future; reward and support employees through competitive pay and benefit programs; enhance our culture through efforts to foster, promote, and preserve a culture of diversity and inclusion; and evolve and invest in technology, tools, and resources to enable employees at work.

In addition, throughout the COVID-19 pandemic, we have taken aggressive steps to protect the health and well-being of our associates, customers and the employees of our third-party management companies. Among other things, we follow the American Hotel Lodging Association (“AHLA”) Safe Stay[®] initiative focused on enhanced hotel cleaning practices, social interactions and workplace protocols required to address the challenges and new expectations presented by the COVID-19 pandemic. We are committed to ensuring the continuing safety, health and well-being of our community.

Environmental, Social, and Governance (“ESG”)

We are committed to driving long-term value creation for our shareholders by upholding our corporate responsibility and incorporating ESG initiatives in all key aspects of our strategy and business.

On the environmental front, our investment strategy of owning primarily rooms-oriented, focused-service and compact full-service hotels leads to lower operational intensity and higher efficiency with respect to space usage than full-service hotels, resulting in a lower environmental impact across our portfolio. In 2021, we disclosed on our website our historical performance with respect to energy consumption, greenhouse gas intensity and water intensity. We also disclosed our environmental policy, which includes our objectives, risks and opportunities, management processes, standard technical practices and investment focus areas as it relates to our environmental impact. Such objectives include reducing energy, greenhouse gas, and water usage and making green building investments, as well as addressing the physical impacts of climate change.

With respect to social causes, we continue to show our commitment to making an impact in the communities we serve. In 2021, following the damage caused by Hurricane Ida, both the Company and our associates donated to the Jericho Road Housing Initiative in New Orleans. Jericho Road Housing Initiative is a community-based organization that provides green and sustainable housing to low-income citizens in the central district of New Orleans. The initiative also provides robust job training and financial coaching services.

In connection with our adherence to the AHLA Safe Stay[®] initiative, we are committed to promoting the health and well-being of all members of our community — from our customers and associates to the employees of our third-party management companies. To that end, we incorporate all related AHLA Safe Stay policies and procedures into hotel operations so that all related parties benefit from our support. We have committed to initiatives that support associate well-being, including the AHLA 5-Star Promise — a voluntary industry pledge to improve and promote workplace safety around sexual violence, assault and

human trafficking. We are also committed to supporting our third-party management companies with integrating the 5-Star Promise principles throughout their hotel operations. Our labor and human rights policy outlines our approach to ensuring fair and equitable labor practices.

We continue to uphold high standards with respect to governance, which is reflected in our approach to maintaining a highly diverse board and our overall approach to risk management. With respect to our board, four trustees are women, six are ethnically diverse and eight are independent. Nearly 80% of our board has deep expertise and experience in risk management. In addition, our board, via the Nominating and Corporate Governance Committee (the “NCG Committee”) of the board, has the overall responsibility for overseeing ESG-related issues, policies and programs for the Company. The NCG Committee, with critical support from management, is leading the effort to formulate our strategy with respect to adapting and responding to the risks and opportunities presented by ESG-related matters. During 2021, we also disclosed key ESG metrics, documents and policies through the Global Reporting Initiative (“GRI”) Index, in accordance with the GRI framework.

We intend to continue to enhance our ESG initiatives and our disclosures by striving to adhere to other widely recognized frameworks to provide additional transparency regarding our ESG initiatives. We also intend to enhance strategic decision making by identifying and addressing material risks and opportunities that mitigate long-term environmental impacts to our hotel properties. We will continue to seek ways to maximize the positive impact of our business in ways that foster long-term resiliency for both the portfolio and our stakeholders.

Corporate Information

Our principal executive offices are located at 3 Bethesda Metro Center, Suite 1000, Bethesda, Maryland 20814. Our telephone number is (301) 280-7777. Our website is located at www.rljlodgingtrust.com. The information that is found on or accessible through our website is not incorporated into, and does not form a part of, this Annual Report on Form 10-K or any other report or document that we file with or furnish to the SEC. We have included our website address in this Annual Report on Form 10-K as an inactive textual reference and do not intend it to be an active link to our website.

We make available on our website, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also make available on our website on the Corporate Governance page under the Investor Relations section various documents related to our corporate governance including our: Board Committee Charters; Corporate Governance Guidelines; Code of Business Conduct and Ethics; Complaint Procedures for Financial and Auditing Matters; Declaration of Trust; and Bylaws.

This Annual Report on Form 10-K and other reports filed with the SEC are available on the SEC’s website, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC’s website address is www.sec.gov.

Item 1A. Risk Factors

Set forth below are the risks that we believe are material to our shareholders. You should carefully consider the following risks in evaluating our Company and our business. The occurrence of any of the following risks could materially and adversely impact our financial condition, results of operations, cash flows, the market price of our common shares, and our ability to, among other things, satisfy our debt service obligations and to make distributions to our shareholders, which in turn could cause our shareholders to lose all or a part of their investment. Some statements in this report including statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled “Special Note About Forward-Looking Statements” at the beginning of our Annual Report on Form 10-K.

Risks Related to Our Business and Hotel Properties

COVID-19 is expected to continue to significantly impact and disrupt, our business, financial performance and condition, operating results and cash flows. Further, the spread of COVID-19 has caused severe disruptions in the U.S. and global economy and financial markets and could result in the continuation of widespread business continuity issues for an unknown duration.

COVID-19 has disrupted our business and continues to have a material adverse effect on our financial performance and condition, operating results and cash flows.

Factors that would negatively impact our ability to operate successfully during or following the COVID-19 pandemic or another pandemic, or that could otherwise significantly impact and disrupt our business, financial performance and condition, operating results and cash flows, include:

- sustained negative consumer or business sentiment, economic metrics or demand for travel, including beyond the end of the COVID-19 pandemic, which could further impact demand for lodging;
- increased operational costs to maintain hotels, including increased sanitation measures;
- the scaling back or delay of a significant amount of planned capital expenditures, including planned renovation projects, which could adversely affect the value of our properties;
- our increased indebtedness and decreased operating revenues, which could increase our risk of default on our loans;
- disruptions in our supply chains;
- fluctuations in regional and local economies;
- the continued service and availability of personnel, including our senior leadership team, and our ability to recruit, attract and retain skilled personnel to the extent our management or personnel are impacted by the outbreak of pandemic or epidemic disease and are not available to conduct work;
- disruptions as a result of corporate employees working remotely, including risk of cybersecurity incidents and disruptions to internal control procedures; and
- difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect our ability to meet our liquidity needs by restricting or otherwise limiting our access to capital necessary to fund business operations and affect the availability and terms of future borrowings, renewals or refinancings.

Any of the negative impacts of the COVID-19 pandemic, including those described above, alone or in combination with others, may have a material adverse effect on our results of operations, financial condition and cash flows.

The significance, extent and duration of the impacts caused by the COVID-19 pandemic on our business, financial condition, operating results and cash flows, remains largely uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the continued severity, duration, transmission rate and geographic spread of COVID-19 in the United States, the extent and effectiveness of the containment measures taken, the effectiveness of the distribution and efficacy of vaccines, and the responses of the overall economy, the financial markets and the population, particularly in areas in which we operate. Furthermore, there can be no guarantee that the demand for lodging, and consumer confidence in travel generally, will recover as quickly as other industries after the COVID-19 pandemic has largely subsided. As a result, we cannot provide an estimate of the overall impact of the COVID-19 pandemic on our business or when, or if, we will be able to resume normal operations. Nevertheless, the COVID-19 pandemic presents material uncertainty and risk with respect to our business, financial performance and condition, operating results and cash flows.

We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate cash depends on many factors beyond our control, and we may not be able to generate cash required to service our debt.

Our ability to meet our debt service obligations or refinance our debt depends on our future operating and financial performance and capacity to generate cash. Our performance and capacity to generate cash will be affected by our ability to implement our business strategy successfully, but also certain general economic, financial, competitive, regulatory and other factors beyond our control, including the disruption caused by the COVID-19 pandemic. If we cannot generate sufficient cash to meet our debt service obligations or fund our other business needs, we may, among other things, need to refinance all or a portion of our debt, obtain additional financing, or continue to delay planned capital expenditures. We cannot assure you that we will be able to generate sufficient cash through any of the foregoing. If we are unable to refinance any of our debt or obtain additional financing on reasonable terms or at all, we may not be able to satisfy our debt obligations.

We will continue to be significantly influenced by the economies and other conditions in the specific markets in which we operate, particularly in the metropolitan areas where we have high concentrations of hotels.

Our hotels located in the Northern California, Southern California, South Florida, Chicago, Illinois, and Houston, Texas metropolitan areas accounted for approximately 12.5%, 10.5%, 8.6%, 7.4% and 5.5%, respectively, of our total number of rooms available for the fiscal year ended December 31, 2021. As a result, we are particularly susceptible to adverse market conditions in these areas, including industry downturns, relocation of businesses, localized COVID-19 infection rates and governmental actions to address the pandemic, any oversupply of hotel rooms, political unrest or a reduction in lodging demand. Adverse economic developments in the markets in which we have a concentration of hotels, or in any of the other markets in which we operate, or any increase in hotel supply or decrease in lodging demand resulting from the local, regional or national business or political climate, could materially and adversely affect us.

We are dependent on the performance of the third-party management companies that manage the operations of each of our hotels and we could be materially and adversely affected if such third-party hotel managers do not manage our hotels in our best interests.

Because U.S. federal income tax laws restrict REITs and their subsidiaries from operating or managing hotel properties, we do not operate or manage our hotel properties. Instead, we retain third-party hotel managers to operate our hotel properties pursuant to management agreements. As of December 31, 2021, all of our hotel properties had individual management agreements, 30 of which were with Aimbridge Hospitality (“Aimbridge”).

The success of our hotel properties depends largely on our ability to establish and maintain good relationships with the hotel managers. From time to time, disputes may arise between us and our third-party managers regarding their performance or compliance with the terms of the management agreements, which in turn could adversely affect our results of operations. We generally will attempt to resolve any such disputes through discussions and negotiations; however, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to terminate our management agreement, litigate the dispute or submit the matter to third-party dispute resolution, the outcome of which may be unfavorable to us.

In the event that any of our management agreements are terminated, we can provide no assurances that we could find a replacement manager or that our franchisors will consent to a replacement manager in a timely manner, or at all, or that any replacement manager will be successful in operating our hotels. Furthermore, if Aimbridge, as our largest provider of management services, is financially unable or unwilling to perform its obligations pursuant to our management agreements, our ability to find a replacement manager or managers for our Aimbridge-managed hotels could be challenging, costly and time consuming.

We are subject to the risks associated with the employment of hotel personnel, particularly with hotels that employ unionized labor.

Our third-party management companies are responsible for hiring and maintaining the labor force at each of our hotels. Although we do not directly employ or manage the employees at our hotels, we still are

subject to many of the costs and risks generally associated with the hotel labor force, particularly those hotels with unionized labor. From time to time, the hotel operations may be disrupted as a result of strikes, lockouts, public demonstrations or other negative actions and publicity. The resolution of labor disputes or re-negotiated labor contracts could lead to higher labor costs, either by increases in wages or benefits or by changes in work rules that raise hotel operating costs. We do not have the ability to affect the outcome of these negotiations.

Hotels where our managers have collective bargaining agreements with their employees are more highly affected by labor force activities than others. Furthermore, labor agreements may limit the ability of our hotel managers to reduce the size of the hotel workforce during an economic downturn because collective bargaining agreements are negotiated between the hotel managers and labor unions. Our ability, if any, to have any material impact on the outcome of these negotiations is restricted by and dependent on the individual management agreement covering a specific property, and we may have limited ability to control the outcome of these negotiations.

Labor shortages could slow our growth or harm our business.

Our success depends in part upon our third-party management companies' ability to attract, motivate and retain a sufficient number of qualified employees. Qualified individuals needed to fill these positions are in increasingly short supply in some areas, with such supply issues increasing to historical levels in 2021, as has widely been reported by news sources. The inability to recruit and retain these individuals may adversely impact hotel operations and guest satisfaction, which could harm our business. Additionally, competition for qualified employees has required us to pay meaningfully higher wages to attract enough employees than has historically been the case, and continued tightness in labor markets could result in continued escalation of labor costs. In addition, we could face some challenges meeting workforce requirements resulting from changes in workforce dynamics, such as higher standards and working remotely or more flexibility, which could result in increased labor costs in the future.

Restrictive covenants in certain of our management and franchise agreements contain provisions limiting or restricting the sale or financing of our hotels, which could have a material and adverse effect on us.

Our management and franchise agreements may contain restrictive covenants that limit or restrict our ability to sell or refinance a hotel without the consent of the management company or franchisor. Some of our franchise agreements provide the franchisor with a right of first offer in the event of certain sales or transfers of a hotel and provide that the franchisor has the right to approve any change in the management company engaged to manage the hotel. Generally, we may not agree to sell, lease or otherwise transfer particular hotels unless the transferee is not a competitor of the management company or franchisor and the transferee assumes the related management and/or franchise agreements. If the management company or franchisor does not consent to the sale or financing of our hotels, we may still sell the hotels, but there could be adverse consequences.

Substantially all of our hotel properties operate under either Marriott, Hilton or Hyatt brands; therefore, we are subject to the risks associated with concentrating our portfolio in just three brand families.

86 of the 98 hotel properties that we owned as of December 31, 2021 utilize brands owned by Marriott, Hilton or Hyatt. As a result, our success is dependent in part on the continued success of Marriott, Hilton or Hyatt and their respective brands. We believe that building brand value is critical to increasing demand and building customer loyalty. Consequently, if market recognition or the positive perception of Marriott and/or Hilton and/or Hyatt is reduced or compromised, the goodwill associated with the Marriott-, Hilton-, or Hyatt-branded hotels in our portfolio may be adversely affected. Furthermore, if our relationship with Marriott, Hilton or Hyatt were to deteriorate or terminate as a result of disputes regarding the management of our hotels or for other reasons, Marriott and/or Hilton and/or Hyatt could, under certain circumstances, terminate our current franchise licenses with them or decline to provide franchise licenses for hotels that we may acquire in the future. If any of the foregoing were to occur, it could have a material adverse effect on us.

The failure to make and integrate acquisitions of additional hotels could materially and adversely impede our growth.

We can provide no assurances that we will be successful in identifying attractive hotel properties or portfolios of hotel properties or that, once identified, we will be successful in consummating an acquisition or integrating the acquired property or portfolio into our business. We face significant competition for attractive investment opportunities from other investors, some of which have greater financial resources, a lower cost of capital and greater access to debt and equity capital than we do. As a result, we may be unable to acquire certain hotel properties or portfolios of hotel properties that we deem attractive or the purchase price may be significantly elevated or other terms may be substantially more onerous. In addition, we expect to finance future acquisitions through a combination of borrowings under our unsecured revolving credit facility or other secured or unsecured borrowings, the use of retained cash flows, and offerings of equity and debt securities, which may not be available on advantageous terms, or at all. Any delay or failure on our part to identify, negotiate, finance on favorable terms, consummate and integrate such acquisitions could materially and adversely impede our growth. Following an acquisition or expansion, we may incur acquisition-related costs and assume potential unknown liabilities and unforeseen increased costs or expenses. The integration of such acquisitions, especially acquisitions of portfolios of hotel properties, may cause disruptions to our business, strain management time and resources and materially and adversely affect our operating results and financial condition.

Any delay in demand growth due to weaker than anticipated economic growth could materially and adversely affect us and our growth prospects.

The operating performance of our hotel properties in various U.S. markets had significantly declined during the COVID-19 pandemic. Our business strategy depends on achieving revenue and net income growth from anticipated improvement in demand for hotel rooms as part of the growth of the U.S. economy as well as the global economy. Accordingly, any delay or weaker than anticipated economic growth could materially and adversely affect us and our growth prospects. Furthermore, even if the U.S. economy and the global economy continue to grow, we cannot provide any assurances that demand for hotel rooms will increase from current levels. If demand does not increase in the near future, or if demand weakens, our future results of operations and our growth prospects could be materially and adversely affected.

Any difficulties in obtaining the capital necessary to make required periodic capital expenditures and to renovate our hotel properties could materially and adversely affect our financial condition and results of operations.

Our hotel properties have an ongoing need for renovations and other capital improvements, including the replacement of furniture, fixtures and equipment (“FF&E”), franchisor-required improvements, and renovation or redevelopment of acquisitions. Our lenders will also likely require that we set aside annual amounts for capital improvements to our hotel properties. The costs of these capital improvements may increase due to ongoing supply-chain disruptions relating to the COVID-19 pandemic and increased construction costs, and could materially and adversely affect us. In addition, due to the current supply-chain constraints and disruptions, we could face difficulties sourcing the goods and services in a timely manner, which could adversely affect us.

We may not be able to fund the capital improvements to our hotel properties or acquisitions solely from the cash provided from our operating activities because we must distribute annually at least 90% of our REIT taxable income to shareholders in order to maintain our qualification as a REIT. Consequently, we expect to rely upon the availability of debt or equity capital to fund capital improvements and acquisitions. If we are unable to obtain the capital necessary to make the required periodic capital expenditures and to renovate our hotel properties on favorable terms, or at all, our financial condition, liquidity and results of operations could be materially and adversely affected.

Competition from other lodging industry participants in the markets in which we operate could adversely affect occupancy levels and/or ADRs, which could have a material and adverse effect on us.

We face significant competition from owners and operators of other hotels and other lodging industry participants. In addition, we face competition from non-traditional accommodations for travelers, such as

online services that market homes and condominiums as an alternative to hotel rooms. Our competitors may have an operating model that enables them to offer accommodations at lower rates than we can, which could result in our competitors increasing their occupancy at our expense and adversely affecting our ADRs. Given the importance of occupancy and ADR at focused-service and compact full-service hotels, this competition could adversely affect our ability to attract prospective guests, which could materially and adversely affect our business, financial condition and results of operations.

At December 31, 2021, we had approximately \$2.4 billion of debt outstanding, which could materially and adversely affect our operating performance and put us at a competitive disadvantage.

Required repayments of debt and related interest may materially and adversely affect our operating performance. At December 31, 2021, we had approximately \$2.4 billion of outstanding debt. In addition, we may incur substantial additional debt, including secured debt, in the future. After taking into consideration the effect of interest rate swaps, 100.0% of our payments are fixed or effectively fixed. Interest rates are expected to increase as the Federal Reserve acts to address rising inflation; such increases would increase our interest expense on any future fixed and variable rate debt, as well as existing variable rate debt, which could adversely affect our cash flows and our ability to pay distributions to shareholders.

Because we anticipate that our operating cash flow will be adequate to repay only a portion of our debt at maturity, we expect that we will be required to repay debt through debt refinancings and/or offerings of our securities. The amount of our outstanding debt may adversely affect our ability to refinance our debt.

If we are unable to refinance our debt on acceptable terms, or at all, we may be forced to dispose of one or more of our hotels on disadvantageous terms, which may result in losses to us and may adversely affect the cash available for distributions to our shareholders. In addition, if the prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, our interest expense would increase, which would adversely affect our future operating results and liquidity.

Our outstanding debt, and any additional debt borrowed in the future, may subject us to many risks, including the risk that:

- our cash flows from operations may be insufficient to make required payments of principal and interest;
- we may be required to use a substantial portion of our cash flows to pay principal and interest, which would reduce the cash available for distributions to our shareholders;
- we may be at a competitive disadvantage compared to our competitors that have less debt;
- we may be vulnerable to economic volatility, particularly if growth were to slow or stall and reduce our flexibility to respond to difficult market, industry, or economic conditions;
- the terms of any refinancing may not be in the same amount or on terms as favorable as the terms of the debt being refinanced; and
- the use of leverage could adversely affect our ability to borrow more money for operations, capital improvements, to finance future acquisitions of hotel properties, to make distributions to our shareholders, to repurchase common shares, and it could adversely affect the market price of our common shares.

Disruptions in the financial markets could adversely affect our ability to obtain sufficient third-party financing for our capital needs on favorable terms, or at all, which could materially and adversely affect us.

In recent years, the U.S. financial markets experienced significant price volatility, dislocations and liquidity disruptions, which caused stock market prices to fluctuate substantially and the spreads on prospective debt financings to widen considerably. Renewed volatility and uncertainty in the financial markets may negatively impact our ability to access additional financing for our capital needs, including growth, acquisition activities and other business initiatives, on favorable terms or at all, which may negatively affect our business. A prolonged downturn in the financial markets may cause us to seek alternative capital sources of potentially less attractive financing and may require us to further adjust our business plan

accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of new equity or the incurrence of additional secured or unsecured debt, which could materially and adversely affect us.

Inflation may adversely affect our financial condition and results of operations.

Inflation poses a risk to us due to the possibility of future increases in interest rates. Such increases would adversely impact us due to our outstanding variable rate debt as well as result in higher interest rates on any new fixed-rate debt. We have entered into interest rate swaps to limit our exposure to interest rate fluctuations related to a portion of our variable rate debt. However, in an increasing interest rate environment the fixed rates we can obtain with such replacement fixed-rate cap and swap agreements or the fixed-rate on new debt will also continue to increase.

In addition, increased inflation may have an adverse effect on our operating expenses, including, but not limited to, labor, supplies, repairs and maintenance, as these costs could increase at a rate higher than our revenues. Inflation could also have an adverse effect on consumer spending which could impact occupancy levels at our hotel properties and, in turn, our own results of operations.

Our existing indebtedness contains covenants and our failure to comply with all covenants in our debt agreements could materially and adversely affect us.

Our existing indebtedness contains customary and financial covenants that may limit our ability to capitalize on business opportunities. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, incur liens on certain assets, engage in certain mergers, liquidations or consolidations, sell certain assets, make restricted payments (including the payment of dividends and other distributions), engage in certain transactions with affiliates, enter into sale and leaseback transactions, make investments and capital expenditures, and acquire real estate assets.

In addition, our ability to borrow under our unsecured revolving credit facility is subject to compliance with our financial and other covenants, including covenants relating to debt service coverage ratios and leverage ratios. During the years ended December 31, 2021 and 2020, we amended our unsecured credit facilities to suspend the testing of all existing financial maintenance covenants for all periods through and including the first quarter of 2022 and provide for less restrictive covenants through the first quarter of 2023. Due to the expected impact of the COVID-19 pandemic into 2022 and beyond, we may not be able to meet the terms of the amended financial covenants once they are effective in 2022. Our failure to comply with covenants in our existing or future indebtedness, as well as our inability to make required principal and interest payments, could cause a default under the applicable debt agreement, which could result in the acceleration of the debt and require us to repay such debt with capital obtained from other sources, which may not be available to us or may be available only on unattractive terms. Furthermore, if we default on secured debt, lenders can take possession of the hotel(s) securing such debt. In addition, debt agreements may contain specific cross-default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default on its debt and to enforce remedies, including accelerating the maturity of such debt upon the occurrence of a default under such other indebtedness. If we default on several of our debt agreements or any significant debt agreement, we could be materially and adversely affected.

Costs associated with, or failure to maintain, franchisor operating standards may materially and adversely affect us.

Under the terms of our franchise license agreements, we are required to meet specified operating standards and other terms and conditions. We expect that our franchisors will periodically inspect our hotel properties to ensure that we and the hotel management companies follow brand standards. Failure by us, or any management company that we engage, to maintain these standards or other terms and conditions could result in a franchise license being canceled or the franchisor requiring us to undertake a costly property improvement program. If a franchise license is terminated due to our failure to make required improvements or to otherwise comply with its terms, we also may be liable to the franchisor for a termination payment, which will vary by franchisor and by hotel. If the funds required to maintain franchisor operating standards are significant, we could be materially and adversely affected.

In addition, if we were to lose a franchise license, the underlying value of a particular hotel property could decline significantly from the loss of the associated name recognition, marketing support, participation in guest loyalty programs and the centralized reservation system provided by the franchisor, which could require us to recognize an impairment charge on the hotel property. Furthermore, the loss of a franchise license at a particular hotel property could harm our relationship with the franchisor, which could impede our ability to operate other hotels under the same brand, limit our ability to obtain new franchise licenses from the franchisor in the future on favorable terms, or at all, and cause us to incur significant costs to obtain a new franchise license for the particular hotel.

U.S. federal income tax provisions applicable to REITs may restrict our business decisions regarding the potential sale of a hotel property.

The provisions of the Internal Revenue Code of 1986, as amended (the “Code”), applicable to REITs require that we hold our hotel properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of hotel properties that otherwise would be in our best interests. Therefore, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may materially and adversely affect our cash flows, our ability to make distributions to shareholders and the market price of our common shares.

The U.S. federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a “prohibited transaction” that is subject to a 100% excise tax. We intend to hold our hotel properties for investment with a view of long-term appreciation, to engage in the business of acquiring and owning hotel properties, and to make occasional sales of hotel properties consistent with our investment objectives. There can be no assurance, however, that the Internal Revenue Service (the “IRS”) might not contend that one or more of these sales are subject to the 100% excise tax. Moreover, the potential to incur this penalty tax could deter us from selling one or more hotel properties even though it would be in the best interests of us and our shareholders for us to do so. There is a statutory safe harbor available for a limited number of sales in a single taxable year of properties that have been owned by a REIT for at least two years, but that safe harbor likely would not apply to all sale transactions that we might otherwise consider.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on joint venture partners’ financial condition and liquidity and disputes between us and our joint venture partners.

We own certain hotel properties through joint ventures. In the future, we may enter into additional joint ventures to acquire, develop, improve or partially dispose of hotel properties, thereby reducing the amount of capital required by us to make investments and diversifying our capital sources for growth. Such joint venture investments involve risks not otherwise present in a wholly-owned hotel property or a redevelopment project, including the following:

- we may not have exclusive control over the hotel property or the joint venture, which may prevent us from taking actions that are in our best interest but opposed by our partners;
- joint venture agreements often restrict the transfer of a partner’s interest or may otherwise restrict our ability to sell the interest when we desire, or on advantageous terms;
- joint venture agreements may contain provisions pursuant to which one partner may initiate procedures requiring the other partner to choose between buying the other partner’s interest or selling its interest to that partner;
- a partner may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;
- a partner may fail to fund its share of required capital contributions or may become bankrupt, which would mean that we and any other remaining partners generally would remain liable for the joint venture’s liabilities; or

- we may, in certain circumstances, be liable for the actions of a partner, and the activities of a partner could adversely affect our ability to qualify as a REIT, even though we do not control the joint venture.

Any of the above might subject a hotel property to liabilities in excess of those contemplated and adversely affect the value of our current and future joint venture investments.

Risks Related to the Lodging Industry

Our ability to make distributions to our shareholders may be adversely affected by various operating risks common to the lodging industry, including competition, over-building and dependence on business travel and tourism.

Our hotel properties have different economic characteristics than many other real estate assets. Unlike other real estate assets, hotels generate revenue from guests that typically stay at the hotel property for only a few nights, which causes the room rate and occupancy levels at each of our hotels to change every day, and results in earnings that can be highly volatile.

In addition, our hotel properties are subject to various operating risks common to the lodging industry, many of which are beyond our control, including, among others, the following:

- seasonality of the lodging industry may cause quarterly fluctuations in our operating results;
- over-building of hotels in the markets in which we operate, which results in an increased supply of hotels that will adversely affect occupancy and revenues at our hotel properties;
- consolidation among companies in the lodging industry may increase the resulting companies' negotiating power relative to ours, and decrease competition among those companies for management and franchise agreements, which could result in higher management or franchise fees;
- increase in the number of brands owned by Marriott, Hilton and Hyatt, which could result in increased competition for our hotels;
- competition from non-traditional accommodations for travelers, such as online services that market homes and condominiums as an alternative to hotel rooms;
- dependence on business and leisure travelers;
- increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and leisure travelers;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- adverse effects of international, national, regional and local economic and market conditions;
- adverse effects of worsening conditions in the lodging industry; and
- risks generally associated with the ownership of hotels and real estate, as we discuss in detail below.

The occurrence of any of the foregoing could materially and adversely affect us.

The cyclical nature of the lodging industry may cause fluctuations in our operating performance, which could have a material and adverse effect on us.

The lodging industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the lodging industry's performance, and over-building has the potential to further exacerbate the negative impact of an economic recession. Room rates

and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will rebound or whether any such rebound will be sustained. An adverse change in lodging fundamentals could result in returns that are substantially below our expectations or result in losses, which could have a material and adverse effect on us.

Our ownership of hotel properties with ground leases exposes us to the risks that we may be forced to sell such hotel properties for a lower price, we may have difficulties financing such hotel properties, we may be unable to renew a ground lease or we may lose such hotel properties upon breach of a ground lease.

As of December 31, 2021, 13 of our consolidated hotel properties and our unconsolidated hotel property were on land subject to ground leases. Accordingly, we only own a leasehold or similar interest in those 14 hotel properties. Two of the ground leases expire in 2028 and 2029 and if these leases are not extended, the hotel properties would be turned over to the ground lessor. Our ground lease agreements require the consent of the lessor or sub-lessor prior to transferring our interest in the ground lease. These provisions may impact our ability to sell our hotel properties which, in turn, could adversely impact the price realized from any such sale. In addition, at any given time, investors may be disinterested in buying hotel properties subject to a ground lease and may pay a lower price for such hotel properties than for a comparable hotel property with a fee simple interest or they may not purchase such hotel properties at any price. Secured lenders may be unwilling to lend, or otherwise charge higher interest rates, for loans secured by a leasehold mortgage as compared to loans secured by a fee simple mortgage. If we are found to be in breach of a ground lease, we could lose the right to use the hotel property. In addition, unless we can purchase a fee simple interest in the underlying land and improvements or extend the terms of these leases before their expiration, as to which no assurance can be given, we will lose our right to own these hotel properties and our interest in the improvements upon expiration of the leases. If we were to lose the right to use a hotel property due to a breach or non-renewal of the ground lease, we would be unable to derive income from such hotel property and we would be required to purchase an interest in another hotel property in an attempt to replace that income, which could materially and adversely affect us.

Technology is used in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm the business.

We, and our hotel managers and franchisors, rely on information technology networks and systems to process, transmit and store electronic information, and to manage or support a variety of business processes. These information technology networks and systems can be vulnerable to threats such as system, network or internet failures; computer hacking or business disruption; cyber-terrorism; viruses, worms or other malicious software programs; and employee error, negligence or fraud. Although we believe we and our hotel managers and franchisors have taken commercially reasonable steps to protect the security of our systems, there can be no assurance that such security measures will prevent failures, inadequacies or interruptions in system services, or that system security will not be breached.

Any failure to maintain proper function, security and availability of information technology networks and systems could interrupt our operations, our financial reporting and compliance, damage our reputation, and subject us to liability claims or regulatory penalties, which could have a material and adverse effect on our business, financial condition and results of operations.

Future terrorist attacks or changes in terror alert levels could materially and adversely affect us.

Historically, terrorist attacks and subsequent terrorist alerts have adversely affected the U.S. travel and hospitality industries, often disproportionately to the effect on the overall economy. The extent of the impact that actual or threatened terrorist attacks in the U.S. or elsewhere could have on domestic and international travel and our business in particular cannot be determined, but any such attacks or the threat of such attacks could have a material and adverse effect on travel and hotel demand and our ability to insure our hotel properties, which could materially and adversely affect us.

We face possible risks associated with natural disasters, weather events, and the physical effects of climate change.

We are subject to the risks associated with natural disasters, weather events, and the physical effects of climate change, any of which could have a material adverse effect on our properties, operations and business.

Over time, our hotel properties located in coastal markets and other areas that may be impacted by climate change are expected to experience increases in storm intensity and rising sea-levels causing damage to our hotel properties. As a result, we could become subject to significant losses and/or repair costs that may or may not be fully covered by insurance. Other markets may experience prolonged variations in temperature or precipitation that may limit access to the water needed to operate our hotel properties or significantly increase energy costs, which may subject those properties to additional regulatory burdens, such as limitations on water usage or stricter energy efficiency standards. Weather events and climate change may also affect our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable in areas most vulnerable to such events, increasing operating costs at our hotel properties, such as the cost of water or energy, and requiring us to expend funds as we seek to repair and protect our hotel properties against such risks. There can be no assurance that natural disasters, weather events, or climate change will not have a material adverse effect on our hotel properties, operations or business.

Risks Related to Our Organization and Structure

The share ownership limits imposed by the Code for REITs and our declaration of trust may restrict share transfers and/or business combination opportunities.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year following our first year of taxation as a REIT. Our declaration of trust, with certain exceptions, authorizes our board of trustees to take the necessary actions to preserve our qualification as a REIT. Unless exempted by our board of trustees, no person or entity (other than a person or entity who has been granted an exception) may directly or indirectly, beneficially or constructively, own more than 9.8% of the aggregate of our outstanding common shares, by value or by number of shares, whichever is more restrictive, or 9.8% of the aggregate of the outstanding preferred shares of any class or series, by value or by number of shares, whichever is more restrictive.

Our board of trustees may, in its sole discretion, grant an exemption to the share ownership limits, subject to certain conditions and the receipt by our board of trustees of certain representations and undertakings. During the time that such waiver is effective, the excepted holders will be subject to an increased ownership limit. As a condition to granting such limited exemptions, the excepted holders are required to make representations and warranties to us, which are intended to ensure that we will continue to meet the REIT ownership requirements. The excepted holders must inform us if any of these representations becomes untrue or is violated, in which case such excepted holder will lose its limited exemption from the share ownership limits.

It may be difficult or impractical to effect a change in our control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then-prevailing market price of our common shares.

Certain advance notice provisions of our bylaws may inhibit a change in control. These advance notice provisions may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium to the market price of our common stock or otherwise be in our shareholders' best interests.

Termination of the employment agreements with our executive officers could be costly and prevent a change in control. The employment agreements that we entered into with each of our executive officers provide that, if their employment with us terminates under certain circumstances (including upon a change in our control), we are required to pay them severance compensation, including accelerating the vesting of their respective equity awards, thereby making it costly to terminate their employment without cause. Furthermore, these provisions could delay or prevent a transaction or a change in control that might involve a premium paid for our common shares or otherwise be in the best interests of our shareholders.

Our declaration of trust contains provisions that make the removal of our trustees difficult, which could make it difficult for our shareholders to effect changes to our management. Our declaration of trust provides that, subject to the rights of the holders of one or more classes or series of preferred shares to elect

or remove one or more trustees, a trustee may be removed only for cause and only by the affirmative vote of the holders of at least two-thirds of the votes entitled to be cast in the election of trustees and that our board of trustees has the exclusive power to fill vacant trusteeships, even if the remaining trustees do not constitute a quorum. These provisions make it more difficult to change our management by removing and replacing trustees and it may delay or prevent a change in control that is in the best interests of our shareholders.

Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit our shareholders' recourse in the event of actions not in our shareholders' best interests.

Under Maryland law, generally, a trustee is required to perform his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Under Maryland law, trustees are presumed to have acted with this standard of care. In addition, our declaration of trust limits the liability of our trustees and officers to us and our shareholders for monetary damages, except for liability resulting from the:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our declaration of trust and bylaws obligate us, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of the final disposition of a proceeding to any present or former trustee or officer who is made or threatened to be made a party to the proceeding by reason of his or her service to us in that capacity. In addition, we may be obligated to advance the defense costs incurred by our trustees and officers. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist absent the current provisions in our declaration of trust and bylaws or that might exist with other companies.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results.

To monitor the accuracy and reliability of our financial reporting, we have established an internal audit function that oversees our internal controls. In addition, we have developed policies and procedures with respect to company-wide business processes and cycles in order to implement an effective system of internal control over financial reporting. We have established, or caused our third-party management companies to establish, controls and procedures designed to ensure that hotel revenues and expenses are properly recorded at our hotels. We cannot be certain that we will be successful in maintaining effective internal control over financial reporting and we may determine in the future that our existing internal controls need improvement. If we fail to maintain an effective system of internal control, we could be materially harmed or we could fail to meet our reporting obligations. In addition, the existence of a material weakness in our internal controls could result in errors to our financial statements that could require a restatement, cause us to fail to meet our reporting obligations, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits and cause investors to lose confidence in our reported financial information, any of which could lead to a substantial decline in the market price of our common shares.

Risks Related to the Real Estate Industry

The illiquid nature of real estate investments could significantly impede our ability to respond to changing economic, financial, and investment conditions or changes in the operating performance of our hotel properties, which could materially and adversely affect our cash flows and results of operations.

Real estate investments, including the focused-service and compact full-service hotels in our portfolio, are relatively illiquid. As a result, we may not be able to sell a hotel or hotels quickly or on favorable terms in response to the changing economic, financial and investment conditions or changes in the hotel's operating performance when it otherwise may be prudent to do so. We cannot predict whether we will be able to sell any hotel property we desire to sell for the price or on the terms set by us or whether any price or other terms

offered by a prospective purchaser would be acceptable to us. We may be required to expend funds to correct defects or to make improvements before a hotel can be sold, and we cannot provide any assurances that we will have the funds available to correct such defects or to make such improvements. Our inability to dispose of assets at opportune times or on favorable terms could materially and adversely affect our cash flows and results of operations.

In some cases, we may be restricted from disposing of properties contributed to us in the future in exchange for our OP units under tax protection agreements with contributors unless we incur additional costs related to indemnifying those contributors.

Uninsured and underinsured losses at our hotel properties could materially and adversely affect us.

We maintain comprehensive property insurance on all of our hotel properties and we intend to maintain comprehensive property insurance on any hotels that we acquire in the future, including fire, terrorism, and extended coverage. Our comprehensive property insurance program has a \$250,000 deductible per claim. In addition to the comprehensive property insurance, we maintain general liability insurance at all of our hotel properties. Our general liability insurance program has no deductible. Certain types of catastrophic losses, such as windstorms, earthquakes, floods, and losses from foreign and domestic terrorist activities may not be insurable or may not be economically insurable. Even when insurable, these policies may have high deductibles and/or high premiums. Our coastal hotel properties each have a deductible of 5% of total insured value for a named storm. Our lenders may require such insurance and our failure to obtain such insurance could constitute a default under the loan agreements, which could have a material and adverse effect on us.

In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment, which could have a material and adverse effect on us. Should an uninsured loss or a loss in excess of insured limits occur, or should we be unsuccessful in obtaining coverage from an insurance carrier, we could lose all or a portion of the capital we have invested in a hotel property, as well as the anticipated future revenue from the hotel property. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the hotel property.

We could incur significant costs related to government regulation and litigation with respect to environmental matters, which could have a material and adverse effect on us.

Our hotel properties are subject to various U.S. federal, state and local environmental, health and safety laws and regulations that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current owner of a hotel property, to perform or pay for the clean-up of contamination at, on, under or emanating from the hotel and to pay for natural resource damages arising from such contamination. Because these laws also impose liability on persons who owned or operated a property at the time it became contaminated, it is possible we could incur cleanup costs or other environmental liabilities even after we sell or no longer operate the hotel properties.

The liabilities and the costs associated with environmental contamination at our hotel properties, defending against the claims related to alleged or actual environmental issues, or complying with environmental, health and safety laws could be material and could materially and adversely affect us. The discovery of material environmental liabilities at our hotel properties could subject us to unanticipated costs, which could significantly reduce or eliminate our profitability and the cash available for distribution to our shareholders.

We may from time to time be subject to litigation that could expose us to uncertain or uninsured costs.

As owners of hotel properties, we may from time to time face potential claims, litigation and threatened litigation from guests, visitors to our hotel properties, contractors, sub-contractors and others. These claims and proceedings are inherently uncertain and their costs and outcomes cannot be predicted with certainty. Some of these claims may result in defense costs, settlements, fines or judgments against us, and some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have a material and adverse impact on our financial position and

results of operations. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could materially and adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and trustees.

Risks Related to Our Status as a REIT

If we do not qualify as a REIT, or if we fail to remain qualified as a REIT, we will be subject to U.S. federal income tax and potentially state and local taxes, which would reduce our earnings and the amount of cash available for distribution to our shareholders.

If we were to fail to qualify as a REIT in any taxable year and any available relief provisions do not apply, we would be subject to U.S. federal and state corporate income tax, and dividends paid to our shareholders would not be deductible by us in computing our taxable income. Unless we were entitled to statutory relief under certain Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Any determination that we do not qualify as a REIT would have a material adverse effect on our results of operations and could materially reduce the value of our common shares. Our additional tax liability could be substantial and would reduce our net earnings available for investment, debt service or distributions to shareholders.

REIT distribution requirements could adversely affect our ability to execute our business plan or require us to make distributions of our shares or other securities.

We generally must distribute to our shareholders annually at least 90% of our “REIT taxable income,” subject to certain adjustments and excluding any net capital gain. From time to time, we may generate taxable income greater than our cash flow. In addition we may be subject to limitations on the ability to use our net operating loss carryovers to offset taxable income that we do not distribute. If we do not have other funds available in these situations we could be required to (i) borrow funds on unfavorable terms, (ii) sell investments at disadvantageous prices, (iii) distribute amounts that would otherwise be invested in future acquisitions, or (iv) make a taxable distribution of our common shares as part of a distribution in which shareholders may elect to receive our common shares or (subject to a limit measured as a percentage of the total distribution) cash to make distributions sufficient to enable us to pay out enough of our REIT taxable income to satisfy the REIT distribution requirements. These alternatives could increase our costs or reduce our shareholders’ equity. Thus, compliance with the REIT distribution requirements may hinder our ability to grow, which could adversely affect the value of our shares.

If our leases are not respected as true leases for U.S. federal income tax purposes, we would likely fail to qualify as a REIT.

To qualify as a REIT, we must satisfy two gross income tests, pursuant to which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with our TRSs, which we currently expect will continue to constitute substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for U.S. federal income tax purposes and must not be treated as service contracts, joint ventures or some other type of arrangement. We believe that the leases will be respected as true leases for U.S. federal income tax purposes. There can be no assurance, however, that the IRS will agree with this characterization. If the leases were not respected as true leases for U.S. federal income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs and would likely lose our REIT status. Additionally, we could be subject to a 100% excise tax for any adjustment to our leases.

To comply with the restrictions imposed on REITs, we may have to conduct certain activities and own certain assets through TRSs, which will be subject to normal corporate income tax, and we could be subject to a 100% penalty tax on certain income if those transactions are not conducted on arm’s-length terms.

A TRS is a corporation in which a REIT directly or indirectly holds stock and which has elected, with the REIT to be taxable as a regular corporation, at regular corporate income tax rates. As a REIT, we cannot

own certain assets or conduct certain activities directly, without risking failing the income or asset tests that apply to REITs. We can, however, hold these assets or undertake these activities through a TRS.

As noted, the income earned through our TRSs will be subject to corporate income taxes. In addition, a 100% excise tax will be imposed on certain transactions between us and our TRSs that are not conducted on an arm's length basis.

If our TRSs fail to qualify as “taxable REIT subsidiaries” under the Code, we would likely fail to qualify as a REIT.

Rent paid by a lessee that is a “related party tenant” will not be qualifying income for purposes of the gross income tests applicable to REITs. We currently lease and expect to continue to lease substantially all of our hotels to our TRSs, which will not be treated as “related party tenants” so long as they qualify as “taxable REIT subsidiaries” under the Code. To qualify as such, most significantly, a TRS cannot engage in the operation or management of hotels. We believe that our TRSs qualify to be treated as “taxable REIT subsidiaries” for U.S. federal income tax purposes. There can be no assurance, however, that the IRS will not challenge the status of a TRS for U.S. federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in disqualifying any of our TRSs from treatment as a “taxable REIT subsidiary,” it is likely that we would fail to meet the asset tests applicable to REITs and substantially all of our income would fail to qualify for the gross income tests. If we failed to meet either the asset tests or the gross income tests, we would likely lose our REIT status.

If any management companies that we engage do not qualify as “eligible independent contractors,” or if our hotel properties are not “qualified lodging facilities,” we would likely fail to qualify as a REIT.

Rent paid by a lessee that is a “related party tenant” of ours generally will not be qualifying income for purposes of the gross income tests applicable to REITs. An exception is provided, however, for leases of “qualified lodging facilities” to a TRS so long as the hotels are managed by an “eligible independent contractor” and certain other requirements are satisfied. We currently lease and expect to continue to lease all or substantially all of our hotels to TRS lessees and we currently engage and expect to continue to engage management companies that are intended to qualify as “eligible independent contractors.” In addition, for a management company to qualify as an eligible independent contractor, (i) the management company must not own, directly or through its shareholders, more than 35% of our outstanding shares, and no person or group of persons can own more than 35% of our outstanding shares and the shares (or ownership interest) of the management company and (ii) such company or a related person must be actively engaged in the trade or business of operating “qualified lodging facilities” (as defined below) for one or more persons not related to the REIT or its TRSs at each time that such company enters into a management contract with a TRS or its TRS lessee. Finally, each hotel with respect to which our TRS lessees pay rent must be a “qualified lodging facility.” A “qualified lodging facility” is a hotel, motel, or other establishment in which more than one-half of the dwelling units are used on a transient basis, including customary amenities and facilities, provided that no wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. As of the date hereof, we believe the management companies operate qualified lodging facilities for certain persons who are not related to us or our TRS. As of the date hereof, we believe that all of the hotels leased to our TRS lessees will be qualified lodging facilities. Although we intend to monitor future acquisitions and improvements of hotels, the REIT provisions of the Code provide only limited guidance for making determinations under the requirements for qualified lodging facilities, and there can be no assurance that these requirements will be satisfied in all cases.

Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.

To qualify as a REIT, we must ensure that we meet the gross income tests annually and that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any

one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, no more than 20% of the value of our total assets can be represented by securities of one or more TRSs, and no more than 25% of the value of our total assets may be represented by debt instruments issued by publicly offered REITs that are “nonqualified” (i.e., not secured by real property or interests in real property). If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio, or contribute to a TRS, otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would otherwise be advantageous to us. Thus, compliance with the REIT requirements may hinder our ability to make, and, in certain cases, maintain ownership of, certain attractive investments.

We would incur adverse tax consequences if FelCor Lodging Trust Incorporated (“FelCor”) failed to qualify as a REIT for U.S. federal income tax purposes prior to our merger with FelCor.

In connection with the closing of the merger with FelCor on the acquisition date, FelCor received an opinion of counsel to the effect that it qualified as a REIT for U.S. federal income tax purposes under the Code through the acquisition date. FelCor, however, did not request a ruling from the IRS that it qualified as a REIT. If, notwithstanding this opinion, FelCor’s REIT status prior to the acquisition date were successfully challenged, we would face serious tax consequences that would substantially reduce our core funds from operations, and cash available for distribution, including cash available to pay dividends to our shareholders, because:

- FelCor, would be subject to U.S. federal, state and local income tax on its net income at regular corporate rates for the years that it did not qualify as a REIT (and, for such years, would not be allowed a deduction for dividends paid to shareholders in computing its taxable income) and we would succeed to the liability for such taxes;
- the deemed sale of assets by FelCor on the acquisition date would be subject to U.S. federal, state and local income tax at regular corporate rates (and FelCor would not be allowed a deduction for dividends paid for the deemed liquidating distribution paid to its shareholders) and we would succeed to the liability for such taxes; and
- we would succeed to any earnings and profits accumulated by FelCor, as applicable, for the tax periods that FelCor did not qualify as a REIT and we would have to pay a special dividend and/or employ applicable deficiency dividend procedures (including interest payments to the IRS) to eliminate such earnings and profits to maintain our REIT qualification.

As a result of these factors, FelCor’s failure to qualify as a REIT prior to the acquisition date could impair our ability to expand our business and raise capital and could materially adversely affect the value of our stock. In addition, even if FelCor qualified as a REIT for the duration of its existence, if there is an adjustment to FelCor’s taxable income or dividends-paid deductions, we could be required to elect to use the deficiency dividend procedure to maintain FelCor’s REIT status. That deficiency dividend procedure could require us to make significant distributions to our shareholders and pay significant interest to the IRS.

Risks Related to Our Common Shares

Our cash available for distribution to shareholders may not be sufficient to pay distributions at expected or required levels, and we may need to borrow funds or rely on other external sources in order to make such distributions, or we may not be able to make such distributions at all, which could cause the market price of our common shares to decline significantly.

We intend to continue to pay regular quarterly distributions to holders of our common shares. All distributions will be made at the discretion of our board of trustees and will depend on our historical and

projected results of operations, EBITDA, FFO, liquidity and financial condition, REIT qualification, debt service requirements, capital expenditures and operating expenses, prohibitions and other restrictions under financing arrangements and applicable law and other factors as our board of trustees may deem relevant from time to time. No assurance can be given that our projections will prove to be accurate or that any level of distributions or particular yield will be made or sustained. We may not be able to make distributions in the future or we may need to fund such distributions through borrowings or other external financing sources, which may be available only at unattractive terms, if at all. Any of the foregoing could cause the market price of our common shares to decline significantly.

Future issuances of debt securities, which would rank senior to our common shares upon our liquidation, and future issuances of equity securities (including OP units), which would dilute the holdings of our existing common shareholders and may be senior to our common shares for the purposes of making distributions, periodically or upon liquidation, may negatively affect the market price of our common shares.

In the future, we may issue debt or equity securities or incur additional borrowings. Upon our liquidation, holders of our debt securities and other loans and preferred shares will receive a distribution of our available assets before common shareholders. If we incur debt in the future, our future interest costs could increase, and adversely affect our liquidity, FFO and results of operations. We are not required to offer any additional equity securities to existing common shareholders on a preemptive basis. Therefore, additional common share issuances, directly or through convertible or exchangeable securities (including OP units), warrants or options, will dilute the holdings of our existing common shareholders, and such issuances or the perception of such issuances may reduce the market price of our common shares. Our preferred shares, if issued, would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common shareholders. Because our decision to issue debt or equity securities or incur additional borrowings in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of any future capital raising efforts. Thus, the common shareholders bear the risk that our future issuances of debt or equity securities or our incurrence of additional borrowings will negatively affect the market price of our common shares.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our Hotel Properties

The following table provides a comprehensive list of our hotel properties as of December 31, 2021:

<u>State</u>	<u>Hotel Property Name</u>	<u>Rooms</u>	<u>State</u>	<u>Hotel Property Name</u>	<u>Rooms</u>	
Alabama	Embassy Suites			Residence Inn Palo Alto Los		
	Birmingham	242		Altos	156	
Arizona	Embassy Suites			San Francisco Marriott		
	Phoenix – Biltmore.	232		Union Square	401	
California	Courtyard San Francisco . . .	166	Colorado	Wyndham San Diego		
	Embassy Suites Irvine			Bayside	600	
	Orange County	293		Wyndham Santa Monica At		
	Embassy Suites Los Angeles			The Pier	132	
	Downey	220			Fairfield Inn & Suites Denver	
	Embassy Suites Los				Cherry Creek	134
	Angeles – International				Marriott Denver Airport @	
	Airport South	349			Gateway Park	238
	Embassy Suites Mandalay				Marriott Denver South @	
	Beach – Hotel & Resort	250			Park Meadows.	279
	Embassy Suites Milpitas				Moxy Denver Cherry	
	Silicon Valley	267			Creek	170
	Embassy Suites San				Renaissance Boulder Flatiron	
	Francisco Airport – South				Hotel	232
	San Francisco	316			SpringHill Suites Denver	
	Embassy Suites San				North Westminster	164
	Francisco Airport –					District of Columbia
	Waterfront.	340			Fairfield Inn & Suites	
	Hilton Garden Inn Los				Washington DC	
	Angeles Hollywood	160			Downtown	198
Hilton Garden Inn San			Homewood Suites			
Francisco Oakland Bay			Washington DC			
Bridge.	303		Downtown	175		
Hyatt House Cypress			Hyatt Place Washington DC			
Anaheim	142		Downtown K Street	164		
Hyatt House Emeryville San				Florida		
Francisco Bay Area	234		DoubleTree Grand Key			
Hyatt House San Diego			Resort.	216		
Sorrento Mesa	193		DoubleTree Suites by Hilton			
Hyatt House San Jose Silicon			Orlando – Lake Buena			
Valley	164		Vista.	229		
Hyatt House San Ramon . . .	142		Embassy Suites Deerfield			
Hyatt House Santa Clara . . .	150		Beach – Resort & Spa	244		
Hyatt Place Fremont Silicon			Embassy Suites Fort			
Valley	151		Lauderdale 17th Street	361		
			Embassy Suites Fort Myers			
			Estero.	150		

<u>State</u>	<u>Hotel Property Name</u>	<u>Rooms</u>	<u>State</u>	<u>Hotel Property Name</u>	<u>Rooms</u>			
Georgia	Embassy Suites Miami – International Airport	318	Kentucky	Residence Inn Indianapolis Downtown On The Canal . . .	134			
	Embassy Suites Orlando – International Drive South/Convention Center	244		Residence Inn Merrillville . . .	78			
	Embassy Suites Tampa Downtown Convention Center	360		Louisiana	Marriott Louisville Downtown	620		
	Embassy Suites West Palm Beach Central	194			Residence Inn Louisville Downtown	140		
	Fairfield Inn & Suites Key West	106			Chateau LeMoyne – French Quarter, New Orleans ⁽¹⁾	171		
	Hilton Cabana Miami Beach	231	Hilton Garden Inn New Orleans Convention Center . .		286			
	Renaissance Fort Lauderdale West Hotel	250	Hotel Indigo New Orleans Garden District		132			
	Hawaii	Courtyard Atlanta Buckhead	181	Massachusetts	Wyndham New Orleans – French Quarter . . .	374		
					AC Hotel Boston Downtown	205		
					Embassy Suites Boston Waltham	275		
					Wyndham Boston Beacon Hill.	304		
					Maryland	Residence Inn Bethesda Downtown	188	
						Residence Inn National Harbor Washington DC	162	
						Minnesota	Embassy Suites Minneapolis – Airport	310
	Illinois	Courtyard Chicago Downtown Magnificent Mile	New York	Courtyard New York Manhattan Upper East Side.	226			
Hampton Inn Garden City . .				143				
The Knickerbocker New York ⁽²⁾				330				
North Carolina				Hyatt House Charlotte Center City	163			
				Oregon	Courtyard Portland City Center	256		
SpringHill Suites Portland Hillsboro.	106							
Indiana	Courtyard Indianapolis @ The Capitol	Pennsylvania	Hilton Garden Inn Pittsburgh University Place.		202			
			Embassy Suites Atlanta – Buckhead		326	Maryland	Residence Inn Bethesda Downtown	188
Hyatt Centric Midtown Atlanta	194	New York	Courtyard New York Manhattan Upper East Side.	226				
					Residence Inn Atlanta Midtown Historic.	90	North Carolina	Hampton Inn Garden City . .
Courtyard Waikiki Beach . . .	404	Oregon	The Knickerbocker New York ⁽²⁾	330				
					Courtyard Chicago Downtown Magnificent Mile	306	Pennsylvania	Hilton Garden Inn Pittsburgh University Place.
Courtyard Midway Airport	174	Illinois	SpringHill Suites Portland Hillsboro.	106				
					Fairfield Inn & Suites Chicago Midway Airport . . .	114	Indiana	Courtyard Indianapolis @ The Capitol
Hampton Inn Chicago Midway Airport.	170	North Carolina	Hyatt House Charlotte Center City	163				
					Hilton Garden Inn Chicago Midway Airport.	174	Oregon	Courtyard Portland City Center
Holiday Inn Express & Suites Midway Airport.	104	Illinois	SpringHill Suites Portland Hillsboro.	106				
					Marriott Chicago Midway . .	200	North Carolina	Hyatt House Charlotte Center City
Sleep Inn Midway Airport. . .	121	Oregon	Courtyard Portland City Center	256				

<u>State</u>	<u>Hotel Property Name</u>	<u>Rooms</u>	<u>State</u>	<u>Hotel Property Name</u>	<u>Rooms</u>
	Renaissance Pittsburgh Hotel	300		DoubleTree Suites by Hilton Austin.	188
	Wyndham Philadelphia Historic District	364		Embassy Suites Dallas – Love Field.	248
	Wyndham Pittsburgh University Center	251		Hyatt Centric The Woodlands	72
South Carolina				Residence Inn Austin Downtown Convention Center	179
	Courtyard Charleston Historic District	176		Residence Inn Houston By The Galleria	146
	The Mills House Wyndham Grand Hotel	216		Residence Inn Houston Downtown Convention Center	171
Texas				SpringHill Suites Houston Downtown Convention Center	167
	Courtyard Austin Downtown Convention Center	270	Washington	Homewood Suites Seattle Lynnwood.	170
	Courtyard Houston By The Galleria.	190			
	Courtyard Houston Downtown Convention Center	191	Wisconsin	Hyatt Place Madison Downtown	151
	DoubleTree by Hilton Houston Medical Center Hotel & Suites	287			

- (1) We own an indirect 50% ownership interest in this hotel property and we account for the ownership interest using the equity method of accounting. This hotel property is operated without a lease.
- (2) We own a 95.0% controlling ownership interest in this hotel property.

Management Agreements

In order to qualify as a REIT, we cannot directly or indirectly operate any of our hotel properties. We lease all but one of our hotel properties to TRS lessees, which in turn engage hotel property management companies to manage our hotel properties. All of our hotel properties are operated pursuant to a management agreement with one of 15 independent management companies. 29 of our hotel properties receive the benefits of a franchise agreement pursuant to a management agreement with Hilton, Hyatt, or Marriott.

As of December 31, 2021, Aimbridge was the management company for 30 of our hotel properties. Our remaining 68 hotel properties were managed by 14 other management companies, including Hilton, Hyatt and Marriott.

The management agreements have initial terms that range from one to 25 years, and some provide for one or two automatic extension periods ranging from one to 10 years each.

Each management company receives a base management fee between 1.75% and 3.5% of hotel revenues. The management agreements that include the benefits of a franchise agreement incur a base management fee between 2.0% and 7.0% of hotel revenues.

The management companies are also eligible to receive an incentive management fee upon the achievement of certain financial thresholds as set forth in each applicable management agreement. The incentive management fee is generally calculated as a percentage of hotel net operating income after we have received a priority return on our investment in the hotel.

Each of the management agreements provides us with a right to terminate such management agreement if the management company fails to reach certain performance targets (as provided in the applicable

management agreement). Certain management agreements also provide us with a right to terminate the management agreement in our sole and absolute discretion. In addition, certain management agreements give us the right to terminate the management agreement upon the sale of the hotel property or for any reason upon payment of a stipulated termination fee. Subject to certain qualifications and applicable cure periods, the management agreements are generally terminable by either party upon material casualty, or condemnation of the hotel property, or the occurrence of certain customary events of default. Certain management agreements also stipulate that in the event that a management company elects to terminate a management agreement due to an event of default by us, the management company may elect to recover a termination fee, as liquidated damages, equal to 2.5 times the actual base management fee and incentive management fee earned by the management company under that management agreement in the fiscal year immediately preceding the fiscal year in which such termination occurred.

Many of our Aimbridge and White Lodging Services (“WLS”) management agreements state that we cannot sell the applicable hotel property to any unrelated third party or engage in certain change of control actions (1) if we are in default under the management agreement, or (2) with or to a person or entity that is known in the community as being of bad moral character or has been convicted of a felony or is in control of or controlled by persons convicted of a felony or would be in violation of any franchise agreement requirements applicable to us. In addition, those Aimbridge and WLS management agreements further require that any future owner of the applicable hotel property, at the option of the management company, assume the management agreement or enter into a new management agreement for such hotel property.

Franchise Agreements

As of December 31, 2021, 68 of our hotels operated under franchise agreements with Marriott, Hilton, Hyatt or other hotel brands. This excludes 29 hotel properties that receive the benefits of a franchise agreement pursuant to management agreements with Hilton, Hyatt, or Marriott. In addition, The Knickerbocker is not operated with a hotel brand so the hotel does not have a franchise agreement.

The franchisors provide a variety of benefits to the franchisees, including centralized reservation systems, national advertising, marketing programs and publicity designed to increase brand awareness, personnel training and operational quality at the hotels across the brand system. The franchise agreements generally specify management, operational, record-keeping, accounting, reporting and marketing standards and procedures, all of which our TRS lessees, as the franchisees, must follow. The franchise agreements require our TRS lessees to comply with the franchisors’ standards and requirements, including the training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided by the TRS lessee, the display of signage and the type, quality and age of furniture, fixtures and equipment included in the guest rooms and the nature of the lobbies and other common areas. The franchise agreements have initial terms ranging from one to 30 years. Each of our franchise agreements require that we pay 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 between 1.5% and 3.0% of food and beverage revenues.

The franchise agreements also provide for termination at the applicable franchisor’s option upon the occurrence of certain events, including the failure to pay royalties and fees, the failure to perform our obligations under the franchise license, bankruptcy and the abandonment of the franchise, or a change in control. The TRS lessee is responsible for making all payments under the applicable franchise agreement to the franchisor; however, we are required to guarantee the obligations under each of the franchise agreements. In addition, many of our existing franchise agreements provide the franchisor with a right of first offer in the event of certain sales or transfers of a hotel and provide the franchisor the right to approve a change in the management company who manages the hotel.

TRS Leases

In order for us to qualify as a REIT, neither our company nor any of our subsidiaries may directly or indirectly operate any of our hotels. The subsidiaries of the Operating Partnership, as the lessors, lease our hotels to our TRS lessees, which, in turn, are the parties to the existing management agreements with the third-party management companies at each of our hotels. The TRS leases contain the provisions that are

described below. For the hotels that are acquired in the future, we intend for the leases to contain substantially similar provisions as to those described below; however, we may, in our discretion, alter any of these provisions with respect to any particular lease.

Lease Terms

Our TRS leases have initial terms of generally three years and a majority of the leases can be renewed by our TRS lessees for three successive three-year renewal terms unless the lessee is in default at the expiration of the then-current term. In addition, our TRS leases are subject to early termination by us in the event that we sell the hotel to an unaffiliated party, a change in control occurs or the applicable provisions of the Code are amended to permit us to operate our hotels. Our TRS leases are also subject to early termination upon the occurrence of certain events of default and/or other contingencies described in the lease.

Amounts Payable under the Leases

During the term of each TRS lease, our TRS lessees are obligated to pay us a fixed annual base rent plus a percentage rent and certain other additional charges that our TRS lessees agree to pay under the terms of the respective TRS lease. The percentage rent is calculated based on the revenues generated from the rental of guest rooms, food and beverage sales, and certain other sources, including meeting room rentals.

The TRS leases require our TRS lessees to pay rent, all costs and expenses, management fees, franchise fees, personal property taxes, certain insurance policies and all utility and other charges incurred in the operation of the hotels. The leases also provide for rent reductions and abatements in the event of damage to, destruction, or a partial taking of, any hotel. All of the above mentioned intercompany transactions eliminate in consolidation.

Maintenance and Modifications

Under each TRS lease, the TRS lessee may, at its expense, make additions, modifications or improvements to the hotel that it deems desirable, and that we approve. In addition, our TRS lessees are required, at their expense, to maintain the hotels in good order and repair, except for ordinary wear and tear, and to make repairs that may be necessary and appropriate to keep the hotel in good order and repair. Under the TRS lease, we are responsible for maintaining, at our cost, any underground utilities or structural elements, including the exterior walls and the roof of the hotel (excluding, among other things, windows and mechanical, electrical and plumbing systems). Each TRS lessee, when and as required to meet the standards of the applicable management agreement, any applicable hotel franchise agreement, or to satisfy the requirements of any lender, must establish an FF&E reserve in an amount equal to up to 5% of gross revenue for the purpose of periodically repairing, replacing or refurbishing the furnishings and equipment.

Events of Default

The events of default under each of the leases include, among others: the failure by a TRS lessee to pay rent when due; the breach by a TRS lessee of a covenant, condition or term under the lease, subject to the applicable cure period; the bankruptcy or insolvency of a TRS lessee; cessation of operations by a TRS lessee of the leased hotel for more than 30 days, except as a result of damage, destruction, or a partial or complete condemnation; or the default by a TRS lessee under a franchise agreement subject to any applicable cure period.

Termination of Leases on Disposition of the Hotels or Change of Control

In the event that we sell a hotel to a non-affiliate or a change of control occurs, we generally have the right to terminate the lease by paying the applicable TRS lessee a termination fee to be governed by the terms and conditions of the lease.

Ground Leases

As of December 31, 2021, 13 of our consolidated hotel properties and our unconsolidated hotel property were subject to ground lease agreements that cover the land under the respective hotel properties. Additional information on the ground leases can be found in Note 11 to our accompanying consolidated financial statements.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

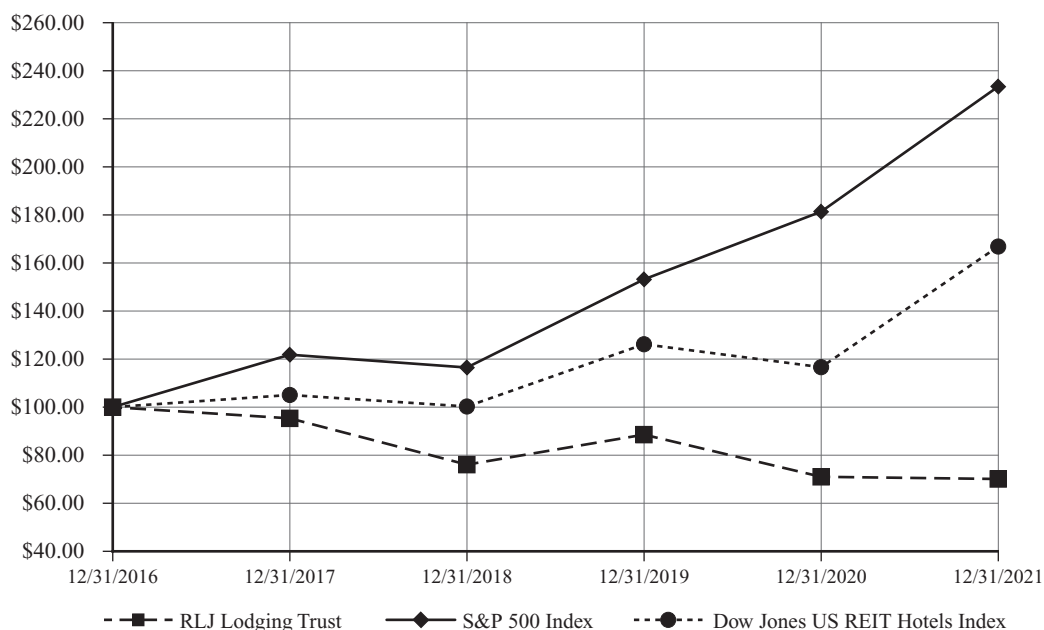
Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common shares are traded on the New York Stock Exchange (“NYSE”) under the symbol “RLJ.” For each quarterly period during the years ended December 31, 2021 and 2020, we paid a cash dividend of \$0.01 per common share.

On December 31, 2021 and February 17, 2022, the closing price of our common shares as reported on the NYSE was \$13.93 and \$15.22, respectively.

Share Return Performance

The graph and the table set forth below assume \$100 was invested on December 31, 2016 in RLJ Lodging Trust’s common shares. The graph and the table compare the total shareholder return of our common shares against the cumulative total returns of the Standard & Poor’s 500 Index (“S&P 500 Index”) and the Dow Jones U.S. Select Real Estate Hotels Index (“Dow Jones US REIT Hotels Index”) between December 31, 2016 and December 31, 2021. The graph assumes an initial investment of \$100.00 in our common shares and in each of the indices, and it also assumes the reinvestment of dividends.



Name	Initial Investment at December 31, 2016	Value of Initial Investment at December 31, 2017	Value of Initial Investment at December 31, 2018	Value of Initial Investment at December 31, 2019	Value of Initial Investment at December 31, 2020	Value of Initial Investment at December 31, 2021
RLJ Lodging Trust	\$100.00	\$ 95.34	\$ 76.07	\$ 88.56	\$ 71.01	\$ 70.10
S&P 500 Index	\$100.00	\$121.83	\$116.49	\$153.18	\$181.36	\$233.43
Dow Jones US REIT Hotels Index	\$100.00	\$105.07	\$100.27	\$126.18	\$116.63	\$166.85

This performance graph shall not be deemed to be “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing by us under the Securities Act of 1933, as amended, or the Securities Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Shareholder Information

At February 17, 2022, we had 191 holders of record of our common shares. However, because many of our common shares are held by brokers and other institutions on behalf of shareholders, we believe there

are substantially more beneficial holders of our common shares than holders of record. At February 17, 2022, there were 12 holders (other than our company) of our OP units. Our OP units are redeemable for cash or, at our election, for our common shares.

In order to comply with certain requirements related to our qualification as a REIT, our declaration of trust provides that, subject to certain exceptions, no person or entity (other than a person or entity who has been granted an exception) may directly or indirectly, beneficially or constructively, own more than 9.8% of the aggregate of our outstanding common shares, by value or by number of shares, whichever is more restrictive, or 9.8% of the aggregate of the outstanding preferred shares of any class or series, by value or by number of shares, whichever is more restrictive.

Distribution Information

We intend, over time, to make quarterly distributions to our common shareholders. In order to qualify and maintain our qualification for taxation as a REIT, we intend to make annual distributions to our shareholders of at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain.

The credit agreements governing our \$600.0 million unsecured revolving credit facility (the “Revolver”) and our unsecured term loans (the “Term Loans”) limit our ability to pay dividends under certain circumstances. If an event of default exists, we may only pay cash dividends in an aggregate amount with respect to any fiscal year not to exceed the greater of (a) the minimum amount required for us to maintain our status as a REIT under Sections 856 through 860 of the Code, or (b) the amount necessary to avoid income or excise tax under the Code. However, if the event of default is a payment default or bankruptcy related, we may not make any cash dividend payments. So long as no event of default exists, the credit agreements do not restrict our ability to pay cash dividends.

The terms of our outstanding preferred stock prohibit us from paying dividends on our common shares unless all accrued preferred dividends then payable have been paid.

Any future distributions will be at the sole discretion of our board of trustees, and their form, timing and amount, if any, will depend upon a number of factors, including our actual and projected financial condition, liquidity, EBITDA, FFO and results of operations, the revenue we actually receive from our properties, our operating expenses, our debt service requirements, our capital expenditures, prohibitions and other limitations under our financing arrangements, as described above, our REIT taxable income, the annual REIT distribution requirements, applicable law and such other factors as our board of trustees deems relevant. To the extent that our cash available for distribution is less than 90% of our REIT taxable income, we may consider various means to cover any such shortfall, including borrowing under the Revolver or other loans, selling certain of our assets, or using a portion of the net proceeds we receive from offerings of equity, equity-related or debt securities or declaring taxable share dividends.

Unregistered Sales of Equity Securities

The Company did not sell any securities during the fiscal year ended December 31, 2021 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 quarter ended December 31, 2021:

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
October 1, 2021 through October 31, 2021 . . .	—	\$ —	—	N/A
November 1, 2021 through November 30, 2021	6,612	\$13.88	—	N/A
December 1, 2021 through December 31, 2021	—	\$ —	—	N/A
Total	<u>6,612</u>		<u>—</u>	

(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 RLJ Lodging Trust 2021 Equity Incentive Plan (“2021 Plan”).

Item 6. Reserved

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements, the related notes included thereto, and Item 1A., “Risk Factors”, all of which appear elsewhere in this Annual Report on Form 10-K.

Overview

We are a self-advised and self-administered Maryland 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 RevPAR, strong operating margins and attractive returns. 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.

COVID-19

The global outbreak of 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 could have lasting changes in consumer behavior that could create headwinds for our hotel properties. 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 the COVID-19 pandemic on our business.

The effects of the COVID-19 pandemic have significantly impacted our operations, and combined with macroeconomic trends such as reduced business spending, including on travel, and a labor shortage, which has led to higher labor costs, lead us to believe that the ongoing effects of the COVID-19 pandemic on our operations will continue to have an adverse impact on our financial results.

For more information, see “Part I — Item 1A. Risk Factors” included elsewhere in this Annual Report on Form 10-K.

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, the effects of COVID-19 and other 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.

Key Indicators of Operating 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 represents the total hotel room revenues divided by the total number of rooms sold in a given period. ADR measures the average room price attained by a hotel and ADR trends provide useful information concerning the pricing environment and the nature of the customer base at a hotel or group of hotels. We use ADR to assess the pricing levels that we are able to generate, as changes in rates have a greater impact on operating margins and profitability than changes in occupancy.
- **Occupancy** — Occupancy represents the total number of hotel rooms sold in a given period divided by the total number of rooms available. Occupancy measures the utilization of our hotels’ available capacity. We use occupancy to measure demand at a specific hotel or group of hotels in a given period. Additionally, occupancy levels help us determine the achievable ADR levels.
- **Revenue Per Available Room** — RevPAR is the product of ADR and occupancy. RevPAR does not include non-room revenues, such as food and beverage revenue or other revenue. We use RevPAR to identify trend information with respect to room revenues from comparable hotel properties and to evaluate hotel performance on a regional basis.

RevPAR changes that are primarily driven by changes in occupancy have different implications for overall revenues and profitability than the changes that are driven primarily by changes in ADR. For example, an increase in occupancy at a hotel would lead to additional variable operating costs (including housekeeping services, utilities and room supplies) and could also result in an increase in other revenue and other operating expense. Changes in ADR typically have a greater impact on operating margins and profitability as they only have a limited effect on variable operating costs.

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. Room revenue comprised approximately 85.0% of our total revenues for the year ended December 31, 2021, and it is dictated by demand (as measured by occupancy), pricing (as measured by ADR) and our available supply of hotel rooms.

We also use non-GAAP measures such as FFO, Adjusted FFO, EBITDA, EBITDA_{re} 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.

Principal Factors Affecting Our Results of Operations

The principal factors affecting our operating results include the overall demand for lodging compared to the supply of available hotel rooms and other lodging options, and the ability of our third-party management companies to increase or maintain revenues while controlling expenses.

- ***Demand*** — The demand for lodging, especially business travel, generally fluctuates with the overall economy. Historically, periods of declining demand are followed by extended periods of relatively strong demand, which typically occurs during the growth phase of the lodging cycle.
- ***Supply*** — The development of new hotels is driven largely by construction costs, the availability of financing, the expected performance of existing hotels and other lodging options.

We expect that our ADR, Occupancy and RevPAR performance will be impacted by macroeconomic factors such as regional and local employment growth, government spending, personal income and corporate earnings, office vacancy rates, business relocation decisions, airport activity, business and leisure travel demand, new hotel construction and the pricing strategies of our competitors. In addition, our ADR, Occupancy and RevPAR performance are dependent on the continued success of the Marriott, Hilton and Hyatt hotel brands.

- ***Revenues*** — Substantially all of our revenues are derived from the operation of hotels. Specifically, our revenues are comprised of:
 - ***Room revenue*** — Occupancy and ADR are the major drivers of room revenue. Room revenue accounts for the majority of our total revenues.
 - ***Food and beverage revenue*** — Occupancy, the nature of the hotel property and the type of customer staying at the hotel are the major drivers of food and beverage revenue (i.e., group business typically generates more food and beverage revenue through catering functions as compared to transient business, which may or may not utilize the hotel’s food and beverage outlets).
 - ***Other revenue*** — Occupancy and the nature of the hotel property are the main drivers of other ancillary revenue, such as parking fees, resort fees, gift shop sales and other guest service fees. Some hotels, due to the limited focus of the services offered and size or space limitations at the hotel, may not have the type of facilities that generate other revenue.
- ***Property Operating Expenses*** — The components of our property operating expenses are as follows:
 - ***Room expense*** — These expenses include housekeeping and front office wages and payroll taxes, reservation systems, room supplies, laundry services and other room-related costs. Like room revenue, occupancy is the major driver of room expense. These costs can increase based on an increase in salaries and wages, as well as the level of service and amenities that are provided at the hotel property.
 - ***Food and beverage expense*** — These expenses primarily include food, beverage and labor costs. Occupancy and the type of customer staying at the hotel (i.e., catered functions are generally more profitable than restaurant, bar, and other food and beverage outlets that are located on the hotel property) are the major drivers of food and beverage expense, which correlates closely with food and beverage revenue.
 - ***Management and franchise fee expense*** — A base management fee is computed as a percentage of gross hotel revenues. An incentive management fee is typically paid when the hotel’s operating

income exceeds certain thresholds, and it is generally calculated as a percentage of hotel operating income after we have received a priority return on our investment in the hotel. A franchise fee is computed as a percentage of room revenue, plus an additional percentage of room revenue for marketing, central reservation systems and other franchisor costs. Certain hotels will also pay an additional franchise fee which is computed as a percentage of food and beverage revenue. For a more in depth discussion of the management and franchise fees, please refer to the “Our Hotel Properties — Management Agreements” and “Our Hotel Properties — Franchise Agreements” sections.

- *Other operating expense* — These expenses include labor and other costs associated with the sources of our other revenue, as well as the labor and other costs associated with the administrative departments, sales and marketing, repairs and maintenance, and utility costs at the hotel properties.

Most categories of variable operating expenses, including labor costs, fluctuate with changes in occupancy. Increases in occupancy are accompanied by increases in most categories of variable operating expenses, while increases in ADR typically only result in increases in certain categories of operating costs and expenses, such as management fees, franchise fees, travel agency commissions, and credit card processing fees, all of which are based on hotel revenues. Therefore, changes in ADR have a more significant impact on operating margins than changes in occupancy.

2021 Significant Activities

Our significant activities reflect our commitment to creating long-term shareholder value through enhancing our hotel portfolio’s quality, recycling capital and maintaining a flexible capital structure. During the year ended December 31, 2021, the following significant activities took place:

- We issued \$500.0 million aggregate principal amount of 2029 Senior Notes (as defined below) that bear interest at a rate of 4.00% per annum. We used the net proceeds of the offering to redeem all of the outstanding 2025 Senior Notes (as defined below).
- We issued \$500.0 million aggregate principal amount of 2026 Senior Notes (as defined below) that bear interest at a rate of 3.75% per annum. We used the net proceeds of the offering to repay \$335.5 million of our Term Loans (as defined below) and \$142.2 million of our mortgage loans.
- We amended our Revolver (as defined below) and Term Loans, which included a waiver of quarterly financial covenants through the first quarter of 2022. The amendments also included adding a one-year extension option on approximately \$225.0 million on our two 2023 maturing term loans.
- We extended the maturity of \$100.0 million of our \$150.0 million Term Loan (as defined below) from January 2022 to June 2023, with an additional one-year extension option to June 2024.
- We sold seven hotel properties in seven separate transactions for a combined sales price of approximately \$208.5 million.
- We acquired the 186-room Hampton Inn and Suites Atlanta Midtown, 205-room AC Hotel Boston Downtown, and 170-room Moxy Denver Cherry Creek for \$58.0 million, \$89.0 million, and \$51.3 million, respectively.

Results of Operations

At December 31, 2021 and 2020, we owned 98 and 103 hotel properties, respectively. Based on when a hotel property is acquired, sold, or otherwise disposed, the operating results for certain hotel properties are not comparable for the years ended December 31, 2021 and 2020. For the comparison between the years ended December 31, 2021 and 2020, the non-comparable properties include nine hotels that were sold or otherwise disposed and three hotels acquired between January 1, 2020 and December 31, 2021.

For similar operating and financial data and discussion of our results for the year ended December 31, 2020 compared to our results for the year ended December 31, 2019, refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under Part II of our annual

report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on February 26, 2021 and is incorporated herein by reference.

COVID-19

Beginning in March 2020, we experienced a significant decline in occupancy and RevPAR due to the COVID-19 pandemic. In response to the government-mandated stay-in-place orders and the significant reduction in demand due to the COVID-19 pandemic, we initially suspended operations at 57 hotels. As stay-in-place restrictions were lifted, we developed a framework to open hotels in a socially and financially responsible manner. Based on this framework, we began reopening hotels during the quarter ended June 30, 2020. During the year ended December 31, 2021, we benefited from significant growth in demand as a result of increased vaccine distribution, easing of government restrictions and pent-up leisure demand. These trends, combined with our reopening strategy and continuing stringent cost containment initiatives, led to a significant improvement in our results of operations for the year ended December 31, 2021 as compared to the same period in 2020.

Comparison of the year ended December 31, 2021 to the year ended December 31, 2020

	For the year ended December 31,		\$ Change
	2021	2020	
(amounts in thousands)			
Revenues			
Operating revenues			
Room revenue	\$ 667,853	\$ 397,754	\$270,099
Food and beverage revenue	58,994	40,384	18,610
Other revenue	58,817	34,949	23,868
Total revenues	<u>785,664</u>	<u>473,087</u>	<u>312,577</u>
Expenses			
Operating expenses			
Room expense	177,365	124,063	53,302
Food and beverage expense	41,790	35,220	6,570
Management and franchise fee expense	53,276	21,057	32,219
Other operating expense	239,092	211,216	27,876
Total property operating expenses	<u>511,523</u>	<u>391,556</u>	<u>119,967</u>
Depreciation and amortization	187,778	194,168	(6,390)
Impairment losses	144,845	—	144,845
Property tax, insurance and other	88,852	103,470	(14,618)
General and administrative	47,526	41,141	6,385
Transaction costs	94	(158)	252
Total operating expenses	<u>980,618</u>	<u>730,177</u>	<u>250,441</u>
Other (expense) income, net	(7,614)	1,941	(9,555)
Interest income	996	4,237	(3,241)
Interest expense	(106,366)	(100,169)	(6,197)
(Loss) gain on sale of hotel properties, net	(2,378)	2,703	(5,081)
Gain on extinguishment of indebtedness, net	893	—	893
Loss before equity in loss from unconsolidated joint ventures	(309,423)	(348,378)	38,955
Equity in loss from unconsolidated joint ventures	(477)	(8,454)	7,977
Loss before income tax expense	(309,900)	(356,832)	46,932
Income tax expense	(1,188)	(51,970)	50,782
Net loss	<u>(311,088)</u>	<u>(408,802)</u>	<u>97,714</u>
Net loss attributable to noncontrolling interests:			
Noncontrolling interest in consolidated joint ventures	4,384	2,327	2,057
Noncontrolling interest in the Operating Partnership	1,536	2,034	(498)
Net loss attributable to RLJ	<u>(305,168)</u>	<u>(404,441)</u>	<u>99,273</u>
Preferred dividends	(25,115)	(25,115)	—
Net loss attributable to common shareholders	<u><u>\$(330,283)</u></u>	<u><u>\$(429,556)</u></u>	<u><u>\$ 99,273</u></u>

Revenues

Total revenues increased \$312.6 million to \$785.7 million for the year ended December 31, 2021, from \$473.1 million for the year ended December 31, 2020. The increase was a result of a \$270.1 million increase in room revenue, a \$18.6 million increase in food and beverage revenue, and a \$23.9 million increase in other revenue.

Room Revenue

Room revenue increased \$270.1 million to \$667.9 million for the year ended December 31, 2021, from \$397.8 million for the year ended December 31, 2020. The increase was the result of a \$275.7 million increase in room revenue attributable to the comparable properties, which was partially offset by a \$5.6 million decrease in room revenue attributable to the non-comparable properties. The increase in room revenue from the comparable properties was attributable to an increase in RevPAR primarily resulting from an increase in demand as a result of increased vaccine distribution, easing of government restrictions, and pent-up demand for leisure travel. Though RevPAR increased over the comparable period in 2020 due to these factors, it remained below the comparable period in 2019.

The following are the key hotel operating statistics for the comparable properties:

	For the year ended December 31,		
	2021	2020	2019
Occupancy	57.6%	34.2%	78.7%
ADR	\$148.48	\$144.20	\$183.71
RevPAR	\$ 85.52	\$ 49.35	\$144.64

Food and Beverage Revenue

Food and beverage revenue increased \$18.6 million to \$59.0 million for the year ended December 31, 2021, from \$40.4 million for the year ended December 31, 2020. The increase was the result of a \$19.5 million increase in food and beverage revenue attributable to the comparable properties, which was partially offset by a \$0.5 million decrease in food and beverage revenue attributable to the non-comparable properties. The increase in food and beverage revenue attributable to the comparable properties was primarily due to an increase in demand as a result of increased vaccine distribution, easing of government restrictions, and pent-up demand for leisure travel.

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, increased \$23.9 million to \$58.8 million for the year ended December 31, 2021, from \$34.9 million for the year ended December 31, 2020. The increase in other revenue was primarily due to an increase in demand as a result of increased vaccine distribution, easing of government restrictions, and pent-up demand for leisure travel.

Property Operating Expenses

Property operating expenses increased \$120.0 million to \$511.5 million for the year ended December 31, 2021, from \$391.6 million for the year ended December 31, 2020. The increase was due to a \$139.5 million increase in property operating expenses attributable to the comparable properties, which was partially offset by a \$19.4 million decrease in property operating expenses attributable to the non-comparable properties. The reasons underlying such changes are illustrated in the following chart and accompanying paragraph.

The components of our property operating expenses for the comparable properties owned at December 31, 2021 and 2020, respectively, were as follows (in thousands):

	For the year ended December 31,		
	2021	2020	\$ Change
Room expense	\$172,404	\$112,671	\$ 59,733
Food and beverage expense	41,703	33,467	8,236
Management and franchise fee expense	51,693	18,782	32,911
Other operating expense	228,814	190,216	38,598
Total property operating expenses	<u>\$494,614</u>	<u>\$355,136</u>	<u>\$139,478</u>

The increase in property operating expenses attributable to the comparable properties was due to an increase in occupancy over the prior period due to an increase in demand as a result of increased vaccine distribution, easing of government restrictions, and pent-up demand for leisure travel. The occupancy-related increase in property operating expenses was partially offset by continuing stringent cost containment initiatives. Management and franchise fee expense for the years ended December 31, 2021 and 2020 included a reduction in management and franchise fee expense of \$14.1 million and \$17.8 million, respectively, related to the recognition of the Wyndham termination payment.

Depreciation and Amortization

Depreciation and amortization expense decreased \$6.4 million to \$187.8 million for the year ended December 31, 2021, from \$194.2 million for the year ended December 31, 2020. The decrease was the result of a \$5.2 million decrease in depreciation and amortization expense attributable to the comparable properties and a \$1.2 million decrease in depreciation and amortization expense attributable to the non-comparable properties. The decrease in depreciation and amortization expense attributable to the comparable properties was primarily related to furniture, fixtures and equipment that were fully depreciated in 2020, partially offset by an increase in depreciation and amortization expense related to recently acquired and recently renovated hotels.

Impairment Losses

During the year ended December 31, 2021, we recorded impairment losses of \$144.8 million. The impairment losses included \$5.9 million related to two hotel properties that were sold in May 2021 and \$138.9 million related to the DoubleTree Metropolitan New York City that was sold in December 2021.

Property Tax, Insurance and Other

Property tax, insurance and other expense decreased \$14.6 million to \$88.9 million for the year ended December 31, 2021, from \$103.5 million for the year ended December 31, 2020. The decrease was attributable to a \$13.0 million decrease in property tax, insurance and other expense attributable to the comparable properties and a \$1.6 million decrease in property tax, insurance and other expense attributable to the non-comparable properties. The decrease in property tax, insurance and other expense attributable to the comparable properties was primarily attributable to a decrease in real estate tax assessments, including final assessments of certain of our California hotels acquired in our merger with FelCor Lodging Trust, which resulted in a benefit of \$5.4 million that was recorded during the year ended December 31, 2021. The decrease in real estate tax assessments was partially offset by an increase in insurance premiums and an increase in percentage rent obligations for certain of our ground leases.

General and Administrative

General and administrative expense increased \$6.4 million to \$47.5 million for the year ended December 31, 2021, from \$41.1 million for the year ended December 31, 2020. The increase in general and administrative expense was primarily attributable to an increase in compensation-related expenses, primarily from non-cash compensation expense related to share-based awards granted during 2021, and an increase in debt modification, legal, and other costs outside the normal course of operations.

Other (Expense) Income, net

Other expense increased \$9.6 million to \$7.6 million for the year ended December 31, 2021, from income of \$1.9 million for the year ended December 31, 2020. The increase was primarily attributable to the reclassification of unrealized losses from accumulated other comprehensive loss due to the termination of certain interest rate swap agreements that were previously designated against debt that was repaid with proceeds from the issuance of our 2026 Senior Notes.

Interest Expense

The components of our interest expense for the years ended December 31, 2021 and 2020 were as follows (in thousands):

	For the year ended December 31,		
	2021	2020	\$ Change
Senior Notes	\$ 34,079	\$ 23,767	\$10,312
Revolver and Term Loans	53,097	55,413	(2,316)
Mortgage loans	13,306	16,949	(3,643)
Amortization of deferred financing costs	5,884	4,416	1,468
Undesignated interest rate swaps	—	(376)	376
Total interest expense	<u>\$106,366</u>	<u>\$100,169</u>	<u>\$ 6,197</u>

Interest expense increased \$6.2 million to \$106.4 million for the year ended December 31, 2021, from \$100.2 million for the year ended December 31, 2020. Interest expense was impacted by the \$1.0 billion in gross proceeds from the issuance of new senior notes, the \$484.4 million redemption of the existing senior notes, \$356.3 million in repayment of term loans, \$200.0 million in repayment on the Revolver, and \$149.2 million in repayment of mortgage loans during year ended December 31, 2021. Additionally, interest expense on our variable rate debt increased due to higher effective interest rates after taking into account the impact of interest rate swaps in each of the periods.

(Loss) Gain on Sale of Hotel Properties, net

During the year ended December 31, 2021, we sold seven hotel properties for an aggregate sales price of approximately \$208.5 million and recorded a net loss on sales of \$2.4 million. During the year ended December 31, 2020, we sold one hotel property for a sale price of approximately \$4.9 million and recorded a net gain on sale of \$2.7 million.

Equity in Loss from Unconsolidated Joint Ventures

Equity in loss from unconsolidated joint ventures decreased \$8.0 million to \$0.5 million for the year ended December 31, 2021 from \$8.5 million for the year ended December 31, 2020. The decrease is primarily attributable to an impairment loss of \$6.5 million in one of our unconsolidated joint ventures in 2020 that did not recur in 2021, and an increase in demand as compared to the prior period.

Income Taxes

As part of our structure, we own TRSs that are subject to U.S. federal and state income taxes. Income tax expense decreased \$50.8 million to \$1.2 million for the year ended December 31, 2021, from \$52.0 million for the year ended December 31, 2020. The decrease in income tax expense was primarily due to recording a valuation allowance on 100% of our net deferred tax assets during the year ended December 31, 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) EBITDA_{re} and (5) Adjusted EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income as a measure of our operating performance. FFO, Adjusted FFO, EBITDA, EBITDA_{re}, and Adjusted EBITDA, as calculated by us, may not be comparable to FFO, Adjusted FFO, EBITDA, EBITDA_{re} 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, pre-opening costs, non-cash income tax expense or benefit, the amortization of share-based compensation, and certain other income or 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 to FFO attributable to common shareholders and unitholders and Adjusted FFO attributable to common shareholders and unitholders for the years ended December 31, 2021 and 2020 (in thousands):

	For the year ended December 31,	
	2021	2020
Net loss	\$(311,088)	\$(408,802)
Preferred dividends	(25,115)	(25,115)
Depreciation and amortization	187,778	194,168
Impairment losses	144,845	—
Loss (gain) on sale of hotel properties, net	2,378	(2,703)
Noncontrolling interest in consolidated joint ventures	4,384	2,327
Adjustments related to consolidated joint ventures ⁽¹⁾	(2,780)	(298)
Adjustments related to unconsolidated joint ventures ⁽²⁾	1,168	8,299
FFO	<u>1,570</u>	<u>(232,124)</u>
Transaction costs	94	(158)
Gain on extinguishment of indebtedness, net	(893)	—
Amortization of share-based compensation	17,054	12,200
Non-cash income tax expense	(40)	51,486
Unrealized gain on discontinued cash flow hedges	—	(376)
Corporate and property-level severance ⁽³⁾	904	8,653
Derivative losses in accumulated other comprehensive loss reclassified to earnings ⁽⁴⁾	10,658	—
Other expenses (income) ⁽⁵⁾	2,086	(1,125)
Adjusted FFO	<u>\$ 31,433</u>	<u>\$(161,444)</u>

- (1) Includes depreciation and amortization expense, impairment loss and loss on sale of hotel allocated to the noncontrolling interest in the consolidated joint ventures.
- (2) Includes our ownership interest in the depreciation and amortization expense and impairment loss of the unconsolidated joint ventures.
- (3) The year ended December 31, 2021 includes severance for associates at hotels operating under collective bargaining agreements. The year ended December 31, 2020 includes \$6.7 million related to severance for associates at our New York City hotels operating under collective bargaining agreements.

- (4) Reclassification of unrealized losses from accumulated other comprehensive loss due to the termination of certain interest rate swap agreements that were previously designated against debt that was repaid with proceeds from the issuance of our 2026 Senior Notes.
- (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 income for the year ended December 31, 2020 includes a benefit of \$1.8 million due to the reversal of an excess accrued liability related to a labor 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 benefit or 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, pre-opening costs, and certain other income or 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 to EBITDA, EBITDAre and Adjusted EBITDA for the years ended December 31, 2021 and 2020 (in thousands):

	For the year ended December 31,	
	2021	2020
Net loss	\$(311,088)	\$(408,802)
Depreciation and amortization	187,778	194,168
Interest expense, net	105,370	95,932
Income tax expense	1,188	51,970
Adjustments related to unconsolidated joint ventures ⁽¹⁾	1,633	2,237
EBITDA	(15,119)	(64,495)
Loss (gain) on sale of hotel properties, net	2,378	(2,703)
Impairment losses	144,845	—
Impairment loss of unconsolidated joint ventures ⁽²⁾	—	6,546
EBITDAre	132,104	(60,652)
Transaction costs	94	(158)
Gain on extinguishment of indebtedness, net	(893)	—
Amortization of share-based compensation	17,054	12,200
Corporate and property-level severance ⁽³⁾	904	8,653
Derivative losses in accumulated other comprehensive loss reclassified to earnings ⁽⁴⁾	10,658	—
Other expenses (income) ⁽⁵⁾	2,086	(1,125)
Adjusted EBITDA	<u>\$ 162,007</u>	<u>\$ (41,082)</u>

-
- (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) The year ended December 31, 2021 includes severance for associates at hotels operating under collective bargaining agreements. The year ended December 31, 2020 includes \$6.7 million related to severance for associates at our New York City hotels operating under collective bargaining agreements.
 - (4) Reclassification of unrealized losses from accumulated other comprehensive loss due to the termination of certain interest rate swap agreements that were previously designated against debt that was repaid with proceeds from the issuance of our 2026 Senior Notes.
 - (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 income for the year ended December 31, 2020 includes a benefit of \$1.8 million due to the reversal of an excess accrued liability related to a labor matter.

Liquidity and Capital Resources

As of December 31, 2021, we had \$713.9 million of cash, cash equivalents, and restricted cash reserves as compared to \$934.8 million at December 31, 2020. In addition, we had \$400.0 million available on our \$600.0 million Revolver at December 31, 2021. In February 2022, we paid off the outstanding balance on the Revolver using cash on hand.

Our principal uses of capital for the year ended December 31, 2021 were our purchases of three hotel properties, redemption of the 2025 Senior Notes (as defined below), repayment of a portion of our Revolver, and repayment of certain term loans and mortgages. Our principal sources of capital for the year ended December 31, 2021 was cash generated from operations, the sale of seven hotel properties, and the issuance of the senior notes.

Material Cash Requirements

Our expected material cash requirements for the twelve months ending 2022 and thereafter are comprised of (i) contractually obligated expenditures; and (ii) other essential cash requirements.

Contractually Obligated Expenditures

We are party to various contractual obligations involving commitments to make payments to third parties. These obligations impact our short-term and long-term liquidity and capital resource needs. Our material short and long-term cash commitments primarily consist of debt obligations, and ground lease payments related to certain of our hotel properties.

As of December 31, 2021, we had approximately \$2.4 billion in debt outstanding with a weighted average interest rate of 3.94%, of which \$200.0 million is scheduled to become due in the succeeding 12 months, excluding available extension options. As of December 31, 2021, our total future minimum lease payments were \$600.1 million, of which \$11.5 million is scheduled to become due in the succeeding 12 months. For details regarding our indebtedness and lease obligations, refer to Note 8, *Debt*, and Note 11, *Commitments and Contingencies*, to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Other Essential Cash Requirements

Our other short-term cash 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 with low occupancy;

- distributions necessary to qualify for taxation as a REIT; and
- corporate and other general and administrative expenses.

We expect to meet our short-term cash requirements generally through the net cash provided by operations, existing cash balances, short-term borrowings under our Revolver, proceeds from the sale of hotel properties, proceeds from financings, and proceeds from public offerings of common shares.

Our other long-term cash requirements consist primarily of the funds necessary to pay for costs of acquiring additional hotel properties, renovations and other capital expenditures that need to be made periodically with respect to our hotel properties, and any other value enhancing projects.

During the year ended December 31, 2021, we entered into two amendments to our Revolver and Term Loans. The amendment suspends 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, 2022 (the “Covenant Relief Period”). In addition, for the five quarterly reporting periods following the Covenant Relief Period, the amendments modify certain covenant thresholds. We are also subject to various restrictions such as the ability to incur additional indebtedness, repurchase shares, dividends and distributions limitations, and limitations around capital expenditures and acquisitions.

Sources and Uses of Cash

Cash flows from Operating Activities

The net cash flow provided by operating activities totaled \$43.0 million and the net cash flow used in operating activities totaled \$168.7 million for the years ended December 31, 2021 and 2020, respectively. The cash flows provided by or used in operating activities generally consist of the net cash generated by or operating shortfalls from our hotel operations, 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 years ended December 31, 2021 and 2020.

Cash flows from Investing Activities

The net cash flow used in investing activities totaled \$24.6 million for the year ended December 31, 2021 primarily due to \$174.7 million used to purchase three hotel properties and \$48.3 million in routine capital improvements and additions to our hotel properties. These were partially offset by \$198.6 million of net cash proceeds from the sale of seven hotel properties.

The net cash flow used in investing activities totaled \$66.7 million for the year ended December 31, 2020 primarily due to \$73.3 million in routine capital improvements and additions to our hotel properties, partially offset by \$5.2 million of net cash proceeds from the sale of a hotel property.

Cash flows from Financing Activities

The net cash flow used in financing activities totaled \$239.3 million for the year ended December 31, 2021 primarily due to the \$484.4 million redemption of the 2025 Senior Notes, \$356.3 million in repayment of term loans, \$200.0 million in repayment on the Revolver, \$149.2 million in repayment of mortgage loans, \$31.8 million in distributions to shareholders and unitholders, \$14.8 million in deferred financing cost payments, \$2.5 million paid to repurchase common shares, and \$1.5 million in scheduled mortgage loan principal payments. The net cash flow used in financing activities was partially offset by \$1.0 billion in gross proceeds from the issuances of the senior notes.

The net cash flow provided by financing activities totaled \$243.0 million for the year ended December 31, 2020 primarily due to \$400.0 million in borrowings on our revolving credit facility. This was offset by \$86.5 million in distributions to shareholders and unitholders, \$64.2 million paid to repurchase common shares, \$4.1 million in deferred financing cost payments, and \$3.4 million in scheduled mortgage loan principal payments.

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 all such routine improvements and alterations are paid out of FF&E reserves, which are funded by a portion of each hotel property's gross revenues. Routine capital expenditures are 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 December 31, 2021, approximately \$26.6 million was held in FF&E reserve accounts for future capital expenditures.

Critical Accounting Estimates

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. We consider our accounting policies over investment in hotel properties and revenue recognition to be our critical accounting estimates. See Note 2 to our consolidated financial statements for further descriptions of such accounting policies. We have set forth below the accounting policies that we believe require material subjective or complex judgments and have the most significant impact on our financial condition and results of operations. 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.

Impairment

We assess the carrying value of our investments in hotel properties whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Hotel property recoverability is measured by comparing the carrying amount to the projected undiscounted future cash flows expected to be generated from the operation and the eventual disposition of the hotel properties over the estimated hold period, which take into account current market conditions and our intent with respect to holding or disposing of the hotel properties. If our analysis indicates that the carrying value is not recoverable on a projected undiscounted cash flow basis, we will recognize an impairment loss for the amount by which the carrying value exceeds the fair value. The determination of fair value is subjective and is based in part on assumptions and estimates that could differ materially from actual results in future periods. The fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions, third-party appraisals, the net sales proceeds from pending offers, or the net sales proceeds from transactions that closed subsequent to the end of the reporting period. The use of projected future cash flows is based on assumptions that are consistent with a market participant's future expectations for the travel industry and the economy in general, including discount rates, sales proceeds in the reversion year, average daily rates, occupancy rates, operating expenses and capital expenditures, and our intent with

respect to holding or disposing of the underlying hotel properties. Fair value may also be based on assumptions including, but not limited to, room revenue multiples and comparable sales adjusted for capital expenditures, if necessary.

Purchase Price Allocation

Our acquisitions generally consist of land, land improvements, buildings, building improvements, furniture, fixtures and equipment, inventory, and assumed debt. We allocate the purchase price among the assets acquired and the liabilities assumed based on their respective fair values at the date of acquisition. We estimate the fair values of the assets acquired and the liabilities assumed by using a combination of the market, cost and income approaches. We determine the fair value by using market data and independent appraisals available to us and making numerous estimates and assumptions, such as estimates of future income growth, replacement cost per unit, value per acre or buildable square foot, capitalization rates, discount rates, borrowing rates, market rental rates, capital expenditures and cash flow projections at the respective hotel properties. The determination of fair value is subjective and is based in part on assumptions and estimates that could differ materially from actual results in future periods.

Item 7A. 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 December 31, 2021, we had approximately \$1.4 billion of total variable rate debt outstanding (or 57.7% of total indebtedness) with a weighted-average interest rate of 3.97% per annum.

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. After taking into consideration the effect of interest rate swaps, 100.0% of our total indebtedness was fixed or effectively fixed. As of December 31, 2021, 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 have no impact on future earnings and cash flows, taking into account our existing contractual hedging arrangements.

The following table provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations outstanding as of December 31, 2021, the following table presents the principal repayments and related weighted-average interest rates by contractual maturity dates (in thousands):

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>	<u>Total</u>
Fixed rate debt ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$500,000	\$525,000	\$1,025,000
Weighted-average interest rate	—%	—%	—%	—%	3.75%	4.05%	3.90%
Variable rate debt ⁽¹⁾ . .	\$200,000	\$418,662	\$381,000	\$400,000	\$ —	\$ —	\$1,399,662
Weighted-average interest rate ⁽²⁾ . . .	3.30%	4.59%	3.13%	4.45%	—%	—%	3.97%
Total ⁽³⁾	<u>\$200,000</u>	<u>\$418,662</u>	<u>\$381,000</u>	<u>\$400,000</u>	<u>\$500,000</u>	<u>\$525,000</u>	<u>\$2,424,662</u>

(1) Excludes \$13.1 million, \$3.7 million and \$1.1 million of net deferred financing costs on the senior notes, Term Loans and mortgage loans, respectively.

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

(3) Excludes a \$2.6 million fair value adjustment 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 December 31, 2021, the estimated fair value of our fixed rate debt was \$1.0 billion, 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 remained constant, we expect the fair value of our debt would decrease by approximately \$42.5 million.

Item 8. Financial Statements and Supplementary Data

Refer to the Index to Financial Statements on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision and with the 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) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as required by paragraph (b) of Rules 13a-15 and 15d-15 of the Exchange Act. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2021, the Company's disclosure controls and procedures were effective to ensure that the information we are required to disclose in reports filed or submitted with the Securities and Exchange Commission (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control — Integrated Framework (2013)*. Based on this assessment, management has concluded that, as of December 31, 2021, our internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2021 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page F-2 of this Annual Report on Form 10-K.

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 December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information called for by this Item is contained in our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 11. Executive Compensation

The information called for by this Item is contained in our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information called for by this Item is contained in our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders, or in Item 5 of this Annual Report on Form 10-K for the year ended December 31, 2021, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information called for by this Item is contained in our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information called for by this Item is contained in our definitive Proxy Statement for our 2022 Annual Meeting of Shareholders, and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following is a list of documents filed as a part of this report:

- (1) Financial Statements — Refer to the Index to Financial Statements on page F-1
- (2) Financial Statement Schedules — The following financial statement schedule is included herein on pages F-40 through F-44:

Schedule III — Real Estate and Accumulated Depreciation for RLJ Lodging Trust

All other schedules for which a provision is made in Regulation S-X are either not required to be included herein under the related instructions, are inapplicable, or the related information is included in the footnotes to the applicable financial statement and, therefore, have been omitted.

- (3) 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)
4.1	Form of Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-11/A (File. No. 333-172011) filed on April 29, 2011)
4.2	Form of stock certificate evidencing the \$1.95 Series A Cumulative Convertible Preferred Shares, par value \$0.01 per share (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-A filed on August 30, 2017)
4.3	Registration Rights Agreement, dated May 16, 2011, by and among RLJ Lodging Trust and the persons listed on Schedule I thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
4.4	Registration Rights Agreement, dated May 16, 2011, by and among RLJ Lodging Trust and the persons listed on Schedule I thereto (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
4.5	Second Supplemental Indenture with respect to FelCor Lodging Limited Partnership's 6.000% Senior Notes due 2025, dated as of August 31, 2017, by and among FelCor Lodging Limited Partnership, Rangers Sub I, LLC, the other guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on September 1, 2017)
4.6	Indenture, dated as of June 17, 2021, among dated as of June 17, 2021, among RLJ Lodging Trust, RLJ Lodging Trust, L.P., the subsidiary guarantors party thereto and the U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on June 17, 2021)
4.7	Indenture, dated as of September 13, 2021, among RLJ Lodging Trust, RLJ Lodging Trust, L.P., the subsidiary guarantors party thereto and the U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on September 16, 2021)
4.8	Description of Registered Securities
10.1	Amended and Restated Agreement of Limited Partnership, dated May 13, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)

Exhibit Number	Description of Exhibit
10.2	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership, dated August 31, 2017 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on September 1, 2017)
10.3	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Evan Bayh (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.4	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Nathaniel Davis (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.5	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Leslie D. Hale (incorporated by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.6	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Robert L. Johnson (incorporated by reference to Exhibit 10.9 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.7	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Robert M. La Forgia (incorporated by reference to Exhibit 10.10 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.8	Indemnification Agreement, dated May 16, 2011, between RLJ Lodging Trust and Glenda McNeal (incorporated by reference to Exhibit 10.11 to the Registrant's Current Report on Form 8-K filed on May 19, 2011)
10.9	RLJ Lodging Trust 2021 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 6, 2021)
10.10	Form of Restricted Share Agreement (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed on August 6, 2021)
10.11	Form of Performance Share Unit Award Agreement (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q filed on August 6, 2021)
10.12	Amended and Restated Employment Agreement, dated as of November 1, 2021, by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P. and Robert L. Johnson (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2021)
10.13	Employment Agreement, dated as of February 14, 2020 by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P. and Leslie D. Hale (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 20, 2020)
10.14	Amended and Restated Employment Agreement, dated as of November 1, 2021, by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P. and Sean M. Mahoney (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on November 5, 2021)
10.15	Third Amended and Restated Credit Agreement, dated as of December 18, 2019, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank National Association, as Administrative Agent and a lender, and the other agents and lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 19, 2019)
10.16	Third Amended and Restated Guaranty, dated as of December 18, 2019, by and among RLJ Lodging Trust, certain subsidiaries of RLJ Lodging Trust party thereto and Wells Fargo Bank National Association, as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 19, 2019)

Exhibit Number	Description of Exhibit
10.17	First Amendment to Third Amended and Restated Credit Agreement, dated as of June 24, 2020, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 29, 2020)
10.18	Second Amendment to Third Amended and Restated Credit Agreement, dated as of December 10, 2020, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 14, 2020)
10.19	Third Amendment to Third Amended and Restated Credit Agreement, dated as of June 10, 2021, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent and a lender, and the other lenders party thereto incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 10, 2021)
10.20	Fourth Amendment to Third Amended and Restated Credit Agreement, dated as of September 16, 2021, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, certain subsidiaries of RLJ Lodging Trust, L.P. party thereto, Wells Fargo Bank, National Association, as Administrative Agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 16, 2021)
10.21	Term Loan Agreement, dated as of November 20, 2012, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, Capital One, N.A., as Documentation Agent, Raymond James, as Managing Agent, Wells Fargo Securities LLC and PNC Capital Markets LLC, as Joint Lead Arrangers and Joint Bookrunners and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)
10.22	First Amendment to Term Loan Agreement, dated as of August 27, 2013, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)
10.23	Second Amendment to Term Loan Agreement, dated as of June 1, 2015, by and between RLJ Lodging Trust, L.P., RLJ Lodging Trust and Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K filed on February 25, 2016)
10.24	Third Amendment to Term Loan Agreement, dated as of November 12, 2015, by and between RLJ Lodging Trust, L.P., RLJ Lodging Trust and Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K filed on February 25, 2016)
10.25	Fourth Amendment to Term Loan Agreement and First Amendment to Guaranty, dated as of April 22, 2016, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, certain subsidiaries of RLJ Lodging Trust party thereto, Wells Fargo Bank, National Association, as Administrative Agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on April 28, 2016)

Exhibit Number	Description of Exhibit
10.26	Fifth Amendment to Term Loan Agreement, dated August 31, 2017, by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P., certain subsidiaries of RLJ Lodging Trust party thereto, Wells Fargo Bank, National Association, as administrative agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 1, 2017)
10.27	Sixth Amendment to Term Loan Agreement, dated January 25, 2018, by and among RLJ Lodging Trust, RLJ Lodging Trust, L.P., certain subsidiaries of RLJ Lodging Trust party thereto, Wells Fargo Bank, National Association, as administrative agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 31, 2018)
10.28	Seventh Amendment to Term Loan Agreement, dated as of December 18, 2019, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, certain subsidiaries of RLJ Lodging Trust party thereto, Wells Fargo Bank National Association, as Administrative Agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on December 19, 2019)
10.29	Eighth Amendment to Term Loan Agreement, dated as of June 24, 2020, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, certain subsidiaries of RLJ Lodging Trust party thereto, Wells Fargo Bank, National Association, as Administrative Agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 29, 2020)
10.30	Ninth Amendment to Term Loan Agreement, dated as of December 10, 2020, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, certain subsidiaries of RLJ Lodging Trust party thereto, Wells Fargo Bank, National Association, as Administrative Agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 14, 2020)
10.31	Tenth Amendment to Term Loan Agreement, dated as of June 10, 2021, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, certain subsidiaries of RLJ Lodging Trust party thereto, Wells Fargo Bank, National Association, as Administrative Agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 10, 2021)
10.32	Eleventh Amendment to Term Loan Agreement, dated as of September 16, 2021, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, certain subsidiaries of RLJ Lodging Trust party thereto, Wells Fargo Bank, National Association, as Administrative Agent and a lender, and the other lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 16, 2021)
10.33	Additional Lender Supplement, dated as of August 27, 2013, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)
10.34	Guaranty, dated as of November 20, 2012, by RLJ Lodging Trust and certain subsidiaries of RLJ Lodging Trust party thereto (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)

Exhibit Number	Description of Exhibit	
10.35	Term Loan Agreement, dated as of August 27, 2013, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, PNC Bank, National Association, as Syndication Agent, Bank of America, N.A., Barclays Bank PLC, Compass Bank, an Alabama Banking Corporation, and U.S. Bank National Association, as Documentation Agents, and Wells Fargo Securities LLC and PNC Capital Markets LLC, as Joint Lead Arrangers and Joint Bookrunners and the lenders party thereto (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)	
10.36	Guaranty, dated as of August 27, 2013, by RLJ Lodging Trust and certain subsidiaries of RLJ Lodging Trust party thereto (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on September 3, 2013)	
10.37	First Amendment to Term Loan Agreement, dated as of June 1, 2015, by and between RLJ Lodging Trust, L.P., RLJ Lodging Trust and Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K filed on February 25, 2016)	
10.38	Second Amendment to Term Loan Agreement, dated as of November 12, 2015, by and between RLJ Lodging Trust, L.P., RLJ Lodging Trust and Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K filed on February 25, 2016)	
10.39	Additional Term Loan Lender Supplement, dated as of March 20, 2014, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 25, 2014)	
10.40	Additional Lender Supplement, dated as of March 20, 2014, by and among RLJ Lodging Trust, L.P., RLJ Lodging Trust, Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on March 25, 2014)	
21.1*	List of subsidiaries of RLJ Lodging Trust	
23.1*	Consent of PricewaterhouseCoopers LLP	
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	Submitted electronically with this report
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Submitted electronically with this report
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document	Submitted electronically with this report
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Submitted electronically with this report
101.LAB	Inline XBRL Taxonomy Label Linkbase Document	Submitted electronically with this report
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document	Submitted electronically with this report

104 Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)

* Filed herewith

Item 16. Form 10-K Summary

Not applicable.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ ROBERT J. MCCARTHY</u> Robert J. McCarthy	Trustee	February 24, 2022
<u>/s/ GLENDA G. MCNEAL</u> Glenda G. McNeal	Trustee	February 24, 2022
<u>/s/ ROBIN M. ZEIGLER</u> Robin M. Zeigler	Trustee	February 24, 2022

Item 8. Financial Statements

INDEX TO FINANCIAL STATEMENTS

RLJ Lodging Trust:

Report of Independent Registered Public Accounting Firm	F-2
PCAOB ID: 238	
Consolidated Financial Statements	
Balance Sheets as of December 31, 2021 and 2020	F-5
Statements of Operations and Comprehensive (Loss) Income for the years ended December 31, 2021, 2020, and 2019	F-6
Statements of Changes in Equity for the years ended December 31, 2021, 2020, and 2019	F-7
Statements of Cash Flows for the years ended December 31, 2021, 2020, and 2019	F-10
Notes to the Consolidated Financial Statements	F-11
Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2021	F-46

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of
RLJ Lodging Trust

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of RLJ Lodging Trust and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of operations and comprehensive (loss) income, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control

over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment Assessment of Investments in Hotel Properties

As described in Notes 2 and 3 to the consolidated financial statements, management assesses the carrying value of its investments in hotel properties whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. As of December 31, 2021, investments in hotel properties totaled \$4.2 billion and during the year ended December 31, 2021, the Company recorded impairment losses totaling \$144.8 million. Hotel property recoverability is measured by comparing the carrying amount to management's projected undiscounted future cash flows expected to be generated from the operation and the eventual disposition of the hotel properties over the estimated hold period, which takes into account current market conditions and management's intent with respect to holding or disposing of the hotel properties. If management's analysis indicates that the carrying value is not recoverable on a projected undiscounted cash flow basis, the Company will recognize an impairment loss for the amount by which the carrying value exceeds the fair value. The use of undiscounted projected future cash flows is based on assumptions that are consistent with a market participant's future expectations for the travel industry and the economy in general, including sales proceeds in the reversion year, average daily rates, occupancy rates, operating expenses, capital expenditures, and management's intent with respect to holding or disposing of the underlying hotel properties. Management determined the fair value of its impaired hotel properties and the related impairment losses based on the contractual sales prices pursuant to executed purchase and sale agreements.

The principal considerations for our determination that performing procedures relating to the impairment assessment of investments in hotel properties is a critical audit matter are (i) the significant judgment by management to identify events or changes in circumstances indicating that the carrying amounts may not be recoverable and to develop the projected undiscounted future cash flows, and (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to management's identification of those events or changes in circumstances and evaluating management's projected undiscounted future cash flows significant assumptions related to sales proceeds in the reversion year, average daily rates, occupancy rates, operating expenses, capital expenditures, and management's intent with respect to holding or disposing of the underlying hotel properties.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the impairment assessment of investments in hotel properties, including controls over management's identification of events or changes in circumstances indicating that

the carrying amounts may not be recoverable and determining the significant assumptions used to develop the projected undiscounted future cash flows. These procedures also included, among others, testing management's process for identifying investments in hotel properties to be evaluated for impairment and developing the projected undiscounted future cash flows. Testing management's process included (i) evaluating the appropriateness of the projected undiscounted future cash flow models, (ii) testing the completeness and accuracy of underlying data used in the projected undiscounted future cash flow models, and (iii) evaluating the reasonableness of the significant assumptions related to sales proceeds in the reversion year, average daily rates, occupancy rates, operating expenses, capital expenditures, and management's intent with respect to holding or disposing of the underlying hotel properties. Evaluating the reasonableness of these significant assumptions involved considering (i) the current and past performance of the hotel properties, (ii) the consistency with external market and industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.

/s/ PricewaterhouseCoopers LLP

Washington, D.C.
February 24, 2022

We have served as the Company's auditor since 2001.

RLJ Lodging Trust
Consolidated Balance Sheets

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

	December 31,	
	2021	2020
Assets		
Investment in hotel properties, net	\$ 4,219,116	\$4,486,416
Investment in unconsolidated joint ventures	6,522	6,798
Cash and cash equivalents	665,341	899,813
Restricted cash reserves	48,528	34,977
Hotel and other receivables, net of allowance of \$274 and \$292, respectively	31,091	13,346
Lease right-of-use assets	144,988	142,989
Prepaid expense and other assets	33,390	32,833
Total assets	\$ 5,148,976	\$5,617,172
Liabilities and Equity		
Debt, net	\$ 2,409,438	\$2,587,731
Accounts payable and other liabilities	155,136	172,325
Advance deposits and deferred revenue	20,047	32,177
Lease liabilities	123,031	122,593
Accrued interest	19,110	6,206
Distributions payable	8,347	8,752
Total liabilities	2,735,109	2,929,784
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 December 31, 2021 and 2020	366,936	366,936
Common shares of beneficial interest, \$0.01 par value, 450,000,000 shares authorized; 166,503,062 and 165,002,752 shares issued and outstanding at December 31, 2021 and 2020, respectively	1,665	1,650
Additional paid-in capital	3,092,883	3,077,142
Accumulated other comprehensive loss	(17,113)	(69,050)
Distributions in excess of net earnings	(1,046,739)	(710,161)
Total shareholders' equity	2,397,632	2,666,517
Noncontrolling interest:		
Noncontrolling interest in consolidated joint ventures	9,919	13,002
Noncontrolling interest in the Operating Partnership	6,316	7,869
Total noncontrolling interest	16,235	20,871
Total equity	2,413,867	2,687,388
Total liabilities and equity	\$ 5,148,976	\$5,617,172

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)

	For the year ended December 31,		
	2021	2020	2019
Revenues			
Operating revenues			
Room revenue	\$ 667,853	\$ 397,754	\$ 1,317,085
Food and beverage revenue	58,994	40,384	177,499
Other revenue	58,817	34,949	71,608
Total revenues	<u>785,664</u>	<u>473,087</u>	<u>1,566,192</u>
Expenses			
Operating expenses			
Room expense	177,365	124,063	329,077
Food and beverage expense	41,790	35,220	134,206
Management and franchise fee expense	53,276	21,057	120,797
Other operating expense	239,092	211,216	373,130
Total property operating expenses	511,523	391,556	957,210
Depreciation and amortization	187,778	194,168	211,584
Impairment losses	144,845	—	13,500
Property tax, insurance and other	88,852	103,470	119,287
General and administrative	47,526	41,141	45,252
Transaction costs	94	(158)	1,211
Total operating expenses	980,618	730,177	1,348,044
Other (expense) income, net	(7,614)	1,941	1,242
Interest income	996	4,237	8,720
Interest expense	(106,366)	(100,169)	(91,295)
(Loss) gain on sale of hotel properties, net	(2,378)	2,703	(9,300)
Gain (loss) on extinguishment of indebtedness, net	893	—	(214)
(Loss) income before equity in loss from unconsolidated joint ventures	(309,423)	(348,378)	127,301
Equity in loss from unconsolidated joint ventures	(477)	(8,454)	(1,673)
(Loss) income before income tax (expense) benefit	(309,900)	(356,832)	125,628
Income tax (expense) benefit	(1,188)	(51,970)	3,751
Net (loss) income	<u>(311,088)</u>	<u>(408,802)</u>	<u>129,379</u>
Net loss (income) attributable to noncontrolling interests:			
Noncontrolling interest in consolidated joint ventures	4,384	2,327	289
Noncontrolling interest in the Operating Partnership	1,536	2,034	(487)
Preferred distributions – consolidated joint venture	—	—	(186)
Redemption of preferred equity – consolidated joint venture	—	—	(1,153)
Net (loss) income attributable to RLJ	(305,168)	(404,441)	127,842
Preferred dividends	(25,115)	(25,115)	(25,115)
Net (loss) income attributable to common shareholders	<u>\$ (330,283)</u>	<u>\$ (429,556)</u>	<u>\$ 102,727</u>
Basic per common share data:			
Net (loss) income per share attributable to common shareholders	<u>\$ (2.01)</u>	<u>\$ (2.61)</u>	<u>\$ 0.59</u>
Weighted-average number of common shares	<u>163,998,390</u>	<u>164,503,661</u>	<u>171,287,086</u>
Diluted per common share data:			
Net (loss) income per share attributable to common shareholders	<u>\$ (2.01)</u>	<u>\$ (2.61)</u>	<u>\$ 0.59</u>
Weighted-average number of common shares	<u>163,998,390</u>	<u>164,503,661</u>	<u>171,388,476</u>
Comprehensive (loss) income:			
Net (loss) income	\$ (311,088)	\$ (408,802)	\$ 129,379
Unrealized gain (loss) on interest rate derivatives	41,279	(49,536)	(33,459)
Reclassification of unrealized losses on discontinued cash flow hedges to other (expense) income, net	10,658	—	(2,250)
Comprehensive (loss) income	<u>(259,151)</u>	<u>(458,338)</u>	<u>93,670</u>
Comprehensive loss (income) attributable to noncontrolling interests:			
Noncontrolling interest in consolidated joint ventures	4,384	2,327	289
Noncontrolling interest in the Operating Partnership	1,536	2,034	(487)
Preferred distributions – consolidated joint venture	—	—	(186)
Comprehensive (loss) income attributable to RLJ	<u>\$ (253,231)</u>	<u>\$ (453,977)</u>	<u>\$ 93,286</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)

	Shareholders' Equity										Total Equity
	Preferred Stock		Common Stock			Distributions in Excess of Net Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest		Preferred Equity in a Consolidated Joint Venture	
	Shares	Amount	Shares	Par Value	Additional Paid-in Capital			Operating Partnership	Consolidated Joint Ventures		
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)	—	—	—	—	—	127,842	—	487	(289)	1,339	129,379
Unrealized loss on interest rate derivatives	—	—	—	—	—	—	(33,459)	—	—	—	(33,459)
Reclassification of unrealized gain on discontinued cash flow hedges to interest expense	—	—	—	—	—	—	(2,250)	—	—	—	(2,250)
Redemption of Operating Partnership units	—	—	—	—	—	—	—	(9)	—	—	(9)
Issuance of restricted stock	—	—	530,436	5	(5)	—	—	—	—	—	—
Amortization of share-based compensation	—	—	—	—	12,196	—	—	—	—	—	12,196
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	—	—	(103,741)	(1)	(1,801)	—	—	—	—	—	(1,802)
Shares acquired as part of a share repurchase program	—	—	(4,575,170)	(45)	(77,789)	—	—	—	—	—	(77,834)
Forfeiture of restricted stock	—	—	(18,895)	—	—	—	—	—	—	—	—
Contributions from consolidated joint venture partners	—	—	—	—	—	—	—	—	2,446	—	2,446
Distributions on preferred shares	—	—	—	—	—	(25,115)	—	—	—	—	(25,115)
Distributions on common shares and units	—	—	—	—	—	(227,020)	—	(1,221)	—	—	(228,241)
Preferred distributions – consolidated joint venture	—	—	—	—	—	—	—	—	—	(186)	(186)
Redemption of preferred equity – consolidated joint venture	—	—	—	—	—	—	—	—	—	(45,583)	(45,583)
Balance at December 31, 2019	<u>12,879,475</u>	<u>\$366,936</u>	<u>169,852,246</u>	<u>\$1,699</u>	<u>\$3,127,982</u>	<u>\$(274,769)</u>	<u>\$(19,514)</u>	<u>\$10,084</u>	<u>\$14,065</u>	<u>\$ —</u>	<u>\$3,226,483</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)

	Shareholders' Equity					Distributions in Excess of Net Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest		Total Equity
	Preferred Stock		Common Stock					Operating Partnership	Consolidated Joint Ventures	
	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	—	—	—	—	—	(404,441)	—	(2,034)	(2,327)	(408,802)
Unrealized loss on interest rate derivatives	—	—	—	—	—	—	(49,536)	—	—	(49,536)
Redemption of Operating Partnership units	—	—	—	—	—	—	—	(8)	—	(8)
Issuance of restricted stock	—	—	801,463	8	(8)	—	—	—	—	—
Amortization of share-based compensation	—	—	—	—	13,356	—	—	—	—	13,356
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	—	—	(152,629)	(2)	(1,639)	—	—	—	—	(1,641)
Shares acquired as part of a share repurchase program	—	—	(5,489,335)	(55)	(62,549)	—	—	—	—	(62,604)
Forfeiture of restricted stock	—	—	(8,993)	—	—	—	—	—	—	—
Contributions from consolidated joint venture partners	—	—	—	—	—	—	—	—	1,264	1,264
Distributions on preferred shares	—	—	—	—	—	(25,115)	—	—	—	(25,115)
Distributions on common shares and units	—	—	—	—	—	(5,836)	—	(173)	—	(6,009)
Balance at December 31, 2020	<u>12,879,475</u>	<u>\$366,936</u>	<u>165,002,752</u>	<u>\$1,650</u>	<u>\$3,077,142</u>	<u>\$(710,161)</u>	<u>\$(69,050)</u>	<u>\$ 7,869</u>	<u>\$13,002</u>	<u>\$2,687,388</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)

	Shareholders' Equity						Noncontrolling Interest			Total Equity
	Preferred Stock		Common Stock			Distributions in Excess of Net Earnings	Accumulated Other Comprehensive Loss	Consolidated		
	Shares	Amount	Shares	Par Value	Additional Paid-in Capital			Operating Partnership	Joint Ventures	
Balance at December 31, 2020	12,879,475	\$366,936	165,002,752	\$1,650	\$3,077,142	\$ (710,161)	\$(69,050)	\$ 7,869	\$13,002	\$2,687,388
Net loss	—	—	—	—	—	(305,168)	—	(1,536)	(4,384)	(311,088)
Unrealized gain on interest rate derivatives	—	—	—	—	—	—	41,279	—	—	41,279
Reclassification of unrealized losses on discontinued cash flow hedges to other (expense) income, net	—	—	—	—	—	—	10,658	—	—	10,658
Redemption of Operating Partnership units	—	—	—	—	—	—	—	(7)	—	(7)
Issuance of restricted stock	—	—	1,765,162	18	(18)	—	—	—	—	—
Amortization of share-based compensation	—	—	—	—	18,299	—	—	—	—	18,299
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	—	—	(166,922)	(2)	(2,541)	—	—	—	—	(2,543)
Forfeiture of restricted stock	—	—	(97,930)	(1)	1	—	—	—	—	—
Contributions from consolidated joint venture partners	—	—	—	—	—	—	—	—	1,301	1,301
Distributions on preferred shares	—	—	—	—	—	(25,115)	—	—	—	(25,115)
Distributions on common shares and units	—	—	—	—	—	(6,295)	—	(10)	—	(6,305)
Balance at December 31, 2021	<u>12,879,475</u>	<u>\$366,936</u>	<u>166,503,062</u>	<u>\$1,665</u>	<u>\$3,092,883</u>	<u>\$(1,046,739)</u>	<u>\$(17,113)</u>	<u>\$ 6,316</u>	<u>\$ 9,919</u>	<u>\$2,413,867</u>

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

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

	For the year ended December 31,		
	2021	2020	2019
Cash flows from operating activities			
Net (loss) income	\$ (311,088)	\$(408,802)	\$ 129,379
Adjustments to reconcile net (loss) income to cash flow provided by (used in) operating activities:			
Loss (gain) on sale of hotel properties, net	2,378	(2,703)	9,300
(Gain) loss on extinguishment of indebtedness, net	(893)	—	214
Depreciation and amortization	187,778	194,168	211,584
Amortization of deferred financing costs	5,884	4,416	4,100
Other amortization	(2,090)	(2,404)	(2,055)
Reclassification of unrealized losses on discontinued cash flow hedges to other (expense) income, net	10,658	—	—
Unrealized (gain) loss on discontinued cash flow hedges	—	(376)	376
Equity in loss from unconsolidated joint ventures	477	8,454	1,673
Distributions of income from unconsolidated joint ventures	—	—	1,964
Impairment losses	144,845	—	13,500
Amortization of share-based compensation	17,054	12,396	11,459
Deferred income taxes	—	51,447	(6,818)
Changes in assets and liabilities:			
Hotel and other receivables, net	(17,969)	26,409	8,813
Prepaid expense and other assets	(1,090)	19,178	(6,335)
Accounts payable and other liabilities	7,203	(48,791)	(10,706)
Advance deposits and deferred revenue	(13,090)	(25,282)	35,766
Accrued interest	12,904	3,182	(4,889)
Net cash flow provided by (used in) operating activities	<u>42,961</u>	<u>(168,708)</u>	<u>397,325</u>
Cash flows from investing activities			
Acquisition of hotel properties, net	(174,675)	—	—
Proceeds from the sale of hotel properties, net	198,642	5,169	685,870
Improvements and additions to hotel properties	(48,263)	(73,337)	(157,354)
Contributions to unconsolidated joint ventures	(331)	(100)	(603)
Distributions from unconsolidated joint ventures in excess of earnings	—	1,576	2,499
Net cash flow (used in) provided by investing activities	<u>(24,627)</u>	<u>(66,692)</u>	<u>530,412</u>
Cash flows from financing activities			
Borrowings under Revolver	—	400,000	140,000
Repayments of Revolver	(200,000)	—	(140,000)
Repayments of Term Loans	(356,338)	—	—
Proceeds from issuance of senior notes	1,000,000	—	—
Redemption of senior notes (including a \$9.5 million redemption premium in 2021)	(484,402)	—	(112)
Proceeds from mortgage loans	—	—	381,000
Scheduled mortgage loan principal payments	(1,486)	(3,376)	(3,979)
Repayments of mortgage loans (including \$7.0 million in prepayment premiums in 2021)	(149,183)	—	(374,500)
Repurchase of common shares under a share repurchase program	—	(62,604)	(77,834)
Repurchase of common shares to satisfy employee tax withholding requirements	(2,543)	(1,641)	(1,802)
Distributions on preferred shares	(25,115)	(25,116)	(25,115)
Distributions on common shares	(6,701)	(61,000)	(228,287)
Distributions on and redemption of Operating Partnership units	(18)	(428)	(1,230)
Payments of deferred financing costs	(14,770)	(4,069)	(10,111)
Preferred distributions – consolidated joint venture	—	—	(312)
Redemption of preferred equity – consolidated joint venture	—	—	(45,583)
Contributions from consolidated joint venture partners	1,301	1,264	2,446
Net cash flow (used in) provided by financing activities	<u>(239,255)</u>	<u>243,030</u>	<u>(385,419)</u>
Net change in cash, cash equivalents, and restricted cash reserves	(220,921)	7,630	542,318
Cash, cash equivalents, and restricted cash reserves, beginning of year	<u>934,790</u>	<u>927,160</u>	<u>384,842</u>
Cash, cash equivalents, and restricted cash reserves, end of year	<u>\$ 713,869</u>	<u>\$ 934,790</u>	<u>\$ 927,160</u>

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

RLJ Lodging Trust

Notes to the Consolidated Financial Statements

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 acquires 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 December 31, 2021, there were 167,274,893 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 December 31, 2021, the Company owned 98 hotel properties with approximately 21,700 rooms, located in 22 states and the District of Columbia. The Company, through wholly-owned subsidiaries, owned a 100% interest in 96 of its hotel properties, a 95.0% controlling interest in The Knickerbocker, and a 50% interest in an entity owning one hotel property. The Company consolidates its real estate interests in the 97 hotel properties in which it holds a controlling financial interest, and the Company records the real estate interests in one hotel in which it holds an indirect 50% interest using the equity method of accounting. The Company leases 97 of the 98 hotel properties to its taxable REIT subsidiaries (“TRS”), of which the Company owns a controlling financial interest.

COVID-19

The global outbreak of the novel coronavirus, or COVID-19, and the public health measures that have been undertaken in response have had, and will likely continue to have, a material impact on the Company’s financial results. Since the extent to which the COVID-19 pandemic will continue to impact the Company’s 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.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The 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”).

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 one joint venture 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

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

amounts of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

Revenue

Substantially all of the Company's revenues are derived from the operation of hotel properties. The Company generates room revenue by renting hotel rooms to customers at its hotel properties. The Company generates food and beverage revenue from the sale of food and beverage to customers at its hotel properties. The Company generates other revenue from parking fees, resort fees, gift shop sales and other guest service fees at its hotel properties.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied. The Company's contracts generally have a single performance obligation, such as renting a hotel room to a customer, or providing food and beverage to a customer, or providing a hotel property-related good or service to a customer. The Company's performance obligations are generally satisfied at a point in time.

The Company allocates revenue to the performance obligation based on its relative standalone selling price. The Company determines the standalone selling price based on the price it charges each customer for the use or consumption of the promised good or service.

The Company's revenue is recognized when control of the promised good or service is transferred to the customer, in an amount that reflects the consideration the Company expects to receive in exchange for the promised good or service. The revenue is recorded net of any sales and occupancy taxes collected from the customer. All rebates or discounts are recorded as a reduction to revenue, and there are no material contingent obligations with respect to rebates and discounts offered by the hotel properties.

The timing of revenue recognition, billings, and cash collections results in the Company recognizing hotel and other receivables and advance deposits and deferred revenue on the consolidated balance sheet. Hotel and other receivables are recognized on the consolidated balance sheets when the Company has provided a good or service to the customer and is waiting for the customer to submit consideration to the Company. Advance deposits and deferred revenue are recognized on the consolidated balance sheets when cash payments are received in advance of the Company satisfying its performance obligation. Advance deposits and deferred revenue consist of amounts that are refundable and non-refundable to the customer. The advance deposits and deferred revenue are recognized as revenue in the consolidated statements of operations and comprehensive (loss) income when the Company satisfies its performance obligation to the customer.

For the majority of its goods or services and customers, the Company requires payment at the time the respective good or service is provided to the customer. The Company's payment terms vary by the type of customer and the goods or services offered to the customer. The Company applied a practical expedient to not disclose the value of unsatisfied performance obligations for contracts that have an original expected length of one year or less. Any contracts that have an original expected length of greater than one year are insignificant.

The Company records an allowance for doubtful accounts based on its best estimate of the amount of probable credit losses in the existing accounts receivable portfolio. The Company recognizes increases to the

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

allowance for doubtful accounts as bad debt expense. The allowance for doubtful accounts is calculated as a percentage of the aged accounts receivable based on the Company's historical collection activity and its understanding of the circumstances related to a specific receivable.

Investment in Hotel Properties

The Company's acquisitions generally consist of land, land improvements, buildings, building improvements, furniture, fixtures and equipment ("FF&E"), and inventory. The Company may also acquire intangible assets or liabilities related to in-place leases, management agreements, franchise agreements, and advanced bookings. The Company allocates the purchase price among the assets acquired and the liabilities assumed based on their respective fair values at the date of acquisition. The Company estimates the fair values of the assets acquired and the liabilities assumed by using a combination of the market, cost and income approaches. The Company determines the fair value by using market data and independent appraisals available to the Company and making numerous estimates and assumptions, such as estimates of future income growth, replacement cost per unit, value per acre or buildable square foot, capitalization rates, discount rates, borrowing rates, market rental rates, capital expenditures and cash flow projections at the respective hotel properties.

The Company's investments in hotel properties are carried at cost and are depreciated using the straight-line method over the estimated useful lives of 15 years for land improvements, 15 years for building improvements, 40 years for buildings, and three to five years for FF&E. Maintenance and repairs are expensed and major renewals or improvements to the hotel properties are capitalized. Indirect project costs, including interest, salaries and benefits, travel and other related costs that are directly attributable to the development, are also capitalized. Upon the sale or disposition of a hotel property, the asset and related accumulated depreciation accounts are removed and the related gain or loss is included in the gain or loss on sale of hotel properties in the consolidated statements of operations and comprehensive (loss) income. A sale or disposition of a hotel property that represents a strategic shift that has or will have a major effect on the Company's operations and financial results is presented as discontinued operations in the consolidated statements of operations and comprehensive (loss) income.

In accordance with the guidance on impairment or disposal of long-lived assets, the Company does not consider the "held for sale" classification on the consolidated balance sheet until it is expected to qualify for recognition as a completed sale within one year and the other requisite criteria for such classification have been met. The Company does not depreciate assets so long as they are classified as held for sale. Upon designation as held for sale and quarterly thereafter, the Company reviews the realizability of the carrying value, less costs to sell, in accordance with the guidance. Any such adjustment to the carrying value is recorded as an impairment loss.

The Company assesses the carrying value of its investments in hotel properties whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverability is measured by comparing the carrying amount to the projected undiscounted future cash flows expected to be generated from the operation and the eventual disposition of the hotel properties over the estimated hold period, which take into account current market conditions and the Company's intent with respect to holding or disposing of the hotel properties. If the Company's analysis indicates that the carrying value is not recoverable on a projected undiscounted cash flow basis, the Company will recognize an impairment loss for the amount by which the carrying value exceeds the fair value. The fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions, third-party appraisals, the net sales proceeds from pending offers, or the net sales proceeds from transactions that closed subsequent to the end of the reporting period. The use of projected future cash flows is based on assumptions that are consistent with a market participant's future expectations for the travel industry and the economy in general, including discount rates, sales proceeds in the reversion year, average daily rates, occupancy rates, operating expenses and capital expenditures, and the Company's intent

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

with respect to holding or disposing of the underlying hotel properties. Fair value may also be based on assumptions including, but not limited to, room revenue multiples and comparable sales adjusted for capital expenditures, if necessary.

Investment in Unconsolidated Joint Ventures

If the Company determines that it does not have a controlling financial interest in a joint venture, either through a controlling financial interest in a variable interest entity or through the Company's voting interest in a voting interest entity, but the Company exercises significant influence over the operating and financial policies of the joint venture, the Company accounts for the joint venture using the equity method of accounting. Under the equity method of accounting, the Company's investment is adjusted each reporting period to recognize the Company's share of the net earnings or losses of the joint venture, plus any contributions to the joint venture, less any distributions received from the joint venture and any adjustment for impairment. In addition, the Company's share of the net earnings or losses of the joint venture is adjusted for the straight-line depreciation of the difference between the Company's basis in the investment in the unconsolidated joint venture as compared to the historical basis of the underlying net assets in the joint venture at the date of acquisition.

The Company assesses the carrying value of its investment in unconsolidated joint ventures whenever events or changes in circumstances may indicate that the carrying value of the investment exceeds its fair value on an other-than-temporary basis. When an impairment indicator is present, the Company will estimate the fair value of the investment, which will be determined by using internally developed discounted cash flow models, comparable market transactions, third-party appraisals, the net sales proceeds from pending offers, or the net sales proceeds from transactions that closed subsequent to the end of the reporting period. If the estimated fair value is less than the carrying value, and management determines that the decline in value is considered to be other-than-temporary, the Company will recognize an impairment loss on its investment in the joint venture.

The Company evaluates the nature of the distributions from each of its unconsolidated joint ventures in order to classify the distributions as either operating activities or investing activities in the consolidated statements of cash flows. Any cash distribution that is considered to be a distribution of the earnings of the unconsolidated joint venture is presented as an operating activity in the consolidated statements of cash flows. Any cash distribution that is considered to be a return of capital from the unconsolidated joint venture is presented as an investing activity in the consolidated statements of cash flows.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments that mature three months or less when they are purchased. The Company maintains its cash at domestic banks, which, at times, may exceed the limits of the amounts insured by the Federal Deposit Insurance Corporation.

Restricted Cash Reserves

Restricted cash reserves consist of all cash that is required to be maintained in a reserve escrow account by a management agreement, franchise agreement, and/or a mortgage loan agreement for the replacement of FF&E and the funding of real estate taxes and insurance.

Hotel Receivables

Hotel receivables consist mainly of receivables due from hotel guests and meeting and banquet room rentals. The Company typically does not require collateral as ongoing credit evaluations are performed. An allowance for doubtful accounts is established against any receivable that is estimated to be uncollectible.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs are the costs incurred to obtain long-term financing. The deferred financing costs are recorded at cost and are amortized using the straight-line method, which approximates the effective interest method, over the respective term of the financing agreement and are included as a component of interest expense in the consolidated statements of operations and comprehensive (loss) income. The Company expenses unamortized deferred financing costs when the associated financing agreement is refinanced or repaid before the maturity date, unless certain criteria are met that would allow for the carryover of such costs to the refinanced agreement. The Company presents the deferred financing costs for its Term Loans (as defined in Note 8) and mortgage loans on the balance sheet as a direct deduction from the carrying amount of the respective debt liability, which is included in debt, net, in the accompanying consolidated balance sheets. The Company presents the deferred financing costs for its unsecured revolving credit facility (the “Revolver”) on the balance sheet as an asset, which is included in prepaid expense and other assets in the accompanying consolidated balance sheets.

For the years ended December 31, 2021, 2020 and 2019, approximately \$5.9 million, \$4.4 million and \$4.1 million, respectively, of amortization expense was recorded as a component of interest expense in the consolidated statements of operations and comprehensive (loss) income.

Transaction Costs

The Company incurs costs during the review of potential hotel property acquisitions and dispositions, including legal fees and other professional service fees. In addition, if the Company completes a hotel property acquisition, the Company may incur transfer taxes and integration costs, including professional fees and employee-related costs. If the Company completes a hotel property acquisition that is considered to be an asset acquisition, the transaction costs are capitalized on the consolidated balance sheets. If the Company completes a hotel property acquisition that is considered to be a business combination, the transaction costs are expensed as incurred in the consolidated statements of operations and comprehensive (loss) income. Transaction costs related to successful dispositions are included in (loss) gain on sale of hotel properties, net, in the consolidated statements of operations and comprehensive (loss) income. All transaction costs incurred in connection with unsuccessful transactions are expensed.

Derivative Financial Instruments

In the normal course of business, the Company is exposed to the effects of interest rate changes. The Company utilizes a variety of borrowing vehicles, including the Revolver and medium and long-term financings. The Company reduces its risk to interest rate changes by following its established risk management policies and procedures, including the use of derivative financial instruments to manage, or hedge, interest rate risk. To mitigate the Company’s exposure to interest rate changes, the Company uses interest rate derivative instruments, typically interest rate swaps, to convert a portion of its variable rate debt to fixed rate debt. The Company attempts to require the hedging derivative instruments to be effective in reducing the interest rate risk exposure that they are designated to hedge. This effectiveness is essential in order to qualify for hedge accounting. Derivative instruments that meet the hedging criteria are formally designated as cash flow hedges at the inception of the derivative contract. The Company does not use derivative instruments for trading or speculative purposes.

Interest rate swap agreements contain a credit risk that the counterparties may be unable to fulfill the terms of the agreement. The Company has minimized the credit risk by evaluating the creditworthiness of its counterparties, who are limited to major banks and financial institutions, and it does not anticipate nonperformance by these counterparties.

The estimated fair values of the derivatives are determined by using available market information and appropriate valuation methods. Considerable judgment is required in interpreting market data to develop

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The Company recognizes all derivatives as assets or liabilities on its consolidated balance sheets at fair value. The gains and losses on the derivatives that have been determined to be effective cash flow hedges are reported in other comprehensive (loss) income and are reclassified to interest expense in the period in which the interest expense is recognized on the underlying hedged item. The ineffective portion of the change in fair value of the derivatives is recognized in earnings immediately.

When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, and the interest rate derivative no longer qualifies for hedge accounting, all changes in the fair value of the derivative instrument are marked-to-market with the changes in fair value recognized in earnings each period until the derivative instrument matures.

Leases

As a lessee in a lease contract, the Company recognizes a lease right-of-use asset and a lease liability on the consolidated balance sheets. The Company is a lessee in a variety of lease contracts, such as ground leases, parking leases, office leases and equipment leases. The Company classifies its leases as either an operating lease or a finance lease based on the principle of whether or not the lease is effectively a financed purchase of the leased asset. For operating leases, the Company recognizes lease expense on a straight-line basis over the term of the lease. For finance leases, the Company recognizes lease expense on the effective interest method, which results in the interest component of each lease payment being recognized as interest expense and the lease right-of-use asset being amortized into amortization expense using the straight-line method over the term of the lease. For leases with an initial term of 12 months or less, the Company will not recognize a lease right-of-use asset and a lease liability on the consolidated balance sheets and lease expense will be recognized on a straight-line basis over the lease term.

At the lease commencement date, the Company determines the lease term by incorporating the fixed, non-cancelable lease term plus any lease extension option terms that are reasonably certain of being exercised. The ability to extend the lease term is at the Company's sole discretion. The Company calculates the present value of the future lease payments over the lease term in order to determine the lease liability and the related lease right-of-use asset that is recognized on the consolidated balance sheets.

Certain lease contracts may include an option to purchase the leased property, which is at the Company's sole discretion. The Company's lease contracts do not contain any material residual value guarantees or material restrictive covenants.

The Company's leases include a base lease payment, which is recognized as lease expense on a straight-line basis over the lease term. In addition, certain of the Company's leases may include an additional lease payment that is based on either (i) a percentage of the respective hotel property's financial results, or (ii) the frequency to which the leased asset is used; all of which are recognized as variable lease expense, when incurred, in the consolidated statements of operations and comprehensive (loss) income. The variable lease expense incurred by the Company was not based on an index or rate.

The Company will use the implicit rate in a lease contract in order to determine the present value of the future lease payments over the lease term. If the implicit rate in the lease contract is not available, then the Company will use its incremental borrowing rate at the lease commencement date. The Company determined its incremental borrowing rate for each lease contract by using the U.S. Treasury interest rates yield curve, and then making adjustments for the lease term, the Company's credit spread, the Company's ability to borrow on a secured basis, the quality and condition of the leased asset and the current economic environment.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

As a lessor in a lease contract, the Company classifies its leases as either an operating lease, direct financing lease, or a sales-type lease. The Company leases space at its hotel properties to third parties, who use the space for their restaurants or retail locations. The Company classifies these lease contracts as operating leases, so the Company will continue to recognize the underlying leased asset as an investment in hotel properties on the consolidated balance sheets. Lease revenue is recognized on a straight-line basis over the lease term. Variable lease revenue is recognized over the lease term when it is earned and becomes receivable from the lessee, according to the provisions of the respective lease contract. The Company only capitalizes the incremental direct costs of leasing, so any indirect costs of leasing will be expensed as incurred.

Noncontrolling Interests

The consolidated financial statements include all subsidiaries controlled by the Company. 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.

As of December 31, 2021 and 2020, the Company consolidated the Operating Partnership, which has a 0.5% third-party ownership interest. The third-party ownership interest is included in the noncontrolling interest in the Operating Partnership in the equity section of the consolidated balance sheets. The portion of the income and losses associated with the third-party ownership interest are included in the noncontrolling interest in the Operating Partnership in the consolidated statements of operations and comprehensive (loss) income.

As of December 31, 2021 and 2020, the Company consolidated the joint venture that owns The Knickerbocker hotel property; this joint venture has a 5% third-party ownership interest in the joint venture. The Company also consolidated the joint venture that owned the DoubleTree Metropolitan Hotel New York City hotel property; this joint venture has a 1.7% third-party ownership interest in the joint venture. This hotel property was sold in December 2021. In addition, the Company consolidated the operating lessee of the Embassy Suites Secaucus — Meadowlands hotel property through its 51% controlling financial interest in the operating lessee of the joint venture; this joint venture has a 49% third-party ownership interest in the joint venture. On October 31, 2021, the ground lease associated with this hotel property was terminated and the hotel property reverted to the ground lessor. The third-party ownership interests are included in the noncontrolling interest in consolidated joint ventures in the equity section of the consolidated balance sheets. The income and losses associated with the third-party ownership interest are included in the noncontrolling interest in consolidated joint ventures in the consolidated statements of operations and comprehensive (loss) income.

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. 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 U.S. 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. Taxable

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

income from non-REIT activities managed through the Company's TRSs is 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.

The Company performs an annual review for any uncertain tax positions and, if necessary, will record the expected future tax consequences of uncertain tax positions in the consolidated financial statements.

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 and performance units 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 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 common share calculation.

Share-based Compensation

The Company may issue share-based awards as compensation to officers, employees, non-employee trustees and other eligible persons under the RLJ Lodging Trust 2021 Equity Incentive Plan (the "2021 Plan"), which was approved by the Company's shareholders on April 30, 2021. The vesting of the awards issued to the officers and employees is based on either the continued employment (time-based) or the relative total shareholder returns of the Company and continued employment (performance-based), as determined by the board of trustees at the date of grant. For time-based awards, the Company recognizes compensation expense for the 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 grant, adjusted for forfeitures. For performance-based awards, the Company recognizes compensation expense over the requisite service period for each award, based on the fair market value of the shares on the date of grant, as determined using a Monte Carlo simulation, adjusted for forfeitures.

Non-employee trustees may elect to receive unrestricted shares under the 2021 Plan as compensation that would otherwise be paid in cash for their services. The shares issued to the 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 based upon the fair market value of the shares on the date of issuance.

Recently Issued Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

guidance enhances and simplifies various aspects of the current income tax guidance and reduces complexity by removing certain exceptions to the general framework. The Company adopted this new standard on January 1, 2021. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2020, the 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 that was discontinued at the end of 2021 because of reference rate reform. The guidance was effective upon issuance and expires on December 31, 2022. Based on the Company's assessment, there was no material impact arising from this guidance and the Company did not elect to apply any of the optional expedients.

3. Investment in Hotel Properties

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

	December 31, 2021	December 31, 2020
Land and improvements	\$ 975,688	\$ 1,089,597
Buildings and improvements	4,001,875	4,084,712
Furniture, fixtures and equipment	691,057	697,404
	5,668,620	5,871,713
Accumulated depreciation	(1,449,504)	(1,385,297)
Investment in hotel properties, net	\$ 4,219,116	\$ 4,486,416

For the years ended December 31, 2021, 2020 and 2019, the Company recognized depreciation expense related to its investment in hotel properties of approximately \$187.2 million, \$193.3 million and \$209.6 million, respectively.

Impairments

During the third quarter of 2021, the Company evaluated the recoverability of the carrying amount of the DoubleTree Metropolitan Hotel New York City and recorded an impairment loss of \$138.9 million to adjust the hotel's carrying amount to its estimated fair value. The fair value was determined based on the contractual sales price pursuant to an executed purchase and sale agreement (a Level 2 measurement in the fair value hierarchy). The sale of this hotel property closed in December 2021. Refer to Note 5, *Sale of Hotel Properties*, for more information regarding the sale of this hotel property.

During the first quarter of 2021, the Company evaluated the recoverability of two hotel properties and recorded an impairment loss of \$5.9 million to adjust the hotels' carrying amounts to their estimated fair values. The fair values were determined based on the contractual sales price pursuant to an executed purchase and sale agreement (a Level 2 measurement in the fair value hierarchy). The sales of these hotel properties closed in May 2021. Refer to Note 5, *Sale of Hotel Properties*, for more information regarding the sales of these hotel properties.

During year ended December 31, 2019, the Company recorded an impairment loss of \$13.5 million related to two hotel properties. The Company evaluated the recoverability of the carrying value of the hotels due to adverse changes in the operating performance of the hotels. Based on an analysis of the estimated undiscounted net cash flows, the Company concluded that the carrying value of the hotels was not recoverable. The Company estimated the fair value of the hotels using a weighted valuation approach considering room revenue multiples and comparable sales adjusted for capital expenditures. The valuation approach included

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

3. Investment in Hotel Properties (continued)

significant unobservable inputs, including revenue growth projections and prevailing market multiples, from third party sources. There were no impairment losses recorded during the year ended December 31, 2020.

4. Acquisition of Hotel Properties

During the year ended December 31, 2021, the Company acquired a 100% interest in the following properties:

Property	Location	Acquisition Date	Management Company	Rooms	Purchase Price (in thousands)
Hampton Inn and Suites					
Atlanta Midtown	Atlanta, GA	August 5, 2021	Aimbridge Hospitality	186	\$ 58,000
AC Hotel Boston					
Downtown	Boston, MA	October 18, 2021	Colwen Management	205	\$ 89,000
Moxy Denver Cherry					
Creek ⁽¹⁾	Denver, CO	December 23, 2021	Sage Hospitality	170	\$ 51,250
				<u>561</u>	<u>\$198,250</u>

(1) In connection with this acquisition, the Company assumed a \$25.0 million mortgage loan with a fair value at assumption of \$27.6 million.

The hotel properties acquired were accounted for as asset acquisitions, whereby approximately \$2.0 million of transaction costs were capitalized as part of the cost of the asset acquisitions. The allocation of the costs for the properties acquired was as follows (in thousands):

	December 31, 2021
Land and improvements	\$ 32,550
Buildings and improvements	150,400
Furniture, fixtures and equipment	16,472
Favorable lease asset	4,294
Fair value adjustment on mortgage debt assumed	(2,554)
Other liability	(898)
Total purchase price	<u>\$200,264</u>

The value of the assets acquired was primarily based on a sales comparison approach (for land) and a depreciated replacement cost approach (for building and improvements and furniture, fixtures and equipment). The sales comparison approach used inputs of recent land sales in the respective hotel markets. The depreciated replacement cost approach used inputs of both direct and indirect replacement costs using a nationally recognized authority on replacement cost information as well as the age, square footage and number of rooms of the respective assets. The fair value of the assumed mortgage debt was based on a discounted cash flow model and incorporated various inputs and assumptions for the effective borrowing rates for debt with similar terms. The fair value of the ground lease was based on the present value of the difference between the contractual rental amount paid according to the ground lease agreement and the market rental rates for similar leases, measured over a period equal to the remaining non-cancelable term of the ground lease.

5. Sale of Hotel Properties

In connection with the sale of hotel properties for the years ended December 31, 2021, 2020, and 2019, the Company recorded a net loss of \$2.4 million, a net gain of \$2.7 million, and a net loss of \$9.3 million, respectively.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

5. Sale of Hotel Properties (continued)

During the year ended December 31, 2021, the Company sold seven hotel properties in seven separate transactions for a combined sales price of approximately \$208.5 million.

The following hotel properties were sold during the year ended December 31, 2021:

<u>Hotel Property Name</u>	<u>Location</u>	<u>Sale Date</u>	<u>Rooms</u>
Courtyard Houston Sugarland	Stafford, TX	January 21, 2021	112
Residence Inn Indianapolis Fishers	Indianapolis, IN	May 10, 2021	78
Residence Inn Chicago Naperville	Warrenville, IL	May 12, 2021	130
Fairfield Inn & Suites Chicago Southeast Hammond	Hammond, IN	July 15, 2021	94
Residence Inn Chicago Southeast Hammond	Hammond, IN	August 3, 2021	78
Courtyard Chicago Southeast Hammond	Hammond, IN	August 5, 2021	85
DoubleTree Metropolitan Hotel New York City	New York, NY	December 15, 2021	764
			<u>1,341</u>

During the year ended December 31, 2020, the Company sold the 78-room Residence Inn Houston Sugarland for a sale price of approximately \$4.9 million.

During the year ended December 31, 2019, the Company sold 47 hotel properties in five separate transactions for a combined sales price of approximately \$721.0 million.

The following hotel properties were sold during the year ended December 31, 2019:

<u>Hotel Property Name</u>	<u>Location</u>	<u>Sale Date</u>	<u>Rooms</u>
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 Market	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

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

5. Sale of Hotel Properties (continued)

<u>Hotel Property Name</u>	<u>Location</u>	<u>Sale Date</u>	<u>Rooms</u>
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
Courtyard Austin South	Austin, TX	November 22, 2019	110
Fairfield Inn & Suites Austin South Airport . .	Austin, TX	November 22, 2019	63
Marriott Austin South	Austin, TX	November 22, 2019	211
Residence Inn Austin South	Austin, TX	November 22, 2019	66
SpringHill Suites Austin South	Austin, TX	November 22, 2019	152
			<u>6,024</u>

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

6. Investment in Unconsolidated Joint Ventures

As of December 31, 2021, the Company owned a 50% interest in a joint venture that owned one hotel property. As of December 31, 2020, the Company owned 50% interests in joint ventures that owned two hotel properties. During the year ended December 31, 2020, one of the unconsolidated joint ventures did not exercise its right to extend the term of the ground lease. As a result, the joint venture recorded a held for use impairment charge during the year ended December 31, 2020, of which the Company's share of \$6.5 million was included in equity in loss of unconsolidated entities in the accompanying consolidated statements of operations and comprehensive (loss) income. The ground lease terminated on October 31, 2021 and the hotel property reverted to the ground lessor at that time.

During the year ended December 31, 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 \$2.1 million as a result of the joint ventures' sale of their assets, which is included in equity in loss of unconsolidated entities 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 these 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 December 31, 2021 and 2020, 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):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Equity basis of the joint venture investments	\$ (6,341)	\$ (6,687)
Cost of the joint venture investments in excess of the joint venture book value	<u>12,863</u>	<u>13,485</u>
Investment in unconsolidated joint ventures	<u>\$ 6,522</u>	<u>\$ 6,798</u>

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

	<u>For the year ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating income (loss)	\$ 145	\$ (913)	\$ 1,667
Depreciation of cost in excess of book value	(622)	(995)	(1,265)
Impairment loss	—	(6,546)	—
Loss on sale	—	—	(2,075)
Equity in loss from unconsolidated joint ventures	<u>\$(477)</u>	<u>\$(8,454)</u>	<u>\$(1,673)</u>

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

7. Revenue

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

	For the year ended December 31, 2021			
	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue
South Florida	\$ 95,612	\$12,430	\$ 7,987	\$116,029
Southern California	88,653	5,959	9,271	103,883
Northern California	66,068	3,219	4,455	73,742
Chicago	43,277	5,931	2,282	51,490
New York City	30,547	3,505	1,544	35,596
Charleston	27,220	3,657	1,993	32,870
Houston	28,078	1,196	3,475	32,749
Washington, DC	26,706	415	1,858	28,979
Austin	24,059	1,417	2,970	28,446
Pittsburgh	23,605	3,670	1,138	28,413
Other	214,028	17,595	21,844	253,467
Total	\$667,853	\$58,994	\$58,817	\$785,664

	For the year ended December 31, 2020			
	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue
South Florida	\$ 52,213	\$ 7,058	\$ 4,359	\$ 63,630
Southern California	53,814	4,013	5,590	63,417
Northern California	51,107	4,160	3,204	58,471
Chicago	24,267	4,187	1,193	29,647
New York City	25,292	2,189	1,231	28,712
Houston	19,401	827	1,931	22,159
Washington, DC	17,843	416	1,220	19,479
Denver	12,285	2,948	864	16,097
Charleston	12,661	2,145	1,188	15,994
Pittsburgh	13,815	1,481	631	15,927
Other	115,056	10,960	13,538	139,554
Total	\$397,754	\$40,384	\$34,949	\$473,087

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

7. Revenue (continued)

	For the year ended December 31, 2019			
	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue
	Northern California	\$ 201,667	\$ 19,752	\$ 5,875
Southern California	126,959	15,306	10,030	152,295
New York City	130,702	16,410	4,759	151,871
South Florida	117,252	19,720	8,112	145,084
Austin	76,438	9,453	3,772	89,663
Chicago	70,469	13,102	2,139	85,710
Denver	55,063	12,224	1,351	68,638
Houston	55,955	3,763	4,355	64,073
Washington, DC	59,257	1,703	2,343	63,303
Louisville	40,627	18,246	2,373	61,246
Other	382,696	47,820	26,499	457,015
Total	<u>\$1,317,085</u>	<u>\$177,499</u>	<u>\$71,608</u>	<u>\$1,566,192</u>

8. Debt

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

	December 31, 2021	December 31, 2020
Senior Notes, net	\$ 986,942	\$ 495,759
Revolver	200,000	400,000
Term Loans, net	815,004	1,168,304
Mortgage loans, net	407,492	523,668
Debt, net	<u>\$2,409,438</u>	<u>\$2,587,731</u>

Senior Notes

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

	Interest Rate at December 31, 2021	Maturity Date	Outstanding Borrowings at	
			December 31, 2021	December 31, 2020
2029 Senior Notes	4.00%	September 2029	\$ 500,000	\$ —
2026 Senior Notes	3.75%	July 2026	500,000	—
2025 Senior Notes	6.00%	June 2025	—	495,759
			1,000,000	495,759
Deferred financing costs, net			(13,058)	—
Total senior notes, net			<u>\$ 986,942</u>	<u>\$495,759</u>

In September 2021, the Company issued an aggregate principal amount of \$500.0 million of its 4.00% senior secured notes due 2029 (the "2029 Senior Notes") under an indenture, dated as of September 13, 2021, among the Operating Partnership, the Company, the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee. The 2029 Senior Notes will mature on September 15, 2029 and bear interest at a rate of 4.00% per annum, payable semi-annually in arrears. The Company used the net proceeds

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

8. Debt (continued)

of the offering of the 2029 Senior Notes to redeem all of the outstanding 2025 Senior Notes (as defined below), as well as for any redemption premium, unpaid interest, costs and expenses related thereto. During the year ended December 31, 2021, the Company capitalized \$6.1 million of deferred financing costs related to the issuance of the 2029 Senior Notes.

At any time prior to September 15, 2024, the Company may redeem the 2029 Senior Notes, in whole or in part, at a redemption price equal to 100.0% of the accrued principal amount thereof plus any unpaid interest earned through the redemption date plus a make-whole premium. At any time on or after September 15, 2024, the Company may redeem the 2029 Senior Notes, in whole or in part, at a redemption price of (i) 102.0% of the principal amount should such redemption occur before September 1, 2025, (ii) 101.0% of the principal amount should redemption occur before September 15, 2026, and (iii) 100.0% of the principal amount should such redemption occur on or after September 15, 2026, in each case plus accrued and unpaid interest, if any. At any time prior to September 15, 2024, the Company may redeem the 2029 Senior Notes with the net cash proceeds from any equity offering at a redemption price equal to 104.0% of the accrued principal amount thereof plus any unpaid interest, subject to certain conditions.

In June 2021, the Company issued an aggregate principal amount of \$500.0 million of its 3.75% senior secured notes due 2026 (the “2026 Senior Notes”) under an indenture, dated as of June 17, 2021, among the Operating Partnership, the Company, the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee. The 2026 Senior Notes will mature on July 1, 2026 and bear interest at a rate of 3.75% per annum, payable semi-annually in arrears. The Company used the net proceeds of the offering of the 2026 Senior Notes to partially repay indebtedness under the Company’s Term Loans (as defined below) and secured mortgage indebtedness, as well as for any costs and expenses related thereto. During the year ended December 31, 2021, the Company capitalized \$8.1 million of deferred financing costs related to the issuance of the 2026 Senior Notes.

At any time prior to July 1, 2023, the Company may redeem the 2026 Senior Notes, in whole or in part, at a redemption price equal to 100.0% of the accrued principal amount thereof plus any unpaid interest earned through the redemption date plus a make-whole premium. At any time on or after July 1, 2023, the Company may redeem the 2026 Senior Notes, in whole or in part, at a redemption price of (i) 101.875% of the principal amount should such redemption occur before July 1, 2024, (ii) 100.938% of the principal amount should redemption occur before July 1, 2025, and (iii) 100.0% of the principal amount should such redemption occur on or after July 1, 2025, in each case plus accrued and unpaid interest, if any. At any time prior to July 1, 2023, the Company may redeem the 2026 Senior Notes with the net cash proceeds from any equity offering at a redemption price equal to 103.75% of the accrued principal amount thereof plus any unpaid interest, subject to certain conditions.

The 2029 Senior Notes and 2026 Senior Notes are each fully and unconditionally guaranteed, jointly and severally, by the Company and certain of the Operating Partnership’s subsidiaries that incur and guarantee any indebtedness under the Company’s credit facilities, and any additional first lien obligations or certain other bank indebtedness (each, a “Subsidiary Guarantor”). The 2029 Senior Notes and 2026 Senior Notes are each secured, subject to certain permitted liens, by a first priority security interest in all of the equity interests owned by the Operating Partnership and certain of the Subsidiary Guarantors (each, a “Secured Guarantor”) in certain of the other Subsidiary Guarantors (the “Collateral”), which Collateral also secures the obligations under the Company’s credit facilities on a first priority basis. The Collateral may be released in full prior to the maturity of either of the 2029 Senior Notes and 2026 Senior Notes if the Operating Partnership and the Company comply with certain requirements, after which the 2029 Senior Notes and 2026 Senior Notes will be unsecured.

The indenture governing the 2029 Senior Notes and the 2026 Senior Notes contains customary covenants that will limit the Company’s ability and, in certain instances, the ability of its subsidiaries, to incur additional debt, create liens on assets, make distributions and pay dividends, make certain types of

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

8. Debt (continued)

investments, issue guarantees of indebtedness, and make certain restricted payments. These limitations are subject to a number of exceptions and qualifications set forth in the indenture.

A summary of the various restrictive covenants for the 2029 Senior Notes and 2026 Senior Notes are as follows:

	<u>Covenant</u>
<u>Maintenance Covenant</u>	
Unencumbered Asset to Unencumbered Debt Ratio	>150.0%
<u>Incurrence Covenants</u>	
Consolidated Indebtedness less than Adjusted Total Assets	<.65x
Consolidated Secured Indebtedness less than Adjusted Total Assets	<.45x
Interest Coverage Ratio	>1.5x

As of December 31, 2021, the Company was in compliance with all covenants associated with the 2029 Senior Notes and 2026 Senior Notes. In addition, failure to meet an incurrence covenant does not, in and of itself, constitute an event of default under the indentures.

The Company's \$475.0 million senior notes due 2025 are referred to as the "2025 Senior Notes". The 2025 Senior Notes include \$20.9 million at December 31, 2020 resulting from an acquisition related fair value adjustment on the 2025 Senior Notes. In September 2021, the Company redeemed the 2025 Senior Notes and paid a redemption premium of \$9.5 million using the net proceeds from the issuance of the 2029 Senior Notes. The redemption premium is included in the gain (loss) on extinguishment of indebtedness, net, in the accompany consolidated statements of operations and comprehensive (loss) income.

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");
- \$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");
- \$150.0 million term loan with a scheduled maturity date of June 10, 2023 (the "\$150 Million Term Loan Maturing 2022"); and
- \$400.0 million term loan with a scheduled maturity date of May 18, 2025 (the "\$400 Million Term Loan Maturing 2025").

The \$400 Million Term Loan Maturing 2023, the \$225 Million Term Loan Maturing 2023, the \$150 Million Term Loan Maturing 2022, and the \$400 Million Term Loan Maturing 2025 are collectively the "Term Loans". The credit agreements contain certain financial covenants relating to the Company's maximum leverage ratio, minimum fixed charge coverage ratio, maximum secured indebtedness, maximum unencumbered leverage ratio and minimum unsecured interest coverage ratio. If an event of default exists, the Company is not permitted to make distributions to shareholders, other than those required to qualify for and maintain REIT status. As of December 31, 2021 and 2020, the Company was not required to comply with certain financial covenants, as described below.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

8. Debt (continued)

The borrowings under the Revolver and Term Loans bear interest at variable rates equal to the London InterBank Offered Rate (“LIBOR”) (or equivalent successor rate index) plus an applicable margin. The margin ranges from 1.35% to 2.50%, depending on the Company’s leverage ratio, as calculated under the terms of each facility. The Company incurs an unused facility fee on the Revolver of between 0.20% and 0.25%, based on the amount by which the maximum borrowing amount exceeds the total principal balance of the outstanding borrowings.

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

	Interest Rate at December 31, 2021 ⁽¹⁾	Maturity Date	Outstanding Borrowings at	
			December 31, 2021	December 31, 2020
Revolver ⁽²⁾	3.53%	May 2024	\$ 200,000	\$ 400,000
\$400 Million Term Loan Maturing 2023 ⁽³⁾ . . .	4.73%	January 2023 ⁽⁷⁾	203,944	400,000
\$225 Million Term Loan Maturing 2023 ⁽⁴⁾ . . .	4.72%	January 2023 ⁽⁸⁾	114,718	225,000
\$150 Million Term Loan Maturing 2023 ⁽⁵⁾ . . .	4.18%	June 2023	100,000	150,000
\$400 Million Term Loan Maturing 2025	4.45%	May 2025	400,000	400,000
			1,018,662	1,575,000
Deferred financing costs, net ⁽⁶⁾			(3,658)	(6,696)
Total Revolver and Term Loans, net			\$1,015,004	\$1,568,304

- (1) Interest rate at December 31, 2021 gives effect to interest rate hedges.
- (2) At December 31, 2021 and 2020, there was \$400.0 million and \$200.0 million of remaining capacity on the Revolver, respectively. The Company has the ability to further increase the total capacity on the Revolver to \$750.0 million, subject to certain lender requirements. 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. In February 2022, the Company paid off the outstanding balance on the Revolver.
- (3) The Company utilized \$196.1 million of the proceeds from the issuance of the 2026 Senior Notes to reduce the outstanding principal balance of this term loan.
- (4) The Company utilized \$110.3 million of the proceeds from the issuance of the 2026 Senior Notes to reduce the outstanding principal balance of this term loan.
- (5) Pursuant to the terms under the Company’s credit agreements, the Company utilized \$20.8 million of the proceeds from hotel dispositions and \$29.2 million of the proceeds from the issuance of the 2026 Senior Notes to reduce the outstanding principal balance of this term loan. In addition, the Company has the option to extend the maturity one additional year to June 2024.
- (6) Excludes \$2.9 million and \$4.1 million as of December 31, 2021 and 2020, respectively, related to deferred financing costs on the Revolver, which are included in prepaid expense and other assets in the accompanying consolidated balance sheets.
- (7) In September 2021, the Company amended this term loan to include a one-year extension option for approximately \$151.7 million of the principal balance. The exercise of the one-year extension option will be at the Company’s discretion, subject to certain conditions.
- (8) In September 2021, the Company amended this term loan to include a one-year extension option for approximately \$73.0 million of the principal balance. The exercise of the one-year extension option will be at the Company’s discretion, subject to certain conditions.

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

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

8. Debt (continued)

	Covenant	Compliance
Leverage ratio ⁽¹⁾	≤7.0x	N/A ⁽³⁾
Fixed charge coverage ratio ⁽²⁾	≥1.5x	N/A ⁽³⁾
Secured indebtedness ratio	≤45.0%	N/A ⁽³⁾
Unencumbered indebtedness ratio	≤60.0%	N/A ⁽³⁾
Unencumbered debt service coverage ratio	≥2.0x	N/A ⁽³⁾
Maintain minimum liquidity level	≥\$150.0 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, as described below.

During the year ended December 31, 2021, 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, 2022 (the “Covenant Relief Period”). In addition, for periods following the Covenant Relief Period, the amendments modify the covenant thresholds, subject to certain conditions, for the leverage ratio, unencumbered debt service coverage ratio, and unencumbered indebtedness ratio as follows:

- Increasing the maximum leverage ratio to 8.5x for the first two quarters following the Covenant Relief Period, 8.0x for the third and fourth quarters following the Covenant Relief Period, 7.5x for the fifth quarter following the Covenant Relief Period (such period, the “Leverage Relief Period”), and then returning to 7.0x that was in effect prior to the Covenant Relief Period.
- Reducing the minimum unencumbered debt service coverage ratio to 1.5x for the first quarter following the Covenant Relief Period, 1.65x for the second quarter following the Covenant Relief Period, and then returning to 2.0x that was in effect prior to the Covenant Relief Period.
- Increasing the unencumbered indebtedness ratio to 65% for the first two quarters following the Covenant Relief Period, and then returning to the 60% level that was in effect prior to the Covenant Relief Period.
- The Company is required to maintain a minimum liquidity level of \$150.0 million.

Pursuant to the amendments and through the date that the financial statements are delivered for the quarter ending June 30, 2022 (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. In addition, there are limitations on capital expenditures exceeding \$150.0 million in

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

8. Debt (continued)

2021 and 2022, and certain acquisitions exceeding \$450.0 million or \$300.0 million dependent upon the outstanding balance of the Company's Revolver. All of these limitations are 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 6.5x for two consecutive fiscal quarters (the "Covenant Relief Pledged Collateral Period").
- Extension of (1) the mandatory prepayment requirement applicable to dispositions of unencumbered properties through the end of the Covenant Relief Pledged Collateral Period and (2) the requirement to maintain a minimum liquidity level of \$150.0 million through the end of the Leverage Relief Period.

As part of the Revolver and Term Loans amendment in June 2021, the Company amended the \$150 Million Term Loan Maturing 2023 to extend the maturity for \$100.0 million of the original principal balance from January 2022 to June 2023 with an option to extend the maturity by one year to June 2024. The applicable margin on the interest rate will be 3.0% for LIBOR loans and 2.0% for base rate loans until the end of the Leverage Relief Period, as defined in the existing credit agreement. After the end of the Leverage Relief Period, the applicable margin will revert to the original leverage- or ratings-based pricing.

As part of the Revolver and Term Loans amendment in September 2021, the Company amended the \$400 Million Term Loan Maturing 2023 and \$225 Million Term Loan Maturing 2023 to include a one-year extension option for approximately \$151.7 million and \$73.0 million, respectively, of the principal balance. The exercise of the one-year extension option will be at the Company's discretion, subject to certain conditions.

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 December 31, 2021 ⁽¹⁾	Maturity Date	Principal balance at	
				December 31, 2021	December 31, 2020
Mortgage loan ⁽²⁾	7	3.30%	April 2022 ⁽⁷⁾	\$200,000	\$200,000
Mortgage loan ⁽²⁾	3	2.53%	April 2024 ⁽⁷⁾	96,000	96,000
Mortgage loan ⁽²⁾	4	2.84%	April 2024 ⁽⁷⁾	85,000	85,000
Mortgage loan ⁽³⁾	1	5.06%	January 2029	27,554	—
Mortgage loan ⁽⁴⁾	1	—%	June 2022 ⁽⁸⁾	—	30,332
Mortgage loan ⁽⁵⁾	3	—%	October 2022 ⁽⁸⁾	—	86,775
Mortgage loan ⁽⁶⁾	1	—%	October 2022 ⁽⁹⁾	—	27,972
	<u>20</u>			<u>408,554</u>	<u>526,079</u>
Deferred financing costs, net				(1,062)	(2,411)
Total mortgage loans, net				<u>\$407,492</u>	<u>\$523,668</u>

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

8. Debt (continued)

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- (1) Interest rate at December 31, 2021 gives effect to interest rate hedges.
 - (2) The hotels encumbered by the mortgage loan are cross-collateralized. Requires payments of interest only through maturity.
 - (3) Includes \$2.6 million at December 31, 2021 related to a fair value adjustment on a mortgage loan that was assumed in connection with a hotel property acquisition in December 2021.
 - (4) Includes \$0.3 million at December 31, 2020 related to a fair value adjustment on a mortgage loan.
 - (5) Includes \$0.9 million at December 31, 2020 related to a fair value adjustments on the mortgage loans.
 - (6) Includes \$0.3 million at December 31, 2020 related to a fair value adjustment on the mortgage loan.
 - (7) The mortgage loan provides two one year extension options.
 - (8) In June 2021, the Company paid off the mortgage loan(s) in full and paid approximately \$5.7 million in prepayment premiums using the proceeds from the issuance of the 2026 Senior Notes.
 - (9) In July 2021, the Company paid off the mortgage loan in full and paid approximately a \$1.3 million prepayment premium using the proceeds from the issuance of the 2026 Senior Notes.

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 and accordingly, such cash is restricted. In addition, certain mortgage loans have other requirements including continued operation and maintenance of the hotel property. At December 31, 2021, two mortgage loans failed the DSCR threshold and were in a cash trap event. In addition, the DSCR covenant for one mortgage loan has been waived through December 31, 2022.

At December 31, 2021, there was approximately \$22.4 million of restricted cash held by lenders due to cash trap events. In February 2022, the restrictions on approximately \$10.8 million of the \$22.4 million of December 31, 2021 restricted cash were removed.

Interest Expense

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

	For the year ended December 31,		
	2021	2020	2019
Senior Notes	\$ 34,079	\$ 23,767	\$23,793
Revolver and Term Loans	53,097	55,413	42,272
Mortgage loans	13,306	16,949	20,754
Amortization of deferred financing costs	5,884	4,416	4,100
Undesignated interest rate swaps	—	(376)	376
Total interest expense	\$106,366	\$100,169	\$91,295

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

8. Debt (continued)

Future Minimum Principal Payments

As of December 31, 2021, the future minimum principal payments were as follows (in thousands):

2022	\$ 200,000
2023	418,662
2024	381,000
2025	400,000
2026	500,000
Thereafter	525,000
Total ⁽¹⁾	<u>\$2,424,662</u>

(1) Excludes a \$2.6 million fair value adjustment on debt.

9. Derivatives and Hedging

The Company's interest rate swaps consisted of the following (in thousands):

Hedge type	Interest rate	Maturity	Notional value at		Fair value at	
			December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Swap-cash flow	1.15%	April 2021	\$ —	\$ 100,000	\$ —	\$ (398)
Swap-cash flow	1.20%	April 2021	—	100,000	—	(418)
Swap-cash flow	2.15%	April 2021	—	75,000	—	(594)
Swap-cash flow	1.91%	April 2021	—	75,000	—	(523)
Swap-cash flow	1.61%	June 2021	—	50,000	—	(433)
Swap-cash flow	1.56%	June 2021	—	50,000	—	(416)
Swap-cash flow	1.71%	June 2021	—	50,000	—	(462)
Swap-cash flow	1.35%	September 2021	—	49,000	—	(454)
Swap-cash flow	1.28%	September 2022	100,000	100,000	(759)	(2,035)
Swap-cash flow ⁽¹⁾	2.29%	December 2022	200,000	200,000	(4,077)	(9,044)
Swap-cash flow ⁽²⁾	2.29%	December 2022	125,000	125,000	(2,545)	(5,648)
Swap-cash flow ⁽³⁾	2.38%	December 2022	87,780	200,000	(1,879)	(9,436)
Swap-cash flow ⁽⁴⁾	2.38%	December 2022	36,875	100,000	(789)	(4,716)
Swap-cash flow	2.75%	November 2023	100,000	100,000	(3,893)	(7,635)
Swap-cash flow	2.51%	December 2023	75,000	75,000	(2,692)	(5,284)
Swap-cash flow	2.39%	December 2023	75,000	75,000	(2,504)	(5,012)
Swap-cash flow	1.24%	September 2025	150,000	150,000	(860)	(5,508)
Swap-cash flow	1.16%	April 2024	50,000	50,000	(338)	(1,464)
Swap-cash flow	1.20%	April 2024	50,000	50,000	(387)	(1,526)
Swap-cash flow	1.15%	April 2024	50,000	50,000	(327)	(1,450)
Swap-cash flow	1.10%	April 2024	50,000	50,000	(267)	(1,374)
Swap-cash flow	0.98%	April 2024	25,000	25,000	(61)	(596)

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

9. Derivatives and Hedging (continued)

Hedge type	Interest rate	Maturity	Notional value at		Fair value at	
			December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Swap-cash flow	0.95%	April 2024	25,000	25,000	(43)	(573)
Swap-cash flow	0.93%	April 2024	25,000	25,000	(31)	(558)
Swap-cash flow	0.90%	April 2024	25,000	25,000	(13)	(535)
Swap-cash flow	0.85%	December 2024	50,000	50,000	221	(1,249)
Swap-cash flow	0.75%	December 2024	50,000	50,000	372	(1,047)
Swap-cash flow	0.65%	January 2026	50,000	50,000	955	(662)
			<u>\$1,399,655</u>	<u>\$2,124,000</u>	<u>\$(19,917)</u>	<u>\$(69,050)</u>

- (1) In June 2021, the Company paid down a portion of its Term Loans and dedesignated approximately \$83.8 million of the original \$200.0 million notional value of this swap as the hedged forecasted transactions were no longer probable of occurring as a result of the debt paydown. Therefore, the Company reclassified approximately \$2.8 million of unrealized losses included in other comprehensive loss to other (expense) income, net, in the consolidated statements of operations and comprehensive (loss) income. The portion of the swap that was dedesignated was subsequently redesignated and the amounts related to the initial fair value of \$2.8 million that are recorded in other comprehensive loss during the new hedging relationship will be reclassified to earnings on a straight line basis over the remaining life of the swap.
- (2) In June 2021, the Company paid down a portion of its Term Loans and dedesignated approximately \$47.2 million of the original \$125.0 million notional value of this swap as the hedged forecasted transactions were no longer probable of occurring as a result of the debt paydown. Therefore, the Company reclassified approximately \$1.6 million of unrealized losses included in other comprehensive loss to other (expense) income, net, in the consolidated statements of operations and comprehensive (loss) income. The portion of the swap that was dedesignated was subsequently redesignated and the amounts related to the initial fair value of \$1.6 million that are recorded in other comprehensive loss during the new hedging relationship will be reclassified to earnings on a straight line basis over the remaining life of the swap.
- (3) In June 2021, the Company paid down a portion of its Term Loans and terminated approximately \$112.2 million of the original \$200.0 million notional value of this swap as the hedged forecasted transactions were no longer probable of occurring as result of the debt paydown in June 2021. As part of the swap termination, the Company paid approximately \$2.2 million to terminate a portion of this swap. In addition, the Company re-designated the remaining portion of this swap resulting in the reclassification of approximately \$2.2 million of the unrealized losses included in accumulated other comprehensive loss to other (expense) income, net, in the consolidated statements of operations and comprehensive (loss) income.
- (4) In June 2021, the Company paid down a portion of its Term Loans and terminated approximately \$63.1 million of the original \$100.0 million notional value of this swap as the hedged forecasted transactions were no longer probable of occurring as result of the debt paydown in June 2021. As part of the swap termination, the Company paid approximately \$4.0 million to terminate a portion of this swap. In addition, the Company re-designated the remaining portion of this swap resulting in the reclassification of approximately \$4.0 million of the unrealized losses included in accumulated other comprehensive loss to other (expense) income, net, in the consolidated statements of operations and comprehensive (loss) income.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

9. Derivatives and Hedging (continued)

As of December 31, 2021 and 2020, the aggregate fair value of the interest rate swap liabilities of \$21.5 million and \$69.1 million, respectively, was included in accounts payable and other liabilities in the accompanying consolidated balance sheets. As of December 31, 2021, the aggregate fair value of the interest rate swap assets of \$1.5 million was included in prepaid expense and other assets in the accompanying consolidated balance sheet.

As of December 31, 2021 and 2020, there was approximately \$19.9 million and \$69.1 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 years ended December 31, 2021 and 2020. For the year ended December 31, 2021, approximately \$24.1 million of the amounts included in accumulated other comprehensive loss were reclassified into interest expense. For the year ended December 31, 2020, approximately \$19.7 million of the amounts included in accumulated other comprehensive loss were reclassified into interest expense. Approximately \$16.7 million of the unrealized losses included in accumulated other comprehensive loss at December 31, 2021 is expected to be reclassified into interest expense within the next 12 months.

10. 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 for the Senior Notes, which are Level 1 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 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.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

10. Fair Value (continued)

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

	December 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior Notes, net	\$ 986,942	\$ 999,060	\$ 495,759	\$ 484,229
Revolver and Term Loans, net	1,015,004	1,006,647	1,568,304	1,543,636
Mortgage loans, net	407,492	401,387	523,668	512,118
Debt, net	<u>\$2,409,438</u>	<u>\$2,407,094</u>	<u>\$2,587,731</u>	<u>\$2,539,983</u>

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 December 31, 2021 (in thousands):

	Fair Value at December 31, 2021			
	Level 1	Level 2	Level 3	Total
Interest rate swap asset	\$ —	\$ 1,548	\$ —	\$ 1,548
Interest rate swap liability	\$ —	\$(21,465)	\$ —	\$(21,465)
Total	<u>\$ —</u>	<u>\$(19,917)</u>	<u>\$ —</u>	<u>\$(19,917)</u>

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, 2020 (in thousands):

	Fair Value at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Interest rate swap liability	\$ —	\$(69,050)	\$ —	\$(69,050)
Total	<u>\$ —</u>	<u>\$(69,050)</u>	<u>\$ —</u>	<u>\$(69,050)</u>

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 December 31, 2021, 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.

11. Commitments and Contingencies

Operating Leases

As of December 31, 2021, 13 of Company's hotel properties were subject to ground lease agreements that cover the land underlying the respective hotels. The ground leases are classified as operating leases. The total ground lease expense was \$13.1 million for the year ended December 31, 2021, which consisted of \$11.6 million of fixed lease expense and \$1.5 million of variable lease expense. The total ground lease expense was \$12.4 million for the year ended December 31, 2020, which consisted of \$11.6 million of fixed lease expense and \$0.8 million of variable lease expense. The total ground lease expense was \$15.7 million for the

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

11. Commitments and Contingencies (continued)

year ended December 31, 2019, which consisted of \$11.6 million of fixed lease expense and \$4.1 million of variable lease expense. The total ground lease expense is included in property tax, insurance and other in the accompanying consolidated statements of operations and comprehensive (loss) income.

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

Hotel Property Name	Initial Term Expiration	Extension Term(s) Expiration	Ground Lease Expense		
			For the year ended December 31,		
			2021	2020	2019
Wyndham Boston Beacon Hill	2028	—	\$ 556	\$ 400	\$ 900
Wyndham San Diego Bayside	2029	—	4,042	4,100	4,800
DoubleTree Suites by Hilton Orlando Lake Buena Vista	2032	2057	666	300	900
Residence Inn Palo Alto Los Altos	2033	—	86	100	100
Wyndham Pittsburgh University Center	2038	2083	726	700	700
Marriott Louisville Downtown	2053	2153 ⁽¹⁾	—	—	—
Embassy Suites San Francisco Airport Waterfront	2059	—	1,239	1,200	2,400
Wyndham New Orleans French Quarter	2065	—	487	500	500
Courtyard Charleston Historic District	2096	—	1,019	950	1,000
Courtyard Austin Downtown Convention Center and Residence Inn Downtown Convention Center	2100	—	555	449	800
Courtyard Waikiki Beach	2112	—	3,742	3,700	3,600
Moxy Denver Cherry Creek ⁽²⁾	2115	—	5	—	—
			<u>\$13,123</u>	<u>\$12,399</u>	<u>\$15,700</u>

- (1) The lease may be extended up to four twenty-five year terms at the Company's option.
- (2) In connection with the acquisition of this hotel property in December 2021, the Company recognized a lease liability of \$3.1 million and related lease right-of-use asset of \$7.4 million on the consolidated balance sheet for the ground lease. In order to determine the present value of the future lease payments over the lease term, the Company used an incremental borrowing rate of 6.9%.

The future lease payments for the Company's operating leases are as follows (in thousands):

	December 31, 2021
2022	\$ 11,521
2023	11,617
2024	11,677
2025	11,728
2026	11,003
Thereafter	<u>542,537</u>
Total future lease payments	600,083
Imputed interest	<u>(477,052)</u>
Lease liabilities	<u>\$ 123,031</u>

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

11. Commitments and Contingencies (continued)

The following table presents certain information related to the Company's operating leases as of December 31, 2021:

Weighted average remaining lease term	63 years
Weighted average discount rate	7.03%

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 December 31, 2021 and 2020, approximately \$48.5 million and \$35.0 million, respectively, was available in the restricted cash reserves for future capital expenditures, real estate taxes and insurance, and debt obligations where certain lenders held restricted cash due to a cash trap event.

Litigation

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.

Management Agreements

As of December 31, 2021, 97 of the Company's consolidated hotel properties were operated pursuant to management agreements with initial terms ranging from one to 25 years, with 14 different management companies as noted in the table below. This number includes 29 consolidated hotel properties that receive the benefits of a franchise agreement pursuant to management agreements with Hilton, Hyatt, or Marriott.

<u>Management Company</u>	<u>Number of Hotel Properties</u>
Aimbridge Hospitality	30
Colwen Management, Inc.	1
Crestline Hotels and Resorts	1
Davidson Hotels and Resorts	2
Hilton Management and affiliates	19
HEI Hotels and Resorts	1
Highgate Hotels	4
Hyatt Corporation and affiliates	11
InnVentures	3
Marriott International, Inc.	3
Sage Hospitality	6
Urigo Hotels	3
White Lodging Services	8
Wyndham	<u>5</u>
	<u>97</u>

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

11. Commitments and Contingencies (continued)

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 2.0% 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 (loss) income. For the years ended December 31, 2021, 2020 and 2019, the Company incurred management fee expense of approximately \$24.2 million, \$13.2 million and \$45.5 million, respectively.

Subsequent to the year ended December 31, 2021, four hotel properties that were managed by White Lodging Services were transferred to Hersha Hospitality Management effective February 1, 2022.

Franchise Agreements

As of December 31, 2021, 67 of the Company's consolidated hotel properties were operated under franchise agreements with initial terms ranging from one to 30 years. This number excludes 29 consolidated hotel properties that receive the benefits of a franchise agreement pursuant to management agreements with Hilton, Hyatt, or Marriott. In addition, The Knickerbocker is not operated with a hotel brand so the hotel 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 between 1.5% and 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 (loss) income. For the years ended December 31, 2021, 2020 and 2019, the Company incurred franchise fee expense of approximately \$43.2 million, \$25.6 million and \$75.3 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. In addition, during the year ended December 31, 2021, the Company extended certain Wyndham management agreements to December 31, 2022. For the years ended December 31, 2021 and 2020, the Company recognized approximately \$14.1 million and \$17.8 million, respectively, as a reduction to management and franchise fee expense related to the amortization of the termination payments over the remaining terms of the management agreements.

Other

During the year ended December 31, 2020, the Company incurred approximately \$8.7 million in corporate and property-level severance costs as a result of the COVID-19 pandemic. This amount includes \$6.7 million for the year ended December 31, 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 statement of operations and comprehensive (loss) income.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

12. Equity

Common Shares of Beneficial Interest

Under the declaration of trust for the Company, there are 450,000,000 Common Shares authorized for issuance.

The Company did not repurchase any common shares under a share repurchase program during the year ended December 31, 2021.

During the year ended December 31, 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 that expired February 29, 2020 and \$36.6 million was repurchased under a share repurchase program that expired on February 28, 2021.

During the year ended December 31, 2019, the Company repurchased and retired 4,575,170 common shares for approximately \$77.8 million.

During each of the years ended December 31, 2021 and 2020, the Company declared a cash dividend of \$0.04 per Common Share. During the year ended December 31, 2019, the Company declared a cash dividend of \$1.32 per Common Share.

Series A Preferred Share

Under the declaration of trust for the Company, there are 50,000,000 preferred shares authorized for issuance.

During each of the years ended December 31, 2021, 2020 and 2019, the Company declared a cash dividend of \$1.95 per Series A Preferred Share.

Noncontrolling Interest in Consolidated Joint Ventures

The Company consolidated the joint venture that owned the DoubleTree Metropolitan Hotel New York City hotel property, which has a third-party partner that owns a noncontrolling 1.7% ownership interest in the joint venture. This hotel property was sold in December 2021. In addition, the Company consolidates the joint venture that owns The Knickerbocker hotel property, 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. As of December 31, 2021, the Operating Partnership had 167,274,893 OP units outstanding, of which 99.5% of the outstanding OP units were owned by the Company and its subsidiaries, and the noncontrolling 0.5% ownership interest was owned by other limited partners.

As of December 31, 2021, the limited partners owned 771,831 OP units. 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. The noncontrolling interest is included in the noncontrolling interest in the Operating Partnership on the consolidated balance sheets.

Consolidated Joint Venture Preferred Equity

The Company's joint venture that redeveloped The Knickerbocker raised \$45.0 million (\$44.4 million net of issuance costs) through the sale of redeemable preferred equity under the EB-5 Immigrant Investor Program. The purchasers received a 3.25% annual return, plus a 0.25% non-compounding annual return that was paid upon redemption. On February 15, 2019, the Company redeemed the preferred equity in full.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

13. Equity Incentive Plan

Pursuant to the terms of the 2021 Plan, the Company may issue share-based awards to officers, employees, non-employee trustees and other eligible persons under the 2021 Plan. The 2021 Plan provides for a maximum of 6,828,527 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 2021 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 2021 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 is as follows:

	2021		2020		2019	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1,	1,252,228	\$15.17	940,202	\$20.21	740,792	\$21.89
Granted	1,739,327	15.92	801,463	11.95	530,436	18.69
Vested	(513,342)	16.51	(480,444)	19.59	(312,131)	21.63
Forfeited	(97,930)	15.22	(8,993)	18.80	(18,895)	20.03
Unvested at December 31,	2,380,283	\$15.43	1,252,228	\$15.17	940,202	\$20.21

For the years ended December 31, 2021, 2020 and 2019, the Company recognized approximately \$11.9 million, \$8.7 million and \$8.6 million, respectively, of share-based compensation expense related to restricted share awards.

As of December 31, 2021, there was \$27.1 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 2.2 years. The total fair value of the shares vested (calculated as the number of shares multiplied by the vesting date share price) during the years ended December 31, 2021, 2020 and 2019 was approximately \$7.8 million, \$5.2 million and \$5.5 million, respectively.

Performance Units

From time to time, the Company may award performance units under the 2021 Plan as compensation to officers and employees. The performance units granted prior to 2021 vest over a four years 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)

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

13. Equity Incentive Plan (continued)

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 restricted shares will vest immediately. The remaining 50% will vest one year later. 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 was 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.

The performance units granted in 2021 vest at the end of a three year period. 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 (25% of award) and a relative shareholder return (75% of award) over the measurement period at specified percentiles of the peer group, as defined by the awards. At the end of the performance units measurement period, if the target criterion is met, 100% of the performance units that are earned will vest immediately. 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 was determined using a Monte Carlo simulation. For performance units granted in 2021, the Company estimates the compensation expense for the performance units on a straight-line basis using a calculation that recognizes 100% of the grant date fair value over three years.

A summary of the performance unit awards is as follows:

<u>Date of Award</u>	<u>Number of Units Granted</u>	<u>Grant Date Fair Value</u>	<u>Conversion Range</u>	<u>Risk Free Interest Rate</u>	<u>Volatility</u>
February 2018 ⁽¹⁾	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	\$11.59	0% to 200%	1.08%	23.46%
February 2021	431,151	\$20.90	0% to 200%	0.23%	69.47%

(1) In February 2021, following the end of the measurement period, the Company met certain threshold criterion and the performance units were converted into approximately 26,000 restricted shares.

For the years ended December 31, 2021, 2020 and 2019, the Company recognized approximately \$5.2 million, \$3.5 million and \$2.9 million, respectively, of share-based compensation expense related to the performance unit awards.

As of December 31, 2021, there was \$9.3 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 1.9 years.

As of December 31, 2021, there were 4,130,607 Common Shares available for future grant under the 2021 Plan, which includes potential Common Shares that may convert from performance units if certain target criterion is met.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

14. Earnings per Common Share

Basic earnings per Common Share is calculated by dividing net (loss) 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 (loss) 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 (loss) 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 years ended December 31, 2021, 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 year ended December 31,		
	2021	2020	2019
Numerator:			
Net (loss) income attributable to RLJ	\$ (305,168)	\$ (404,441)	\$ 127,842
Less: Preferred dividends	(25,115)	(25,115)	(25,115)
Less: Dividends paid on unvested restricted shares	(85)	(55)	(1,342)
Less: Undistributed earnings attributable to unvested restricted shares	—	—	—
Net (loss) income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ (330,368)	\$ (429,611)	\$ 101,385
Denominator:			
Weighted-average number of Common Shares – basic	163,998,390	164,503,661	171,287,086
Unvested restricted shares	—	—	101,390
Weighted-average number of Common Shares – diluted . . .	163,998,390	164,503,661	171,388,476
Net (loss) income per share attributable to common shareholders – basic	\$ (2.01)	\$ (2.61)	\$ 0.59
Net (loss) income per share attributable to common shareholders – diluted	\$ (2.01)	\$ (2.61)	\$ 0.59

15. Income Taxes

Current income tax expense represents the amounts expected to be reported on the Company's income tax returns, and deferred tax expense or benefit represents the change in the net deferred tax assets and liabilities. The deferred tax assets and liabilities are determined based on the difference between the financial

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

15. Income Taxes (continued)

statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse.

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 net 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.

The components of the income tax provision are as follows (in thousands):

	For the Years Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ —	\$ —	\$ —
State	(1,228)	(484)	(3,067)
Deferred:			
Federal	30	(45,438)	3,987
State	10	(6,048)	2,831
Income tax (expense) benefit	\$(1,188)	\$(51,970)	\$ 3,751

The provision for income taxes is different from the amount of income tax (expense) benefit that is determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following differences (in thousands):

	For the Years Ended December 31,		
	2021	2020	2019
Expected U.S. federal tax benefit (expense) at statutory rate	\$ 65,079	\$ 90,143	\$(26,382)
Tax impact of REIT election	(60,856)	(85,140)	24,129
Expected tax benefit (expense) at TRS	4,223	5,003	(2,253)
Change in valuation allowance	(6,489)	(59,321)	(297)
State income tax (expense) benefit, net of federal benefit	(650)	1,174	(2,367)
Reassessment of acquired NOLs	—	—	9,973
Other items	1,728	1,174	(1,305)
Income tax (expense) benefit	\$ (1,188)	\$(51,970)	\$ 3,751

Deferred income taxes represent the tax effect from continuing operations of the differences between the book and tax basis of the assets and liabilities. The deferred tax assets (liabilities) include the following (in thousands):

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

15. Income Taxes (continued)

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Deferred tax liabilities:		
Partnership basis	\$ (2,739)	\$ (2,453)
Prepaid expenses	(781)	(1,157)
Deferred tax liabilities	<u>\$ (3,520)</u>	<u>\$ (3,610)</u>
Deferred tax assets:		
Property and equipment	\$ 4,378	\$ 2,619
Incentive and vacation accrual	3,021	2,339
Deferred revenue – key money	910	966
Allowance for doubtful accounts	69	76
Other	179	202
Net operating loss carryforwards	81,299	71,831
Federal historic tax credit	824	824
Wyndham guarantee	—	5,384
Valuation allowance	(87,159)	(80,670)
Deferred tax assets	<u>\$ 3,521</u>	<u>\$ 3,571</u>

Deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on the 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. The Company would record a valuation allowance to reduce its deferred tax assets to the amount that is most likely to be utilized in future periods to offset taxable income. Based upon the available objective evidence at December 31, 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 of December 31, 2021 and 2020, the Company had a valuation allowance of approximately \$87.2 million and \$80.7 million, respectively, related to NOL carryforwards, historic tax credits, and other deferred tax assets of its TRSs.

The Company’s NOLs will begin to expire in 2024 for federal tax purposes and 2021 to 2040 for state tax purposes. The Company’s historic tax credits begin to expire in 2035. The annual utilization of these NOLs and tax credits is limited pursuant to federal and state tax laws.

The Company is subject to examination by U.S. federal and various state and local jurisdictions. The tax years subject to examination vary by jurisdiction. With few exceptions, as of December 31, 2021, the Company is no longer subject to U.S. federal or state and local tax examinations by tax authorities for the tax years of 2017 and before.

The Company had no accruals for tax uncertainties as of December 31, 2021 and 2020.

16. Segment Information

The Company separately evaluates the performance of each of its hotel properties. However, because each of the hotels has similar economic characteristics, facilities, and services, the hotel properties have been aggregated into a single operating segment.

RLJ Lodging Trust

Notes to the Consolidated Financial Statements (Continued)

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

	For the year ended December 31,		
	2021	2020	2019
Reconciliation of cash, cash equivalents, and restricted cash reserves			
Cash and cash equivalents	\$665,341	\$899,813	\$882,474
Restricted cash reserves	48,528	34,977	44,686
Cash, cash equivalents, and restricted cash reserves	<u>\$713,869</u>	<u>\$934,790</u>	<u>\$927,160</u>
Interest paid	<u>\$ 92,729</u>	<u>\$ 98,511</u>	<u>\$ 97,259</u>
Income taxes paid	<u>\$ 477</u>	<u>\$ 1,501</u>	<u>\$ 4,090</u>
Operating cash flow lease payments for operating leases	<u>\$ 12,371</u>	<u>\$ 11,813</u>	<u>\$ 15,270</u>
Right-of-use asset obtained in exchange for lease obligation due to remeasurement	<u>\$ —</u>	<u>\$ 4,100</u>	<u>\$ —</u>
Supplemental investing and financing transactions			
In conjunction with the acquisitions of hotel properties, the Company recorded the following:			
Purchase of hotel properties	\$198,250	\$ —	\$ —
Transaction costs	2,014	—	—
Operating prorations	(589)	—	—
Mortgage debt assumed (non-cash financing activity)	(25,000)	—	—
Acquisition of hotel properties, net	<u>\$174,675</u>	<u>\$ —</u>	<u>\$ —</u>
In conjunction with the sale of hotel properties, the Company recorded the following:			
Sale of hotel properties	\$208,507	\$ 4,883	\$705,681
Transaction costs	(8,118)	(133)	(10,482)
Operating prorations	(1,747)	(98)	(9,329)
Receipt of forfeited deposit	—	517	—
Proceeds from the sale of hotel properties, net	<u>\$198,642</u>	<u>\$ 5,169</u>	<u>\$685,870</u>
Supplemental non-cash transactions			
Change in fair market value of designated interest rate swaps	\$ 41,279	\$(49,536)	\$(33,459)
Accrued capital expenditures	\$ 10,049	\$ 7,313	\$ 14,234
Distributions payable	\$ 8,347	\$ 8,752	\$ 64,165

RLJ Lodging Trust
Schedule III — Real Estate and Accumulated Depreciation
December 31, 2021
(amounts in thousands)

Description	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Amount at December 31, 2021					Date Acquired	Depreciation Life
	Land & Improvements	Building & Improvements	Land, Building & Improvements	Land, Building & Improvements	Land & Improvements	Buildings & Improvements	Total ⁽¹⁾	Accumulated Depreciation			
									Debt		
Marriott Denver South @ Park Meadows	\$ —	\$ 5,385	\$ 39,488	\$ 3,984	\$ 5,353	\$ 43,504	\$ 48,857	\$ 17,052	2006	15 – 40 years	
Marriott Louisville Downtown	—	—	89,541	25,144	92	114,593	114,685	40,100	2006	15 – 40 years	
Marriott Chicago Midway	—	4,464	32,736	3,105	4,496	35,809	40,305	13,835	2006	15 – 40 years	
Renaissance Boulder Flatiron Hotel	—	4,440	32,557	3,247	4,719	35,525	40,244	13,715	2006	15 – 40 years	
Renaissance Fort Lauderdale West Hotel	—	4,842	35,517	8,126	4,876	43,609	48,485	15,167	2006	15 – 40 years	
Courtyard Chicago Downtown Magnificent Mile	31,000	8,140	59,696	9,589	8,148	69,277	77,425	26,054	2006	15 – 40 years	
Courtyard Indianapolis @ The Capitol	—	2,482	18,207	4,137	2,635	22,191	24,826	7,887	2006	15 – 40 years	
Courtyard Midway Airport	—	2,172	15,927	2,715	2,197	18,617	20,814	7,930	2006	15 – 40 years	
Courtyard Austin Downtown Convention Center	—	6,049	44,361	5,197	6,049	49,558	55,607	16,856	2007	15 – 40 years	
Residence Inn Houston By The Galleria	—	2,665	19,549	3,095	2,674	22,635	25,309	9,029	2006	15 – 40 years	
Residence Inn Indianapolis Downtown On The Canal	—	2,670	19,588	4,798	2,670	24,386	27,056	8,573	2006	15 – 40 years	
Residence Inn Merrillville	—	595	4,372	1,321	595	5,693	6,288	2,283	2006	15 – 40 years	
Residence Inn Louisville Downtown	—	1,815	13,308	3,191	1,815	16,499	18,314	5,449	2007	15 – 40 years	
Residence Inn Austin Downtown Convention Center	—	3,767	27,626	4,390	3,804	31,979	35,783	10,462	2007	15 – 40 years	
SpringHill Suites Denver North Westminster	—	2,409	17,670	1,869	2,409	19,539	21,948	7,536	2006	15 – 40 years	
Fairfield Inn & Suites Denver Cherry Creek	—	1,203	8,823	1,630	1,203	10,453	11,656	4,113	2006	15 – 40 years	
Fairfield Inn & Suites Key West	—	1,803	19,325	3,811	1,853	23,086	24,939	8,978	2006	15 – 40 years	
Fairfield Inn & Suites Chicago Midway Airport	—	1,425	10,449	2,056	1,447	12,483	13,930	4,880	2006	15 – 40 years	
Hampton Inn Chicago Midway Airport	—	2,747	20,143	3,071	2,793	23,168	25,961	9,109	2006	15 – 40 years	
Hilton Garden Inn Chicago Midway Airport	—	2,978	21,842	1,622	3,000	23,442	26,442	9,173	2006	15 – 40 years	
Sleep Inn Midway Airport	—	1,189	8,718	1,881	1,211	10,577	11,788	4,430	2006	15 – 40 years	
Holiday Inn Express & Suites Midway Airport	—	1,874	13,742	3,169	1,902	16,883	18,785	6,226	2006	15 – 40 years	
TGI Friday's Chicago Midway	—	829	6,139	951	851	7,068	7,919	2,649	2006	15 – 40 years	

Description	Initial Costs			Gross Amount at December 31, 2021					Date Acquired	Depreciation Life
	Debt	Land & Building Improvements		Land & Building Improvements	Buildings & Improvements	Total ⁽¹⁾	Accumulated Depreciation			
		Land & Building Improvements	Building & Improvements							
Hampton Inn Garden City	—	5,691	22,764	3,082	5,736	25,801	31,537	9,012	2007	15 – 40 years
Courtyard Houston By The Galleria	19,000	3,069	22,508	2,395	3,069	24,903	27,972	8,744	2007	15 – 40 years
Embassy Suites Los Angeles Downey	31,000	4,857	29,943	11,374	4,969	41,205	46,174	13,688	2008	15 – 40 years
Embassy Suites Tampa Downtown Convention Center	—	2,161	71,017	14,945	2,427	85,696	88,123	24,149	2010	15 – 40 years
Fairfield Inn & Suites Washington DC Downtown	34,000	16,214	22,265	7,833	16,447	29,865	46,312	10,017	2010	15 – 40 years
Embassy Suites Fort Myers Estero	—	2,816	7,862	1,886	2,926	9,638	12,564	3,461	2010	15 – 40 years
Homewood Suites Washington DC Downtown	—	23,139	34,188	5,181	23,150	39,358	62,508	11,653	2010	15 – 40 years
Hotel Indigo New Orleans Garden District	—	1,901	2,793	12,767	2,082	15,379	17,461	8,002	2010	15 – 40 years
Residence Inn National Harbor Washington DC	—	7,457	37,046	2,120	7,480	39,143	46,623	11,238	2010	15 – 40 years
Hilton Garden Inn New Orleans Convention Center	—	3,405	20,750	9,313	3,483	29,985	33,468	9,301	2010	15 – 40 years
Hilton Garden Inn Los Angeles Hollywood	—	5,303	19,136	10,830	5,696	29,573	35,269	9,770	2010	15 – 40 years
Renaissance Pittsburgh Hotel	34,000	3,274	39,934	11,184	3,397	50,995	54,392	14,354	2011	15 – 40 years
Courtyard Atlanta Buckhead	—	2,860	21,668	3,929	2,875	25,582	28,457	7,654	2011	15 – 40 years
Marriott Denver Airport @ Gateway Park	—	3,083	38,356	5,044	3,180	43,303	46,483	13,023	2011	15 – 40 years
Embassy Suites West Palm Beach Central	—	3,656	9,614	8,064	3,877	17,457	21,334	6,798	2011	15 – 40 years
Hilton Garden Inn Pittsburgh University Place	—	1,975	18,490	9,335	2,382	27,418	29,800	9,964	2011	15 – 40 years
Courtyard Charleston Historic District	—	2,714	35,828	4,584	3,534	39,592	43,126	10,413	2011	15 – 40 years
Residence Inn Bethesda Downtown	—	8,154	52,749	6,926	8,287	59,542	67,829	15,342	2012	15 – 40 years
Courtyard New York Manhattan Upper East Side	—	20,655	60,222	8,611	21,269	68,219	89,488	17,529	2012	15 – 40 years
Hilton Garden Inn San Francisco Oakland Bay Bridge	—	11,903	22,757	16,762	12,188	39,234	51,422	7,986	2012	15 – 40 years
Embassy Suites Boston Waltham	—	6,268	56,024	4,942	6,386	60,848	67,234	15,255	2012	15 – 40 years
Courtyard Houston Downtown Convention Center	—	5,799	28,953	5,770	6,071	34,451	40,522	8,070	2013	15 – 40 years
Residence Inn Houston Downtown Convention Center	—	4,674	24,913	5,032	4,875	29,744	34,619	7,048	2013	15 – 40 years
SpringHill Suites Houston Downtown Convention Center	—	2,382	12,756	12,828	2,567	25,399	27,966	8,217	2013	15 – 40 years
Courtyard Waikiki Beach	—	557	79,033	13,703	803	92,490	93,293	21,384	2013	15 – 40 years
Courtyard San Francisco	—	11,277	18,198	28,807	11,291	46,991	58,282	13,127	2013	15 – 40 years
Residence Inn Atlanta Midtown Historic	—	2,812	6,044	7,639	2,969	13,526	16,495	3,604	2013	15 – 40 years

Costs Capitalized Subsequent to Acquisition

Description	Initial Costs			Gross Amount at December 31, 2021					Date Acquired	Depreciation Life
	Debt	Land & Building Improvements		Land Improvements	Buildings & Improvements		Total ⁽¹⁾	Accumulated Depreciation		
		Land	Building		Improvements	Improvements				
SpringHill Suites Portland Hillsboro	—	3,488	18,283	1,499	3,518	19,752	23,270	4,375	2013	15 – 40 years
Hilton Cabana Miami Beach	—	25,083	40,707	7,346	25,318	47,818	73,136	9,353	2014	15 – 40 years
Hyatt House Charlotte Center City	18,000	3,029	26,193	2,216	3,029	28,409	31,438	5,633	2014	15 – 40 years
Hyatt House Cypress Anaheim	16,000	3,995	9,164	3,964	4,354	12,769	17,123	3,660	2014	15 – 40 years
Hyatt House Emeryville San Francisco Bay Area	36,000	7,425	29,137	7,132	7,517	36,177	43,694	8,482	2014	15 – 40 years
Hyatt House San Diego Sorrento Mesa	—	10,420	21,288	1,492	10,624	22,576	33,200	5,025	2014	15 – 40 years
Hyatt House San Jose Silicon Valley	—	6,820	31,682	2,624	6,942	34,184	41,126	6,598	2014	15 – 40 years
Hyatt House San Ramon	—	5,712	11,852	2,834	5,717	14,681	20,398	3,584	2014	15 – 40 years
Hyatt House Santa Clara	34,000	8,044	27,703	3,161	8,045	30,863	38,908	6,603	2014	15 – 40 years
Hyatt Centric The Woodlands	—	5,950	16,882	2,618	5,977	19,473	25,450	3,698	2014	15 – 40 years
Hyatt Place Fremont Silicon Valley	—	6,209	13,730	1,621	6,271	15,289	21,560	3,485	2014	15 – 40 years
Hyatt Place Madison Downtown	13,000	6,701	25,478	1,505	6,701	26,983	33,684	5,171	2014	15 – 40 years
Embassy Suites Irvine Orange County	—	15,062	33,048	9,007	15,187	41,930	57,117	9,515	2014	15 – 40 years
Courtyard Portland City Center	—	8,019	53,024	1,622	8,021	54,644	62,665	10,662	2014	15 – 40 years
Hyatt Atlanta Midtown	—	3,737	41,731	1,183	3,740	42,911	46,651	8,229	2014	15 – 40 years
DoubleTree Grand Key Resort	—	48,192	27,770	8,476	48,266	36,172	84,438	8,028	2014	15 – 40 years
Hyatt Place Washington DC Downtown K Street	—	10,763	55,225	2,060	10,763	57,285	68,048	9,463	2015	15 – 40 years
Homewood Suites Seattle Lynnwood	19,000	3,933	30,949	276	4,001	31,157	35,158	5,257	2015	15 – 40 years
Residence Inn Palo Alto Los Altos	—	16,996	45,786	847	17,100	46,529	63,629	7,957	2015	15 – 40 years
DoubleTree Suites by Hilton Austin	—	7,072	50,827	1,277	7,269	51,907	59,176	5,735	2017	15 – 40 years
DoubleTree Suites by Hilton Orlando – Lake Buena Vista	—	896	44,508	1,176	1,010	45,570	46,580	5,240	2017	15 – 40 years
Embassy Suites Atlanta – Buckhead	—	31,279	46,015	16,585	31,544	62,335	93,879	6,475	2017	15 – 40 years
Embassy Suites Birmingham	—	10,495	33,568	717	10,512	34,268	44,780	3,948	2017	15 – 40 years
Embassy Suites Dallas – Love Field	25,000	6,408	34,694	1,872	6,413	36,561	42,974	4,061	2017	15 – 40 years
Embassy Suites Deerfield Beach – Resort & Spa	—	7,527	56,128	3,985	7,824	59,816	67,640	6,779	2017	15 – 40 years
Embassy Suites Fort Lauderdale 17th Street	—	30,933	54,592	3,843	31,306	58,062	89,368	6,831	2017	15 – 40 years
Embassy Suites Los Angeles – International Airport South	50,000	13,110	94,733	1,961	13,168	96,636	109,804	10,687	2017	15 – 40 years

Description	Initial Costs		Gross Amount at December 31, 2021				Date Acquired	Depreciation Life
	Land & Improvements	Building & Improvements	Land & Improvements	Buildings & Improvements	Total ⁽¹⁾	Accumulated Depreciation		
Embassy Suites Mandalay Beach – Hotel & Resort	—	53,280	13,073	35,886	66,236	6,827	2017	15 – 40 years
Embassy Suites Miami – International Airport	—	18,099	3,812	15,057	21,619	2,869	2017	15 – 40 years
Embassy Suites Milpitas Silicon Valley	—	26,399	13,267	43,369	39,454	5,215	2017	15 – 40 years
Embassy Suites Minneapolis – Airport	—	41,202	17,119	9,673	55,896	8,039	2017	15 – 40 years
Embassy Suites Orlando – International Drive South/Convention Center	—	37,687	1,521	5,011	38,940	4,495	2017	15 – 40 years
Embassy Suites Phoenix – Biltmore	21,000	24,487	3,104	24,784	27,487	3,320	2017	15 – 40 years
Embassy Suites San Francisco Airport – South San Francisco	—	55,163	15,385	39,692	70,472	8,207	2017	15 – 40 years
Embassy Suites San Francisco Airport – Waterfront	—	85,270	4,260	4,073	89,155	10,881	2017	15 – 40 years
San Francisco Marriott Union Square	—	107,841	13,242	46,882	120,974	14,290	2017	15 – 40 years
The Knickerbocker New York	—	119,453	2,082	113,622	121,526	13,179	2017	15 – 40 years
The Mills House Wyndham Grand Hotel	—	68,932	1,477	9,625	70,383	80,008	2017	15 – 40 years
Wyndham Boston Beacon Hill	174	51,934	1,576	178	53,506	20,769	2017	9 years
Wyndham Houston – Medical Center Hotel & Suites	—	43,475	417	7,868	43,800	4,848	2017	15 – 40 years
Wyndham New Orleans – French Quarter	300	72,686	1,273	300	73,959	8,098	2017	15 – 40 years
Wyndham Philadelphia Historic District	—	51,914	803	8,406	52,678	5,810	2017	15 – 40 years
Wyndham Pittsburgh University Center	—	31,625	378	158	31,999	3,517	2017	15 – 40 years
Wyndham San Diego Bayside	—	29,440	6,166	1,128	35,467	11,594	2017	10 years
Wyndham Santa Monica At The Pier	—	45,866	1,417	27,081	47,256	5,181	2017	15 – 40 years
Hampton Inn and Suites Atlanta Midtown	—	48,321	—	5,990	48,321	516	2021	15 – 40 years
AC Hotel Boston Downtown	—	53,354	—	26,560	53,354	475	2021	15 – 40 years
Moxy Denver Cherry Creek	27,554	48,725	—	—	48,725	103	2021	15 – 40 years
	\$408,554	\$962,322	\$530,256	\$975,688	\$4,001,875	\$4,977,563		
						\$870,741		

(1) The aggregate cost of real estate for federal income tax purposes was approximately \$4.8 billion at December 31, 2021.

The change in the total cost of the hotel properties is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Reconciliation of Land and Buildings and Improvements			
Balance at beginning of period	\$5,174,309	\$5,127,448	\$5,903,906
Add: Acquisitions	182,950	—	—
Add: Improvements	34,511	52,936	91,129
Less: Sale of hotel properties	(269,362)	(6,075)	(854,087)
Less: Impairment losses	(144,845)	—	(13,500)
Balance at end of period	<u>\$4,977,563</u>	<u>\$5,174,309</u>	<u>\$5,127,448</u>

The change in the accumulated depreciation of the real estate assets is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Reconciliation of Accumulated Depreciation			
Balance at beginning of period	\$(827,808)	\$(706,040)	\$(759,643)
Add: Depreciation for the period	(126,759)	(125,494)	(131,442)
Less: Sale of hotel properties	83,826	3,726	185,045
Balance at end of period	<u>\$(870,741)</u>	<u>\$(827,808)</u>	<u>\$(706,040)</u>

EXECUTIVE OFFICERS

ROBERT L. JOHNSON

Executive Chairman

LESLIE D. HALE

President and
Chief Executive Officer

SEAN M. MAHONEY

Executive Vice President and
Chief Financial Officer

BOARD OF TRUSTEES

ROBERT L. JOHNSON

Executive Chairman of the Board
RLJ Lodging Trust

LESLIE D. HALE

President and
Chief Executive Officer
RLJ Lodging Trust

SENATOR EVAN BAYH

Senior Advisor
Apollo Global Management
Former U.S. Senator and Governor
State of Indiana

ARTHUR R. COLLINS

Managing Partner
theGROUP

NATHANIEL A. DAVIS

Executive Chairman
Stride, Inc.

PATRICIA L. GIBSON

Co-Founder and
Chief Executive Officer
Banner Oak Capital Partners

ROBERT M. LA FORGIA

Founder, Principal
and Chief Executive Officer
Apertor Hospitality, LLC

ROBERT J. MCCARTHY

Chairman
Hotel Development Partners
Chairman
McCarthy Investments, LLC

GLENDA G. MCNEAL

President, Enterprise Strategic
Partnerships
American Express Company

ROBIN ZEIGLER

Senior Executive Vice President &
Chief Operating Officer
Cedar Realty Trust

COMPANY INFORMATION

CORPORATE ADDRESS

RLJ Lodging Trust
3 Bethesda Metro Center
Suite 1000
Bethesda, MD 20814
(301) 280-7777
(301) 280-7750 (fax)

Visit our website at:
www.rljlodgingtrust.com

INDEPENDENT AUDITORS

PricewaterhouseCoopers, LLP
McLean, Virginia

LEGAL COUNSEL

Hogan Lovells US LLP
Washington, DC

TRANSFER AGENT

EQ Shareowner Services
1110 Centre Pointe Curve
Suite 101
Mendota Heights, MN 55120
(800) 468-9716 or for outside
the U.S. (651) 450-4064

SEC FORM 10-K AND OTHER INFORMATION

Requests for additional copies of the
Company's 2021 Annual Report on
Form 10-K, charters of the board
committees, code of ethics and
corporate governance guidelines are
made available on our website or in
print (which will be provided free of
charge) by sending requests to:

RLJ Lodging Trust
Investor Relations Department
3 Bethesda Metro Center, Suite 1000
Bethesda, MD 20814

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders
will be held on Friday, April 29th at
12:30 pm Eastern Time in a virtual
format through a live webcast.

STOCK LISTING

RLJ Lodging Trust is traded on the
New York Stock Exchange under
the symbol RLJ.

DIVIDENDS

The Company declared cash
dividends of \$0.04 on its common
stock in 2021.

RLJ | Lodging Trust

3 BETHESDA METRO CENTER, SUITE 1000, BETHESDA, MD 20814
RLJLODGINGTRUST.COM