BURKART PHILIP A
Form 4
December 05, 2002

1. Name and Address of Reporting Person
   Burkart, Philip A.
   8111 Lyndale Avenue South
   Bloomington, MN 55420-1196
   USA
2. Issuer Name and Ticker or Trading Symbol
   The Toro Company (TTC)
3. IRS or Social Security Number of Reporting Person (Voluntary)
4. Statement for Month/Day/Year
   12/06/2002
5. If Amendment, Date of Original (Month/Day/Year)
6. Relationship of Reporting Person(s) to Issuer (Check all applicable)
   ( ) Director ( ) 10% Owner
   (X) Officer (give title below) ( ) Other (specify below)
   Vice President, General Mgr. I
7. Individual or Joint/Group Filing (Check Applicable Line)
   (X) Form filed by One Reporting Person
   ( ) Form filed by More than One Reporting Person

TABLE I -- Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security	2. Trans-action Date (Month/ Day/ Year)	2A. Execu-action Date (Month/ Day/ Year)	3. Trans-action Code		4. Securities Acquired (A) or Disposed of (D)			5. Amo Securi Benefi Owned Follow Report Transa
			Code	V	Amount	A/D	Price	
Common Stock	12/04/2002		A		1737	A	$0.0000	
Common Stock	12/04/2002		F		-577	D	$64.5500	2327
Common Stock								1473.4
Common Stock								3106.1

TABLE II -- Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Derivative Security	2. Conver-sion or Exercise Price of Deriv-ative Security	3. Trans-action Date (Month/ Day/ Year)	3A. Execu-tion Date (Month/ Day/ Year)	4. Transac-tion Code		5. Number of Derivative Securities Acquired(A) Disposed(D)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities	
				Code	V	(A)	(D)	Date Exer-cisable	Expira-tion Date	Title	Amount or Number of Shares

```
+----------+--------+-------+-------+------+--+-----+-----+----------+----------+-------+--------

Stock       $64.55   12/04/2         A        4500       12/04/2002 12/04/2012 Common  4500
Option               002                                                       Stock
```

Explanation of Responses:

SIGNATURE OF REPORTING PERSON
/s/ N. Jeanne Ryan

DATE
12/05/2002

l-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;">

(1,825
)

—

—

—

—

Gain on litigation settlement, net

(10,999
)

—

—

—

—

Total operating expenses

735,395

724,530

698,433

562,206

478,782

Operating income

137,467

75,158

28,454

37,877

24,831

Interest income

(3,027
)

(6,328
)

(305
)

(612
)

(781
)

Interest expense

58,278

57,279

53,771

45,406

35,425

Other income, net

—

—

—

—

—

Gain on prepayment of note receivable

(13,550
)

—

—

—

—

Gain on sale of hotel properties

(50,969
)

—

—

—

—

Gain on hotel property acquisition

(23,894
)

—

—

—

—

Loss (gain) on early extinguishment of debt

1,616

1,492

(144
)

—

—

Income (loss) from continuing operations before income taxes

169,013

22,715

(24,868
)

(6,917
)

(9,813

)
Income tax (expense) benefit

(5,636
)

1,113

6,793

(2,521
)

(674
)
Income (loss) from continuing operations

163,377

23,828

(18,075
)

(9,438
)

(10,487
)
Income from discontinued operations

—

25,237

1,483

1,760

1,315

Net income (loss)

$
163,377

$
49,065

$
(16,592
)

$
(7,678
)

$
(9,172
)

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	Year Ended December 31, 2014	2013	2012	2011	2010
	(in thousands, except for per share data)				
Earnings (loss) per share:					
Continuing operations	$0.83	$0.12	$(0.10)	$(0.06)	$(0.07)
Discontinued operations	—	0.13	0.01	0.01	0.01
Basic and diluted earnings (loss) per share	$0.83	$0.25	$(0.09)	$(0.05)	$(0.06)
Other data:					
Dividends declared per common share	$0.41	$0.34	$0.32	$0.32	$—
FFO (2)	$212,058	$131,987	$120,961	$91,546	$79,292
Adjusted FFO (2)	$171,507	$139,301	$140,163	$103,643	$90,297
EBITDA (3)	$326,941	$211,983	$134,928	$149,676	$127,458
Adjusted EBITDA (3)	$235,776	$196,862	$189,714	$162,146	$138,463

	As of December 31, 2014	2013	2012	2011	2010
	(in thousands)				
Balance sheet data:					
Property and equipment, net	$2,764,393	$2,567,533	$2,611,454	$2,234,504	$2,071,603
Cash and cash equivalents	144,365	144,584	9,623	26,291	84,201
Total assets	3,158,351	3,047,772	2,944,042	2,798,635	2,414,609
Total debt	1,038,330	1,091,861	988,731	1,042,933	780,880
Total other liabilities	291,034	275,220	260,198	253,545	220,212
Stockholders' equity	1,828,987	1,680,691	1,695,113	1,502,157	1,413,517

(1) Corporate expenses for the year ended December 31, 2014 include reimbursement of $1.8 million of previously incurred legal fees and other costs from the proceeds of the Westin Boston Waterfront litigation settlement in 2014. Corporate expenses for the year ended December 31, 2013 include approximately $3.1 million of costs related to the departure of our former President and Chief Operating Officer. Corporate expenses for the year ended December 31, 2012 and 2011 include legal fees of approximately $2.5 million and $2.3 million, respectively, related to the Allerton bankruptcy proceedings. Corporate expenses for the year ended December 31, 2011 include an accrual of $1.7 million for the settlement of the Los Angeles Airport Marriott litigation.

(2) See "Non-GAAP Financial Measures" below in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a detailed description of FFO and Adjusted FFO and a discussion of why we believe that they are useful supplemental measures of our operating performance.

(3) See "Non-GAAP Financial Measures" below in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a detailed description of EBITDA and Adjusted EBITDA and why we believe that they are useful supplemental measures of our operating performance.

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

The following discussion should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this report. This discussion contains forward-looking statements about our business. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Special Note About Forward-Looking Statements" and "Risk Factors" contained in this Annual Report on Form 10-K and in our other reports that we file from time to time with the SEC.

Overview

DiamondRock Hospitality Company is a lodging-focused Maryland corporation operating as a real estate investment trust (REIT). As of December 31, 2014, we owned a portfolio of 27 premium hotels and resorts that contain 10,552 guest rooms.

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Subsequent to December 31, 2014, we acquired an additional 157-room hotel. As an owner, rather than an operator, of lodging properties, we receive all of the operating profits or losses generated by our hotels after the payment of fees due to hotel managers, which are calculated based on the revenues and profitability of each hotel.

Our vision is to be the premier allocator of capital in the lodging industry. Our mission is to deliver long-term stockholder returns through a combination of dividends and enduring capital appreciation. Our strategy is to utilize disciplined capital allocation and focus on the acquisition, ownership and innovative asset management of high-quality lodging properties in North American markets with superior growth prospects and high barriers-to-entry. In addition, we are committed to maintaining a strong asset management discipline that focuses on maximizing returns through appropriate revenue management strategies, cost containment plans and capital improvements. We do all this while maintaining low leverage and balance sheet flexibility.

Our portfolio is concentrated in key gateway cities and destination resort locations. Each of our hotels is managed by a third party and a substantial number of our hotels are operated under a brand owned by one of the leading global lodging brand companies (Marriott International, Inc. (“Marriott”), Starwood Hotels & Resorts Worldwide, Inc. (“Starwood”) and Hilton Worldwide (“Hilton”)).

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

High-Quality Urban- and Destination Resort-Focused Branded Hotel Real Estate

As of December 31, 2014, we owned 27 premium hotels and resorts throughout North America and the U.S. Virgin Islands. Our hotels and resorts are primarily categorized as upper upscale as defined by Smith Travel Research and are generally located in high barrier-to-entry markets with multiple demand generators. Our properties are concentrated in key gateway cities and in resort destinations. We consider lodging properties located in gateway cities and resort destinations to be the most capable of creating dynamic cash flow growth and achieving superior long-term capital appreciation.

We have been executing on our strategy to enhance our hotel portfolio by actively recycling capital from non-core hotels located in slower growth markets to higher quality hotels located primarily in high-growth urban and destination resort markets. Since 2010, we have repositioned our portfolio through the acquisition of approximately $1.6 billion of urban and resort hotels that align with our strategic goals while disposing of more than $0.6 billion in non-core hotels. These acquisitions increased our urban exposure with additional hotels in cities such as San Diego, San Francisco, Boston, Denver, Washington, D.C. as well as our resort exposure with our recent acquisitions in Key West and Fort Lauderdale, Florida. Over 90% of our portfolio EBITDA as of December 31, 2014 is currently derived from core urban and resort hotels. Our capital recycling program over the past five years also achieved several other important strategic portfolio goals that include improving our portfolio’s geographic and brand diversity and striving towards a mix of 50 percent brand-managed and 50 percent third-party managed hotels in our portfolio.

Moreover, the primary focus of our acquisitions over the past five years was on hotels that we believe presented unique value-add opportunities, such as repositioning through a change in brand or comprehensive renovation or changing the third-party hotel manager to a more efficient operator. For example, we recently completed a $140 million capital expenditure program, which included major capital investments at the Lexington Hotel New York, Courtyard Manhattan/Fifth Avenue, Courtyard Manhattan/Midtown East, Westin Washington, D.C. City Center, Westin San Diego, Hilton Boston Downtown and Hilton Minneapolis.

We evaluate each hotel in our portfolio to assess the optimal branding strategy for the individual hotel and market. We leverage the leading global hotel brands at most of our hotels, which are flagged under a brand owned by Marriott, Hilton or Starwood. We also maintain a small portion of our hotels as independent non-branded hotels. We believe that premier global hotel brands create significant value as a result of each brand's ability to produce incremental revenue through their strong reservation and rewards systems and sales organizations with the result being that branded hotels are able to generate greater profits than similar unbranded hotels. We are also interested in owning other non-branded hotels located in premier or unique markets where we believe that the returns on such a hotel may be higher than if the hotel were operated under a globally-recognized brand.

During 2015, we expect to evaluate opportunities to acquire hotels located in urban and destination resort markets, with an emphasis on prime markets on the West Coast and South Florida, as well as other select destination resort markets. Despite our conviction that there are several more years of industry growth ahead, we believe that it is prudent to avoid acquisitions that require significant capital investment or deep and lengthy turnarounds. We also prefer to target moderately sized investments of $50

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million to $150 million rather than larger acquisition investments. Finally, we are highly sensitive to our cost of capital and expect to pursue acquisitions that create value in the near term. We also expect to continue to evaluate the disposition of non-core hotels, as we are currently observing robust demand for such assets. We will continue to evaluate our portfolio for opportunities to take advantage of the robust demand in order to continue to upgrade our portfolio by disposing of non-core hotels.

Innovative Asset Management

We believe that we can create significant value in our portfolio through innovative asset management strategies such as rebranding, renovating and repositioning and we engage in a process of regular evaluations of our portfolio in order to determine if there are opportunities to employ these value-add strategies.

Our asset management team is focused on improving hotel profit margins through revenue management strategies and cost control programs. Our asset management team also focuses on identifying new and potential value creation opportunities across our portfolio, including implementing resort fees, creating incremental guest rooms, leasing out restaurants to more profitable third-party operators, converting unused space to revenue-generating meeting space and implementing programs to reduce energy consumption.

Our senior management team has established a broad network of hotel industry contacts and relationships, including relationships with hotel owners, financiers, operators, project managers and contractors and other key industry participants. We use our broad network of hotel industry contacts and relationships to maximize the value of our hotels. Under the federal income tax rules governing REITs, we are required to engage a hotel manager that is an eligible independent contractor to manage each of our hotels pursuant to a management agreement with one of our subsidiaries. We strive to negotiate management agreements that give us the right to exert influence over the management of our properties, annual budgets and all capital expenditures (all, to the extent permitted under the REIT rules), and then to use those rights to continually monitor and improve the performance of our properties. We cooperatively partner with our hotel managers in an attempt to increase operating results and long-term asset values at our hotels. In addition to working directly with the personnel at our hotels, our senior management team also has long-standing professional relationships with our hotel managers' senior executives, and we work directly with these senior executives to improve the performance of the hotels in our portfolio that they manage.

Conservative Capital Structure

We believe that a conservative capital structure maximizes investment capacity while reducing enterprise risk. We currently employ a low-risk and straight-forward capital structure with no corporate level debt, preferred equity or convertible bonds. Moreover, as of December 31, 2014, we have significant balance sheet flexibility with existing corporate cash, no outstanding borrowings under our $200 million senior unsecured credit facility, and over half of our hotels are unencumbered by mortgage debt. We believe it is imprudent to increase the inherent risk of highly cyclical lodging fundamentals through the use of a highly leveraged capital structure.

We believe that our strategically designed capital structure is a value creation tool that can be used over the entire lodging cycle. Specifically, we believe that lower leverage benefits us in the following ways:

- provides capacity to fund attractive acquisitions;

- provides optionality to fund acquisitions with the most efficient funding source;

- enhances our ability to maintain a sustainable dividend;
- enables us to opportunistically repurchase shares during periods of stock price dislocation; and
- provides capacity to fund late-cycle capital needs.

Our current outstanding debt consists of property-specific mortgage debt, with the majority of our mortgage debt bearing interest at a fixed rate. We prefer that approximately half of our portfolio remain unencumbered by debt in order to provide maximum balance sheet flexibility. In addition, to the extent that we incur additional debt, our preference is non-recourse secured mortgage debt. We expect that our strategy will enable us to maintain a balance sheet with an appropriate amount of debt throughout all phases of the lodging cycle.

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We have significant mortgage debt maturities in 2015 (approximately $145 million, excluding regularly scheduled principal payments prior to maturity) and 2016 (approximately $305 million, excluding regularly scheduled principal payments prior to maturity). We anticipate addressing these maturities, as well as other capital needs, with a combination of the following:

- refinancing proceeds on existing encumbered hotels;
- proceeds from new mortgage loans on existing unencumbered hotels;
- proceeds from the disposition of non-core hotels;
- existing cash balances;
- capacity under our $200 million senior unsecured credit facility; and
- annual cash flow from operations.

We prefer a relatively simple but efficient capital structure. We have not invested in joint ventures and have not issued any operating partnership units or preferred stock. We structure our hotel acquisitions to be straightforward and to fit within our conservative capital structure; however, we will consider a more complex transaction if we believe that the projected returns to our stockholders will significantly exceed the returns that would otherwise be available.

Key Indicators of Financial Condition and Operating Performance

We use a variety of operating and other information to evaluate the financial condition and operating performance of our business. These key indicators include financial information that is prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), as well as other financial information that is not prepared in accordance with GAAP. In addition, we use other information that may not be financial in nature, including statistical information and comparative data. We use this information to measure the performance of individual hotels, groups of hotels and/or our business as a whole. We periodically compare historical information to our internal budgets as well as industry-wide information. These key indicators include:

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

Occupancy, ADR and RevPAR are commonly used measures within the hotel industry to evaluate operating performance. RevPAR, which is calculated as the product of ADR and occupancy percentage, is an important statistic for monitoring operating performance at the individual hotel level and across our business as a whole. We evaluate individual hotel RevPAR performance on an absolute basis with comparisons to budget and prior periods, as well as on a company-wide and regional basis. ADR and RevPAR include only room revenue. Room revenue comprised approximately 72% of total revenues for the year ended December 31, 2014 and is dictated by demand, as measured by occupancy percentage, pricing, as measured by ADR, and our available supply of hotel rooms.

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

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

Overview of 2014

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The U.S. lodging industry exceeded prior historical peak levels of occupancy during 2014, and new hotel supply remained below the historical average. We entered 2014 with three major strategic goals: (1) execute on asset management initiatives to maximize hotel operating results, (2) actively recycle capital to further upgrade our portfolio through acquisitions and dispositions, and (3) opportunistically take advantage of the interest rate environment to lower borrowing costs. The Company was successful in achieving all three of these goals. Key highlights for 2014 include the following:

Hotel Acquisitions. On August 15, 2014, we acquired the 106-room Inn at Key West in Key West, Florida, for a contractual purchase price of $47.5 million. On August 29, 2014, we acquired the 282-room Hilton Garden Inn Times Square in New York for a contractual purchase price of $127.2 million. On December 3, 2014, we acquired the 432-room Westin Fort Lauderdale Beach Resort in Fort Lauderdale, Florida, for a contractual purchase price of $149.0 million.

Non-Core Hotel Dispositions. On April 14, 2014, we sold the 386-room Oak Brook Hills Resort for $30.1 million, including $4.0 million of seller financing. On December 18, 2014, we sold the 1,004-room Los Angeles Airport Marriott for proceeds of approximately $160 million, which included credit for the hotel's capital replacement reserve. In conjunction with the sale, we prepaid the existing $82.6 million mortgage loan secured by the hotel and incurred approximately $1.6 million of defeasance costs.

Hotel Refinancings. On July 18, 2014, we entered into a new $86.0 million mortgage loan secured by the Courtyard Manhattan/Midtown East. The new loan matures in 2024 and bears interest at a fixed rate of 4.40%. The new loan is interest-only for the first two years after which principal will amortize over 30 years. The hotel was previously encumbered by a $41.3 million mortgage loan bearing interest at a fixed rate of 8.81%, which was prepaid in full on July 1, 2014. On October 8, 2014, we amended our existing $170.4 million mortgage loan secured by the Lexington Hotel New York. The amendment reduces the variable-rate loan's interest rate spread and extends the term of the loan by approximately 30 months to October 2017.

Allerton Loan. On May 21, 2014, the owner of the Allerton Hotel prepaid to us at par the outstanding $58.5 million senior mortgage loan secured by the Allerton Hotel.

Public Equity Offering. In November 2014, we commenced a $200 million “at-the-market” equity offering program (the “ATM program”). As of December 31, 2014, we sold 4,217,560 shares of our common stock at an average price of $15.12 for net proceeds of $63.1 million. Subsequent to December 31, 2014 and up to the date of this report, we sold 524,606 shares of our common stock at an average price of $15.18 for net proceeds of $7.9 million.

Recent Developments

On February 6, 2015, we acquired the 157-room Shorebreak Hotel located in Huntington Beach, California for a contractual purchase price of $58.5 million.

Outlook for 2015

The 2015 outlook for the U.S. economy and lodging fundamentals is optimistic. During 2014 U.S. GDP growth accelerated and is expected to achieve continued growth in 2015 and 2016. Significant contributing factors include robust job growth, lower U.S. unemployment, improvements in the housing market, low inflation expectations, rising consumer confidence and decreasing global oil prices. The lodging industry is expected to continue to benefit from an advantageous supply / demand imbalance. Specifically, during 2015 we expect the continuation of robust hotel demand, which is currently above prior peak levels, and new hotel supply during 2015 to be below the long-term average.

In addition to encouraging industry trends we enter 2015 with several favorable factors, including:

- Owning a high-quality portfolio concentrated in urban and resort locations;
- Increased internal growth from the continuation of our asset management initiatives and the recent portfolio renovations;
- Investment capacity for accretive acquisitions and capital recycling; and
- A low leveraged capital structure.

Results of Operations

The following table sets forth certain operating information for the year ended December 31, 2014 for each of the hotels we owned during 2014.

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Property	Location	Number of Rooms	Occupancy (%)		ADR($)	RevPAR($)	% Change from 2013 RevPAR (1)	
Chicago Marriott	Chicago, Illinois	1,198	75.0	%	$209.77	$ 157.30	0.3	%
Los Angeles Airport Marriott (2)	Los Angeles, California	1,004	89.1	%	131.39	117.05	18.6	%
Hilton Minneapolis	Minneapolis, Minnesota	821	73.6	%	146.15	107.56	2.2	%
Westin Boston Waterfront Hotel	Boston, Massachusetts	793	75.3	%	231.05	174.09	12.6	%
Lexington Hotel New York	New York, New York	725	92.3	%	246.72	227.67	62.3	%
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	68.5	%	146.54	100.44	5.2	%
Renaissance Worthington	Fort Worth, Texas	504	68.3	%	176.19	120.35	7.7	%
Frenchman's Reef & Morning Star Marriott Beach Resort	St. Thomas, U.S. Virgin Islands	502	84.8	%	242.12	205.28	4.3	%
Orlando Airport Marriott	Orlando, Florida	485	78.7	%	106.86	84.09	11.6	%
Westin San Diego	San Diego, California	436	82.8	%	166.12	137.62	8.4	%
Westin Fort Lauderdale Beach Resort (3)	Fort Lauderdale, Florida	432	90.6	%	189.18	171.39	25.4	%
Westin Washington, D.C. City Center	Washington, D.C.	406	74.0	%	208.35	154.18	9.2	%
Oak Brook Hills Resort Chicago (4)	Oak Brook, Illinois	386	25.1	%	101.88	25.57	(51.3	)%
Hilton Boston Downtown	Boston, Massachusetts	362	87.6	%	257.70	225.75	23.9	%
Vail Marriott Mountain Resort & Spa	Vail, Colorado	344	65.2	%	251.62	164.10	(0.7	)%
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	71.2	%	162.70	115.77	5.9	%
Courtyard Manhattan/Midtown East	New York, New York	317	91.2	%	284.04	259.12	14.2	%
Conrad Chicago	Chicago, Illinois	312	83.4	%	226.27	188.77	6.3	%
Hilton Garden Inn New York City/Times Square Central (5)	New York, New York							