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**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

For the quarterly period ended June 30, 2001 Commission file number 001-11975

**Boykin Lodging Company**
(Exact Name of Registrant as Specified in Its Charter)

| Ohio | 34-1824586 |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| Guildhall Building, Suite 1500,<br>45 W. Prospect Avenue<br>Cleveland, Ohio | 44115 |
| (Address of Principal Executive Office) | (Zip Code) |

(216) 430-1200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports 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 __X__ No _____

The number of common shares, without par value, outstanding as of August 10, 2001: 17,177,240

## PART I

## ITEM 1. FINANCIAL STATEMENTS

# BOYKIN LODGING COMPANY
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## BOYKIN LODGING COMPANY
## CONSOLIDATED BALANCE SHEETS
## AS OF JUNE 30, 2001 AND DECEMBER 31, 2000
## (dollar amounts in thousands)

| | (Unaudited) June 30, 2001 | December 31, 2000 |
|---|---|---|
| **ASSETS** | | |
| Investment in hotel properties, net | $552,824 | $565,224 |
| Cash and cash equivalents | 2,873 | 4,175 |
| Rent receivable from lessees: | | |
| Related party lessees | 6,499 | 4,632 |
| Third party lessees | 1,335 | 652 |
| Deferred expenses, net | 5,123 | 6,200 |
| Restricted cash | 7,647 | 7,034 |
| Investment in unconsolidated joint ventures | 11,035 | 10,291 |
| Other assets | 3,619 | 2,385 |
| | $590,955 | $600,593 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Borrowings against credit facility | $ 24,000 | $ 29,500 |
| Term notes payable | 280,961 | 281,940 |
| Accounts payable and accrued expenses | 12,860 | 9,533 |
| Dividends/distributions payable | 6,814 | 6,791 |
| Deferred lease revenue | 7,825 | — |
| Due to lessees: | | |
| Related party lessees | 1,829 | 2,056 |
| Third party lessees | 576 | 757 |
| Minority interest in joint ventures | 7,343 | 8,071 |
| Minority interest in operating partnership | 7,630 | 8,679 |
| SHAREHOLDERS' EQUITY: | | |
| Preferred shares, without par value; 10,000,000 shares authorized; no shares issued and outstanding | — | — |
| Common shares, without par value; 40,000,000 shares authorized; 17,173,720 and 17,146,938 shares outstanding at June 30, 2001 and December 31, 2000, respectively | — | — |
| Additional paid-in capital | 312,069 | 311,493 |
| Distributions in excess of income | (68,571) | (56,593) |
| Other comprehensive loss | (591) | — |
| Unearned compensation – restricted shares | (1,790) | (1,634) |
| Total shareholders' equity | 241,117 | 253,266 |
| | $590,955 | $600,593 |

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

**BOYKIN LODGING COMPANY**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000**
**(unaudited, amounts in thousands except for per share data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Revenues: | | | | |
| Lease revenue from related party | $13,570 | $13,701 | $26,075 | $26,232 |
| Other lease revenue | 2,768 | 3,285 | 6,500 | 7,171 |
| Revenues related to hotel operations | 1,987 | 2,006 | 3,425 | 3,264 |
| Interest and other income | 305 | 183 | 950 | 346 |
| | 18,630 | 19,175 | 36,950 | 37,013 |
| Expenses: | | | | |
| Real estate related depreciation and amortization | 7,028 | 7,423 | 14,056 | 15,208 |
| Real estate and personal property taxes, insurance and ground rent | 2,781 | 2,608 | 5,506 | 5,275 |
| General and administrative | 1,495 | 1,339 | 2,933 | 2,894 |
| Expenses related to hotel operations | 1,390 | 1,471 | 2,626 | 2,497 |
| Interest expense | 5,493 | 5,816 | 11,315 | 11,401 |
| Amortization of deferred financing costs | 301 | 267 | 601 | 534 |
| Gain on property insurance recovery | — | — | — | (407) |
| | 18,488 | 18,924 | 37,037 | 37,402 |
| Equity income (loss) of unconsolidated joint ventures | 618 | 37 | 444 | (78) |
| Income (loss) before gain on sale of assets, minority interest and one-time effect of change in accounting principle | 760 | 288 | 357 | (467) |
| Gain on sale of assets | — | — | 240 | — |
| Minority interest in joint ventures | 428 | (113) | 408 | (198) |
| Minority interest in operating partnership | (16) | 63 | 75 | 206 |
| Income (loss) before one-time effect of change in accounting principle | 1,172 | 238 | 1,080 | (459) |
| One-time effect of change in accounting principle | — | — | (373) | — |
| Net income (loss) applicable to common shares | $ 1,172 | $ 238 | $ 707 | $ (459) |
| Comprehensive income (loss) | $ 1,007 | $ 238 | $ 116 | $ (459) |
| Earnings per share: | | | | |
| Basic | $ .07 | $ .01 | $ .04 | $ (.03) |
| Diluted | $ .07 | $ .01 | $ .04 | $ (.03) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 17,171 | 17,135 | 17,166 | 17,131 |
| Diluted | 17,234 | 17,318 | 17,217 | 17,310 |

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

## BOYKIN LODGING COMPANY
## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
## FOR THE SIX MONTHS ENDED JUNE 30, 2001
## (unaudited, dollar amounts in thousands)

| | Common Shares | Additional Paid-In Capital | Distributions in Excess of Income | Other Comprehensive Loss | Unearned Compensation | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2000 | 17,146,938 | $311,493 | $(56,593) | $ — | $(1,634) | $253,266 |
| Issuance of common shares | 26,782 | 576 | — | — | (449) | 127 |
| Dividends declared - $.365 per common share | — | — | (12,685) | — | — | (12,685) |
| Change in fair market value of interest rate swap | — | — | — | (591) | — | (591) |
| Amortization of unearned compensation | — | — | — | — | 293 | 293 |
| Net income | — | — | 707 | — | — | 707 |
| Balance, June 30, 2001 | 17,173,720 | $312,069 | $(68,571) | $(591) | $(1,790) | $241,117 |

The accompanying notes to consolidated financial statements are an integral part of this statement.

# BOYKIN LODGING COMPANY
# CONSOLIDATED STATEMENTS OF CASH FLOWS
# FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000
# (unaudited, amounts in thousands)

| | 2001 | 2000 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 707 | $ (459) |
| Adjustments to reconcile net income to net cash flow provided by operating activities - | | |
| Gain on property insurance recovery | — | (407) |
| Gain on sale of assets | (240) | — |
| One-time effect of change in accounting principle | 373 | — |
| Depreciation and amortization | 14,657 | 15,742 |
| Amortization of unearned compensation | 293 | 228 |
| Equity (income) loss of unconsolidated joint ventures | (444) | 78 |
| Deferred rent | 7,825 | 10,120 |
| Minority interests | (483) | (8) |
| Changes in assets and liabilities - | | |
| Rent receivable | (2,550) | (5,342) |
| Restricted cash | (613) | (691) |
| Other assets | (1,208) | (1,192) |
| Accounts payable and accrued expenses | 2,736 | 853 |
| Due to lessees | (2,008) | 177 |
| Net cash flow provided by operating activities | 19,045 | 19,099 |
| Cash flows from investing activities: | | |
| Investment in unconsolidated joint ventures | (479) | — |
| Improvements and additions to hotel properties | (12,127) | (9,815) |
| Net proceeds from sale of asset | 12,374 | — |
| Net proceeds from property insurance recovery | — | 1,186 |
| Net cash flow used for investing activities | (232) | (8,629) |
| Cash flows from financing activities: | | |
| Payments of dividends and distributions | (13,604) | (17,428) |
| Net (repayments) borrowings against credit facility | (5,500) | 7,000 |
| Repayment of term note payable | (979) | (138) |
| Payments of deferred financing costs | — | (123) |
| Net proceeds from issuance of common shares | 127 | 146 |
| Distributions to joint venture minority interest partners, net | (320) | (92) |
| Distributions received from unconsolidated joint ventures | 161 | 87 |
| Net cash flow used for financing activities | (20,115) | (10,548) |
| Net change in cash and cash equivalents | (1,302) | (78) |
| Cash and cash equivalents, beginning of period | 4,175 | 3,971 |
| Cash and cash equivalents, end of period | $ 2,873 | $ 3,893 |

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

**BOYKIN LODGING COMPANY**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**JUNE 30, 2001**
**(dollar amounts in thousands except per share data)**

## 1. BACKGROUND:

Boykin Lodging Company is a real estate investment trust that owns hotels throughout the United States and leases its properties to established hotel operators. As of June 30, 2001, Boykin owned interests in 32 hotels containing a total of 9,030 guest rooms located in 19 states.

Boykin's principal source of revenue is lease payments from lessees pursuant to percentage lease agreements. Percentage lease revenue is based upon the room, food and beverage and other revenues of Boykin's hotels. The lessees' ability to make payments to Boykin pursuant to the percentage leases is dependent primarily upon the operations of the hotels. As of June 30, 2001, Boykin Management Company Limited Liability Company ("BMC") and certain of its subsidiaries leased and/or managed 27 of the 32 hotels in which Boykin has ownership interests. Since a significant portion of Boykin's revenue is received from BMC and its subsidiaries, the financial statements and footnotes of BMC and its subsidiaries, contained within this Form 10-Q should be read in conjunction with Boykin's financial statements and footnotes.

*Formation and Significant Events*

In November 1996, Boykin completed its initial public offering ("IPO"), and through Boykin Hotel Properties, L.P., an Ohio limited partnership (the "Partnership"), acquired nine hotel properties and leased them to BMC. BMC is indirectly owned by Robert W. Boykin, Chairman and Chief Executive Officer of Boykin Lodging Company (53.8%), and his brother, John E. Boykin (46.2%).

Since the IPO, Boykin has acquired 25 hotels by raising capital through a combination of common share issuances, various debt financings, capital from strategic joint venture partners and cash flow generated from operations. Boykin has also disposed of two hotels via exchange and sale. In 1998, Boykin raised net proceeds of approximately $106.3 million in a follow-on public equity offering of 4.5 million common shares. In the same year, Boykin acquired Red Lion Inns Operating L.P. ("OLP"), which owns a portfolio of ten Doubletree-licensed hotels, through a merger with Red Lion Inns Limited Partnership valued at $271.3 million. In the transaction, Boykin issued 3.1 million common shares, paid $35.3 million in cash to the Red Lion partners and assumed liabilities of approximately $155.7 million.

*Consolidated Joint Ventures*

Boykin currently has strategic alliances with three hotel operators and owns four hotels with them through joint venture structures. The following table sets forth the joint ventures established with these hotel operators:

| Name of Joint Venture | Lessee/JV Partner | Boykin Ownership Percentage | Lessee/JV Ownership Percentage | Hotel Owned Under Joint Venture | Date of Hotel Purchase |
|---|---|---|---|---|---|
| BoyStar Ventures, L.P. | MeriStar | 91% | 9% | Holiday Inn Minneapolis West | July 1997 |
| Shawan Road Hotel L.P. | Davidson | 91% | 9% | Marriott's Hunt Valley Inn | July 1997 |
| Boykin San Diego LLC | Outrigger | 91% | 9% | Hampton Inn San Diego Airport/Sea World | November 1997 |
| Boykin Kansas City LLC | MeriStar | 80% | 20% | Doubletree Kansas City | November 1997 |

*Unconsolidated Joint Ventures*

In February 1999, Boykin formed a joint venture with AEW Partners III, L.P. ("AEW"), an investment partnership managed by AEW Capital Management, L.P., a Boston-based real estate investment firm. Boykin has a 25% ownership interest in the joint venture. In August 1999, the Boykin/AEW venture formed and acquired a 75% ownership interest in Boykin Chicago, LLC, which purchased a hotel in downtown Chicago with a private investor. In 2000, Boykin purchased the 25% ownership interest in Boykin Chicago, LLC from the private investor for $6.3 million, thereby increasing Boykin's total ownership percentage in the hotel from 18.75% to 43.75%.

Because of the non-controlling nature of Boykin's ownership interests in these joint ventures, Boykin accounts for these investments using the equity method.

*Basis of Presentation*

The separate financial statements of Boykin, the Partnership, OLP and the consolidated joint ventures discussed above are consolidated because Boykin exercises unilateral control over these entities. All significant intercompany transactions and balances have been eliminated.

These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in Boykin's annual report on Form 10-K for the year ended December 31, 2000.

**2. NET INCOME PER SHARE/PARTNERSHIP UNITS OUTSTANDING:**

Boykin's basic and diluted earnings per share for the three and six months ended June 30, 2001 and 2000 under Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share" are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| Basic earnings per common share | $ 0.07 | $ 0.01 | $ 0.04 | $(0.03) |
| Diluted earnings per common share | $ 0.07 | $ 0.01 | $ 0.04 | $(0.03) |

Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share adjusts the weighted average shares outstanding for the effect of all dilutive securities. At June 30, 2001 and 2000, there were a total of 1,291,114 basic and diluted limited partnership units issued and outstanding. For the three and six months ended June 30, 2001 and 2000, the weighted average basic and diluted common shares and partnership units outstanding was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| Common shares and limited partnership units: | | | | |
| Basic | 18,462,086 | 18,426,021 | 18,457,318 | 18,422,527 |
| Diluted | 18,525,384 | 18,609,272 | 18,508,182 | 18,600,685 |

**3. INTERCOMPANY CONVERTIBLE NOTE:**

At the time of the IPO, Boykin loaned $40,000 to the Partnership in exchange for an intercompany convertible note that matures in November 2001. Interest on the note accrues at a rate equal to 9.75% and is payable quarterly. The note may be prepaid in full, but not in part, at any time. Boykin has the right to convert the note, prior to maturity and in advance of any proposed prepayment by the Partnership, into additional equity interests in the Partnership at face value based on the $20 per share IPO price of Boykin's common shares. The note is secured by mortgages on certain hotel properties.

**4. CREDIT FACILITY:**

Boykin has a secured credit facility with a group of banks which enables it to borrow up to $100,000, subject to borrowing base and loan-to-value limitations, at a rate that fluctuates at LIBOR plus 2.25% to 2.75% (7.2% as of June 30, 2001), as defined. Boykin is required to pay a .25% fee on the unused portion of the credit facility. The facility expires on July 11, 2003 and contains a one-year extension option. The credit facility is secured by eight hotel properties. Outstanding borrowings against the credit facility at June 30, 2001 and December 31, 2000 were $24,000 and $29,500, respectively.

The credit facility requires Boykin, among other things, to maintain a minimum net worth, a coverage ratio of EBITDA to debt service, and a coverage ratio of EBITDA to debt service and fixed charges. Further, Boykin is required to maintain the franchise agreement at each hotel and to maintain its REIT status. Boykin was in compliance with its covenants at June 30, 2001 and December 31, 2000.

**5. TERM NOTES PAYABLE:**

OLP has a $130,000 term loan agreement that expires in June 2023 and may be prepaid without penalty after May 21, 2008. The loan bears interest at a fixed rate of 6.9% for ten years, and at a new fixed rate to be determined thereafter. The loan is secured by ten Doubletree hotels and requires principal repayments based on a 25-year amortization schedule. Under covenants in the loan agreement, assets of OLP are not available to pay the creditors of any other Boykin entity, except to the extent of permitted cash distributions from OLP to Boykin. Likewise, the assets of other Boykin entities are not available to pay the creditors of OLP. The loan agreement also requires OLP to hold funds in escrow for the payment of capital expenditures, insurance and real estate taxes. The term note also requires OLP to maintain certain financial covenants. OLP was in compliance with these covenants at June 30, 2001 and December 31, 2000.

Boykin has a $45,000 term loan agreement that expires in October 2002, with two additional one-year extensions, subject to the satisfaction of certain financial covenants, as defined in the agreement. The loan is secured by three hotel properties and bears interest at a rate that fluctuates at LIBOR plus 2% (6.9% at June 30, 2001). The loan agreement requires Boykin, among other things, to maintain a minimum net worth, a coverage ratio of EBITDA to debt service and fixed charges, and to maintain a leverage ratio below a specified level. Boykin is required to maintain the franchise agreement at each hotel and to maintain its REIT status. Boykin was in compliance with its covenants at June 30, 2001 and December 31, 2000.

Boykin Holding, LLC ("BHC"), a wholly-owned subsidiary of the Partnership, has a $108,000 term loan agreement. The loan matures in July 2003 and contains two one-year extension options. The loan is secured by nine hotel properties and bears interest at a rate that fluctuates at LIBOR plus 2.35% (6.4% at June 30, 2001). Under covenants in the loan agreement, assets of BHC are not available to pay the creditors of any other Boykin entity, except to the extent of permitted cash distributions from BHC to Boykin. Likewise, the assets of other entities are not available to pay the creditors of BHC. The loan agreement also requires BHC to hold funds in escrow for the payment of capital expenditures, insurance and real estate taxes and requires BHC to maintain certain financial covenants. BHC was in compliance with its covenants at June 30, 2001 and December 31, 2000.

In March 2001, the Partnership entered into an interest rate swap, which fixes the overall interest rate at 7.32% on $83,000 of debt designated to BHC's $108,000 term note until July 2003. BHC also has interest rate protection on the remaining $25,000 to cap the overall loan interest rate at no more than 10.25%.

Maturities of long-term debt at June 30, 2001 are as follows:

| | |
|---|---|
| 2001 | $ 990 |
| 2002 | 47,111 |
| 2003 | 110,264 |
| 2004 | 2,402 |
| 2005 | 2,601 |
| 2006 and thereafter | 117,593 |
| | $280,961 |

## 6. PERCENTAGE LEASE AGREEMENTS:

The percentage leases have noncancelable remaining terms ranging from less than one year to seven years, subject to earlier termination on the occurrence of certain contingencies, as defined in the leases. The rent due under each percentage lease is the greater of minimum rent, as defined, or percentage rent. Percentage rent applicable to room and other hotel revenue varies by lease and is calculated by multiplying fixed percentages by the total amounts of such revenues over specified threshold amounts. Both the minimum rent and the revenue thresholds used in computing percentage rents are subject to annual adjustments based on increases in the United States Consumer Price Index ("CPI"). Percentage rent applicable to food and beverage revenues is calculated by multiplying fixed percentages by the total amounts of such revenues.

Actual payments due from tenants under the percentage leases were $20,860 and $23,457 for the three months ended June 30, 2001 and 2000, respectively. However, under the Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements," percentage lease revenue is recorded net of deferred lease revenue of $4,522 and $6,471 for the three months ended June 30, 2001 and 2000, respectively. Actual payments due from tenants under the percentage leases were $40,400 and $43,523 for the six months ended June 30, 2001 and 2000, respectively. Percentage lease revenue is recorded net of deferred lease revenue of $7,825 and $10,120 for 2001 and 2000, respectively. Under the provisions of SAB No. 101, a portion of Boykin's percentage lease revenues are deferred in the first, second and third quarters, and will be recognized in the fourth quarter as specified targets are achieved. SAB No. 101 has no impact on Boykin's interim cash flow or year-end results of operations.

Future minimum rentals (ignoring future CPI increases) to be received by Boykin from BMC and from other lessees pursuant to the percentage leases for each of the years in the period 2001 to 2005 and in total thereafter are as follows:

| | Related Party Lessees | Other Lessees | Totals |
|---|---|---|---|
| Remainder of 2001 | $ 22,628 | $ 5,269 | $ 27,897 |
| 2002 | 40,698 | 9,029 | 49,727 |
| 2003 | 14,619 | 7,095 | 21,714 |
| 2004 | 11,775 | 7,095 | 18,870 |
| 2005 | 10,065 | 7,095 | 17,160 |
| 2006 and thereafter | 7,855 | 13,702 | 21,557 |
| | $107,640 | $49,285 | $156,925 |

## 7. RELATED PARTY TRANSACTIONS:

The Chairman and Chief Executive Officer of Boykin is the majority shareholder of BMC. BMC and Westboy LLC, a subsidiary of BMC, were a significant source of Boykin's percentage lease revenue through June 30, 2001. At June 30, 2001 and December 31, 2000, Boykin had rent receivable of $6,499 and $4,632, respectively, due from related party lessees.

A wholly-owned subsidiary of BMC provides design, purchasing and project management services to Boykin for capital improvements at its hotels. Boykin paid $475 for services through June 30, 2001 consisting of $293 for design services, $25 for purchasing services, $41 for project management services and $116 for reimbursement of expenses.

At June 30, 2001 and December 31, 2000, Boykin had a payable to related party lessees of $1,829 and $2,056, respectively, primarily for estimated lease termination fees as of June 30, 2001 related to the sale of the Daytona hotel (Note 10) and for the reimbursement of capital expenditures and other transaction costs incurred on behalf of the Partnership and OLP.

Effective February 1, 2000, JerseyBoy LLC (“JerseyBoy”) manages the Radisson Hotel Mt. Laurel pursuant to a management agreement. Boykin paid JerseyBoy management fees of $60 for each of the three month periods ended June 30, 2001 and 2000. Management fees paid for the six months ending June 30, 2001 and 2000, were $103 and $98, respectively.

**8. STATEMENT OF CASH FLOWS, SUPPLEMENTAL DISCLOSURES:**

During the six month periods ended June 30, 2001 and 2000, noncash financing transactions consisted of $6,814 and $8,736, respectively, of dividends and Partnership distributions which were declared but not paid as of June 30, 2001 and 2000, respectively.

Interest paid during the six month periods ended June 30, 2001 and 2000 was $11,172 and $11,308 respectively. In the first half of 2001, Boykin granted 52,750 common shares, valued at $460 and cancelled 976 common shares, valued at $12, under Boykin’s Long–Term Incentive Plan.

**9. NEW ACCOUNTING PRONOUNCEMENTS:**

Effective January 1, 2001, Boykin adopted the provisions of SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities.” This statement requires companies to carry all derivative instruments, including embedded derivatives, in the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. This is typically accomplished using an interest rate swap or cap. For financial reporting purposes, the change in market value of the effective portion of the hedge flows through the other comprehensive income component of equity. All other changes will flow through earnings. In general, the amount of volatility will vary with the changes in market interest rates and the level of derivative activities during any period.

The impact of adopting SFAS No. 133 was the recognition of an unrealized loss of $373, net of minority interest of $32, related to Boykin’s existing interest rate cap, which is reflected as a one-time effect of a change in accounting in Boykin’s results of operations for the six months ended June 30, 2001.

In March 2001, Boykin entered into an interest rate swap that fixes the overall interest rate at 7.32% on $83,000 of debt. The fair market value of the swap as of June 30, 2001 is reflected as other comprehensive loss of $591 in the equity section, with a corresponding liability in the accompanying balance sheet.

**10. SALE OF ASSET**

In January 2001, Boykin sold its Daytona Beach Radisson Resort for $12,500 and recognized a gain of $240. Netted against the gain is an estimated lease termination fee of $1,600 due to BMC in connection with the sale. The fee has been recorded on an estimated basis and is subject to future adjustment.

**11. SUBSEQUENT EVENT**

In August 2001, Boykin announced the formation of a joint venture with Concord Hospitality Enterprises (“Concord”), a privately owned hotel investment and management company based in Cleveland, Ohio. Boykin has a 50% ownership interest in the joint venture, which acquired a 219-room full-service hotel in Lyndhurst, New Jersey. Concord will manage the hotel pursuant to a management agreement with a wholly-owned taxable REIT subsidiary of the joint venture. Because of the non-controlling nature of Boykin’s ownership interest in the joint venture, Boykin will account for its investment in the joint venture using the equity method.

**BOYKIN MANAGEMENT COMPANY**
**LIMITED LIABILITY COMPANY AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**AS OF JUNE 30, 2001 AND DECEMBER 31, 2000**
**(amounts in thousands)**

| ASSETS | (Unaudited) June 30, 2001 | December 31, 2000 |
|---|---|---|
| Cash and cash equivalents | $30,037 | $24,506 |
| Accounts receivable: | | |
| Trade, net of allowance for doubtful accounts of $303 and $114 at June 30, 2001 and December 31, 2000, respectively | 11,762 | 11,436 |
| Related party lessors | 1,835 | 2,224 |
| Other | 626 | 241 |
| Inventories | 2,160 | 2,253 |
| Property and equipment, net | 299 | 300 |
| Investment in Boykin Lodging Company | 298 | 158 |
| Prepaid expenses and other assets | 491 | 2,318 |
| Total assets | $47,508 | $43,436 |
| **LIABILITIES AND MEMBERS' CAPITAL** | | |
| Rent payable to related party lessors | $ 8,106 | $ 5,550 |
| Accounts payable: | | |
| Trade | 3,824 | 5,358 |
| Advance deposits | 1,016 | 1,107 |
| Bank overdraft liability | 11,000 | 7,493 |
| Accrued expenses: | | |
| Accrued payroll | 1,540 | 1,354 |
| Accrued vacation | 3,269 | 3,128 |
| Accrued sales, use and occupancy taxes | 2,056 | 1,733 |
| Accrued management fee | — | 2,474 |
| Deferred management fee | 5,134 | 2,979 |
| Other accrued liabilities | 5,657 | 5,608 |
| Total liabilities | 41,602 | 36,784 |
| Members' capital: | | |
| Capital contributed | 3,000 | 3,000 |
| Retained earnings | 3,114 | 3,948 |
| Accumulated other comprehensive loss | (208) | (296) |
| Total members' capital | 5,906 | 6,652 |
| Total liabilities and members' capital | $47,508 | $43,436 |

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

**BOYKIN MANAGEMENT COMPANY**
**LIMITED LIABILITY COMPANY AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000**
**(unaudited, amounts in thousands)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| Revenues: | | | | |
| Room revenue | $43,849 | $46,346 | $ 82,056 | $ 85,295 |
| Food and beverage revenue | 19,002 | 19,638 | 35,781 | 37,137 |
| Other hotel revenue | 3,961 | 4,636 | 7,007 | 8,012 |
| Other revenue | 597 | 588 | 2,712 | 1,270 |
| Total revenues | 67,409 | 71,208 | 127,556 | 131,714 |
| Expenses: | | | | |
| Departmental expenses of hotels: | | | | |
| Rooms | 10,459 | 10,744 | 20,354 | 20,576 |
| Food and beverage | 13,067 | 13,642 | 25,190 | 26,177 |
| Other | 2,174 | 2,301 | 3,897 | 4,150 |
| Cost of goods sold of non-hotel operations | — | 8 | 14 | 104 |
| Percentage lease expense | 20,179 | 21,607 | 36,954 | 38,734 |
| General and administrative | 7,297 | 6,914 | 14,240 | 13,711 |
| Advertising and promotion | 3,819 | 3,747 | 7,829 | 7,311 |
| Utilities | 1,569 | 2,288 | 4,300 | 4,679 |
| Franchisor royalties and other charges | 2,399 | 2,298 | 4,499 | 4,189 |
| Repairs and maintenance | 3,064 | 3,146 | 6,163 | 6,201 |
| Depreciation and amortization | 26 | 25 | 52 | 51 |
| Management fee expense | 2,031 | 2,235 | 3,756 | 4,043 |
| Other expense (income) | 122 | (268) | 142 | (64) |
| Total expenses | 66,206 | 68,687 | 127,390 | 129,862 |
| Net income | $ 1,203 | $ 2,521 | $ 166 | $ 1,852 |
| Comprehensive income | $ 1,243 | $ 2,553 | $ 254 | $ 1,899 |

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

**BOYKIN MANAGEMENT COMPANY**
**LIMITED LIABILITY COMPANY AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000**
**(unaudited, amounts in thousands)**

| | 2001 | 2000 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 166 | $ 1,852 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 52 | 51 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (322) | (2,761) |
| Inventories | 93 | 5 |
| Prepaid expenses and other assets | 1,827 | 165 |
| Rent payable | 2,556 | 4,727 |
| Accounts payable | 1,882 | 3,294 |
| Other accrued liabilities | 380 | (1,836) |
| Net cash provided by operating activities | 6,634 | 5,497 |
| Cash flows from investing activities: | | |
| Property additions | (51) | (20) |
| Purchase of investment in Boykin Lodging Company | (52) | — |
| Net cash used for investing activities | (103) | (20) |
| Cash flows from financing activities: | | |
| Distributions to members | (1,000) | (2,000) |
| Net cash used for financing activities | (1,000) | (2,000) |
| Net increase in cash and cash equivalents | 5,531 | 3,477 |
| Cash and cash equivalents, beginning of period | 24,506 | 20,787 |
| Cash and cash equivalents, end of period | $30,037 | $24,264 |

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

**BOYKIN MANAGEMENT COMPANY**
**LIMITED LIABILITY COMPANY AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**JUNE 30, 2001**
**(dollar amounts in thousands)**

## 1. DESCRIPTION OF BUSINESS:

Boykin Management Company Limited Liability Company and its subsidiaries (collectively, "BMC"):

- lease and operate full and limited service hotels located throughout the United States pursuant to long-term percentage leases;
- manage full and limited service hotels located throughout the United States pursuant to management agreements;
- provide national purchasing services to hotels; and
- provide interior design and project management services to hotels and other businesses.

## 2. ORGANIZATION:

BMC was formed and commenced operations in November 1996 to continue and expand the 42-year history of hotel management of its predecessors, Boykin Management Company and its affiliates. BMC is an Ohio limited liability company that is indirectly owned by Robert W. Boykin (53.8%) and John E. Boykin (46.2%). Robert W. Boykin is the Chairman and Chief Executive Officer of Boykin Lodging Company. As of June 30, 2001, BMC and its subsidiaries lease and/or manage 27 hotels owned by Boykin Lodging Company and manage two other hotels owned by third parties.

BMC's wholly-owned subsidiaries consist of the following entities:

- Spectrum Design Services, LLC ("Spectrum") — a hotel design and project management company;
- Purchasing Concepts I, LLC ("PCI") – a hotel food and beverage operating and purchasing company;
- Westboy, LLC ("Westboy") – an entity that leases ten Doubletree-licensed hotels from Boykin Lodging Company;
- ChiBoy, LLC ("ChiBoy") – an entity that manages a hotel in Chicago, Illinois, for an affiliate of Boykin Lodging Company;
- JerseyBoy, LLC ("JerseyBoy") – an entity that manages a hotel owned by Boykin Lodging Company in Mt. Laurel, New Jersey;
- Boykin Enterprises, LLC – an entity that manages hotels and restaurants owned by third parties.

## 3. BASIS OF PRESENTATION:

The separate financial statements of BMC's subsidiaries have been presented on a consolidated basis with BMC. All significant intercompany transactions and balances have been eliminated. These financial statements have been prepared in accordance with generally accepted accounting principles for the interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to BMC's consolidated financial statements and footnotes thereto included in Boykin Lodging Company's annual report on Form 10-K for the year ended December 31, 2000.

## 4. PERCENTAGE LEASE AGREEMENTS:

*BMC Leases on 15 Hotels*

BMC leases 15 hotels (the “BMC Hotels”) from the Partnership pursuant to long-term percentage leases. The BMC Hotels are located in Cleveland, Ohio; Columbus, Ohio; Buffalo, New York; Berkeley, California; Raleigh, North Carolina; Charlotte, North Carolina (2); High Point, North Carolina; Knoxville, Tennessee; Ft. Myers, Florida; Melbourne, Florida (2); San Antonio, Texas; Southfield, Michigan; and French Lick, Indiana.

The percentage leases have non-cancelable remaining terms ranging from less than one year to seven years, subject to earlier termination on the occurrence of certain contingencies, as defined in the leases. BMC is required to pay the higher of minimum rent, as defined, or percentage rent. Percentage rent applicable to room and other hotel revenue varies by lease and is calculated by multiplying fixed percentages by the total amounts of such revenues over specified threshold amounts. Percentage rent related to food and beverage revenues and other revenues, in some cases, is based on fixed percentages of such revenues. Both the threshold amounts used in computing percentage rent and minimum rent on room and other hotel revenues are subject to adjustments as of January 1 of each year based on increases in the United States Consumer Price Index (“CPI”).

For both annual and interim reporting purposes, BMC recognizes percentage lease expense pursuant to the provisions of the related percentage lease agreements.

Other than real estate and personal property taxes, casualty insurance, ground lease rental and capital improvements, which are obligations of the Partnership, the percentage leases require BMC to pay all costs and expenses incurred in the operation of the BMC Hotels.

The percentage leases require BMC to indemnify Boykin Lodging Company against all liabilities, costs and expenses incurred by, imposed on or asserted against the Partnership in the normal course of operating the BMC Hotels.

*Westboy Lease on Ten Doubletree Hotels*

Effective January 1, 1998, Westboy, LLC (“Westboy”), a wholly-owned subsidiary of BMC, entered into a long-term lease agreement with Red Lion Inns Operating L.P. (“OLP”) with terms similar to those described above. The ten Doubletree-licensed hotels (the “Doubletree Hotels”) leased by Westboy are located in California, Oregon (3), Washington (3), Colorado, Idaho and Nebraska. The hotels are managed by a subsidiary of Hilton Hotel Corporation (“Hilton”).

The initial term of Westboy’s percentage lease agreement expires December 31, 2002. Westboy has the option, but not the obligation, to renew the lease for additional five-year terms, or may negotiate new terms acceptable to both Westboy and OLP. The rent will be reset to market rental rates if any of the ten hotels are sold. Selected financial information of Westboy is as follows:

| | **Percentage Lease Expense** | **Net income (loss)** |
|---|---|---|
| Year ended December 31, 1998 | $29,719 | $ 193 |
| Year ended December 31, 1999 | 29,478 | 119 |
| Year ended December 31, 2000 | 29,235 | (1,217) |
| Six months ended June 30, 2001 | 13,805 | (1,102) |

| | **June 30, 2001** | **December 31, 2000** |
|---|---|---|
| Cash and cash equivalents | $ 7,246 | $8,010 |
| Member’s equity | (1,007) | 95 |

Upon commencement of the lease agreement, BMC made an initial capital contribution to Westboy of $1,000, of which $900 was funded with a demand promissory note. Assets of Westboy are not available to pay the creditors of any other entity, except to the extent of permitted cash distributions from Westboy to BMC. Similarly, except to the extent of the unpaid promissory note, the assets of BMC are not available to pay the creditors of Westboy.

*ChiBoy Lease on Executive Plaza Hotel*

Effective August 31, 1999, ChiBoy entered into a long-term lease agreement with Boykin Chicago LLC, an entity in which the Partnership has a 43.75% interest, with terms similar to those described above. The Executive Plaza hotel is located in Chicago, Illinois. BMC made an initial capital contribution to ChiBoy of $280 in cash. Effective June 30, 2001, the lease agreement was terminated and ChiBoy entered into a new management agreement with a subsidiary of Boykin Chicago LLC.

Future minimum rent (ignoring CPI increases) to be paid by BMC and Westboy under their respective percentage lease agreements at June 30, 2001 for each of the years in the period 2001 to 2005 and in total thereafter is as follows:

| | |
|---|---|
| Remainder of 2001 | $ 22,628 |
| 2002 | 40,698 |
| 2003 | 14,619 |
| 2004 | 11,775 |
| 2005 | 10,065 |
| 2006 and thereafter | 7,855 |
| | $107,640 |

**5. RELATED PARTY TRANSACTIONS:**

Percentage lease expense payable to the Partnership (including OLP) was $33,022 and $35,683 for the six months ended June 30, 2001 and 2000, respectively. Percentage lease expense payable to Boykin Chicago was $3,932 and $3,051 for the six months ended June 30, 2001 and 2000, respectively.

At June 30, 2001 and December 31, 2000, BMC (including Westboy) had receivables from the Partnership of $1,829 and $2,056, respectively, primarily for the reimbursement of capital expenditure costs incurred on behalf of the Partnership as well as $1,600 of estimated lease termination fees at June 30, 2001 due from the Partnership associated with the sale of the Daytona Beach Radisson Resort. The fee income has been recorded on an estimated basis and is subject to future adjustment. At June 30, 2001 and December 31, 2000, ChiBoy had receivables from Boykin Chicago of $6 and $168, respectively, primarily for the reimbursement of capital expenditure costs incurred on behalf of Boykin Chicago.

At June 30, 2001 and December 31, 2000, BMC had payables to the Partnership of $6,499 and $4,632, respectively, for amounts due pursuant to the percentage leases with the Partnership. At June 30, 2001 and December 31, 2000 ChiBoy had payables to Boykin Chicago of $1,607 and $918, respectively, for amounts due pursuant to the percentage lease with Boykin Chicago.

A wholly-owned subsidiary of BMC provides design, purchasing and project management services to Boykin for capital improvements at its hotels. Boykin paid $475 for services through June 30, 2001 consisting of $293 for design services, $25 for purchasing services, $41 for project management services and $116 for reimbursement of expenses.

Effective February 1, 2000, JerseyBoy manages the Radisson Hotel Mt. Laurel pursuant to a management agreement. Management fee income from the Partnership was $103 and $98 for the six months ended June 30, 2001 and 2000, respectively.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### BACKGROUND AND BUSINESS STRATEGIES

Boykin Lodging Company, an Ohio corporation, is a real estate investment trust that currently owns interests in 33 hotels throughout the United States and leases its properties to established hotel operators. Our primary business strategies are:

- maximizing revenue growth in our hotels through –
  - strong management performance from our lessee/operators;
  - selective renovation;
  - expansion and development; and
  - brand repositioning;
- acquiring upscale, full-service commercial and resort hotels that will increase our cash flow and are purchased at a discount to their replacement cost; and
- developing strategic alliances and relationships with both a network of high-quality hotel operators and franchisors of the hotel industry's premier upscale brands.

### BOYKIN'S FORMATION AND RECENT EVENTS

We completed our initial public offering ("IPO") in November 1996 and, through Boykin Hotel Properties, L.P., an Ohio limited partnership (the "Partnership"), we acquired nine hotel properties. Boykin Lodging Company currently has a 92.1% ownership interest in, is the sole general partner of and does all its business through the Partnership.

Since the IPO, we have acquired ownership interest in 26 hotels (including the ten-hotel portfolio discussed below) by raising capital through a combination of common share issuances, various debt financings, capital from strategic joint venture partners and cash flow generated from operations. We have also disposed of two hotels via exchange and sale.

- In 1998, we raised net proceeds of approximately $106.3 million in a follow-on public equity offering of 4.5 million common shares.
- In the same year, we acquired a portfolio of ten Doubletree-licensed hotels through a merger with Red Lion Inns Limited Partnership valued at $271.3 million. In the transaction, we issued 3.1 million common shares, paid $35.3 million in cash to the Red Lion partners and assumed liabilities of approximately $155.7 million.
- At June 30, 2001, we had $305.0 million of debt outstanding under various debt instruments.
- We currently have strategic alliances with four hotel operators and own five hotels with them through joint venture structures. In 1999, we also formed a joint venture with AEW Partners III, L.P. ("AEW"), and through that joint venture, we purchased a hotel located in downtown Chicago.
- During August 2001, we announced our formation of a joint venture with Concord Hospitality Enterprises ("Concord"), and through that joint venture, we purchased a hotel in Lyndhurst, New Jersey, approximately eight miles from midtown Manhattan.

### SECOND QUARTER HIGHLIGHTS AND OUTLOOK FOR THE REMAINDER OF 2001

Refer to the "Results of Operations" section below for discussion of our first quarter results compared to 2000 as well as the operational results of BMC.

We continued our renovation program, spending over $12 million, or approximately eight percent of hotel revenues. This money was primarily spent renovating the guestrooms at our Hunt Valley and Columbus Marriotts, Berkeley Radisson and some of the Doubletree hotels. Approximately $1.2 million of the spending as of June 30, 2001 related to a $5.5 million renovation of the Doubletree Guest Suites in Southfield, Michigan. The renovation is expected to be completed around the end of the third quarter. At that point, it is expected that the hotel will be

reflagged as an Embassy Suites. Excluded from these amounts is the anticipated $15 million renovation of the Executive Plaza Hotel in Chicago. The renovation is scheduled to commence in the fall of 2001 and stretch throughout most of 2002, resulting in 33 additional hotel rooms. We believe it is important to keep our hotels in first-class condition in an effort to outperform the competition and to deliver superior room revenue per available room (“REVPAR”) gains, and we are focusing our renovation activities on hotels in areas with the highest revenue potential.

We continue to work on an expansion project at our Pink Shell Beach Resort, which would increase the resort by 39 rooms. Although we are not obligated at this point to proceed with the project, it is likely that we will move forward with our plans to demolish 53 cottage units, or about 25% of the rooms at the resort. We would then construct a 92-unit tower that would significantly upgrade the character of the resort. The units in the new tower would be sold as condominiums, with the expectation that the owners would put their unused room nights back to the resort by contract. As with any renovation, the shorter-term effects may be a lower REVPAR and revenues, due to the demolition of the cottage units. The pre-marketing activity for project has generated significant interest. At this point, we continue to work out details of permits and other construction related items. If we go forward with this project, we now anticipate that it would not start until next spring. This will give us more time to resolve the open issues in connection with the project and will have the added benefit of allowing us to fully capture the peak season in 2002.

In August 2001, we announced our formation of a joint venture with Concord, a privately owned hotel investment and management company. The joint venture acquired a 219 room full-service hotel in Lyndhurst, New Jersey. We have a 50% ownership interest in the hotel through the joint venture. Our initial investment in the joint venture approximates $3.5 million. Our share of the results of the joint venture will be reflected in the financial statements under the equity method of accounting. The joint venture will spend an estimated $6 million renovating and adding guest rooms. Upon completion of the renovation, estimated to be in the spring of 2002, the hotel will be re-flagged as a Courtyard by Marriott.

We continue to seek acquisitions and/or swap candidates for hotels in our portfolio, and we are being selective in terms of yield and earnings criteria. We also continue to evaluate an expansion opportunity at one of our hotels to maximize the value of our portfolio. We intend to maintain a geographically diversified hotel portfolio and may also cluster hotels within certain primary markets in order to take advantage of operational and managerial economies of scale. We will acquire or develop additional hotel properties only as suitable opportunities arise, and will not undertake acquisition or development of properties unless adequate sources of capital and financing are available.

Based upon second quarter results and our current booking trends, which reflect softening demand from the slowing economy, our outlook is now for REVPAR to decline in the range of 3 to 4 percent for the year. Based upon these current assumptions, funds from operations (“FFO”) for 2001 should be around $41 million. For further discussion regarding the calculation of FFO and the relevance to Boykin, see “Results of Operations" section below.

**RESULTS OF OPERATIONS**

The following discusses our results of operations and those of BMC for the quarter ended June 30, 2001 compared to the same period in 2000.

**Boykin Lodging Company**

*Quarter Ended June 30, 2001 Compared to 2000*

Our percentage lease revenue decreased 3.8% to $16.3 million in 2001, from $17.0 million for the same period in 2000 due to a 4.0% decrease in hotel revenues. Softening demand from the slowing economy caused this decrease. The decrease was also attributable to the sale of the Daytona Beach Radisson Resort in January 2001, which generated $.3 million of percentage lease revenue in the second quarter of 2000. Percentage lease revenue payable by BMC and Westboy represented $13.6 million, or 83.1% of total percentage lease revenue in the 2001 period, compared to $13.7 million, or 80.7% of total percentage lease revenue, in 2000.

Net income increased to $1.2 million for the three months ended June 30, 2001, compared to $.2 million in 2000. As a percent of percentage lease revenue, the net income was 7.2% of percentage lease revenues in 2001 versus 1.4% of percentage lease revenues in 2000, primarily because of the following items:

- a decrease in real estate related depreciation and amortization from $7.4 million, or 43.7% of percentage lease revenue in 2000, to $7.0 million, or 43.0% in 2001, because of three assets held for sale for which no depreciation was charged in 2001, and;
- a decrease in interest expense from $5.8 million or 34.2% of percentage lease revenue in 2000, to $5.5 million or 33.6% in 2001, primarily due to a decrease in interest rates on outstanding borrowings.

*Six Months Ended June 30, 2001 Compared to 2000*

Our percentage lease revenue decreased 2.5% to $32.6 million in 2001, from $33.4 million for the same period in 2000. The decrease is due to various factors including the slowing economy affecting demand resulting in lower hotel revenues, the sale of the Daytona Beach Radisson Resort in January 2001, and the inclusion of $.3 million of percentage lease revenue in the first six months of 2000 related to Mt. Laurel Radisson, which we took over in February 2000. In 2001, instead of percentage lease revenues, Mt. Laurel's hotel revenues and expenses are separately reflected in the results of operations. Percentage lease revenue payable by BMC and Westboy represented $26.1 million, or 80.0% of total percentage lease revenue in the 2001 period, compared to $26.2 million, or 78.5% of total percentage lease revenue, in 2000.

Net income increased to $.7 million for the six months ended June 30, 2001, compared to a net loss of $.5 million in 2000. As a percent of percentage lease revenue, net income was 2.2% of percentage lease revenues in 2001 versus a net loss of 1.4% of percentage lease revenues in 2000, primarily because of the following items:

- a decrease in real estate related depreciation and amortization from $15.2 million, or 45.5% of percentage lease revenue in 2000, to $14.1 million, or 43.2% in 2001, because of three assets held for sale for which no depreciation was charged in 2001, and;
- a $.2 million gain on the sale of our Daytona Beach Radisson Resort, recorded in 2001, and;
- a $.6 million increase in interest and other income in 2001 over 2000.

The increases in net income were offset by the following items:

- a charge of $.4 million in 2001 for the one-time effect of a change in accounting principle related to the write-down of a derivative asset pursuant to new accounting rules under SFAS No.133, and;
- a gain on property insurance recovery of $.4 million recorded in 2000 related to property damage at our two Melbourne, Florida hotels in late 1999.

Our FFO for the quarter ended June 30, 2001 was $12.9 million compared to $14.1 million in 2000. Our FFO for the six months ended June 30, 2001 was $23.0 million compared to $24.3 million in 2000.

The White Paper on Funds From Operations approved by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in October 1999 defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of properties and extraordinary items, plus real estate related depreciation and amortization, and after comparable adjustments for our portion of these items related to unconsolidated entities and joint ventures. We believe that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with another indication of the ability of a company to incur and service debt, to make capital expenditures and to fund other cash needs.

We compute FFO in accordance with the NAREIT White Paper except that, on an interim basis only, we add back deferred rent under SAB 101, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than us. FFO does not represent cash generated from operating activities determined by GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions. FFO may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures and property acquisitions, and other commitments and uncertainties. The following is a reconciliation between net income and FFO for the three and six months ended June 30, 2001 and 2000, respectively (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Net income (loss) | $ 1,172 | $ 238 | $ 707 | $ (459) |
| Deferred rent | 4,522 | 6,471 | 7,825 | 10,120 |
| Real estate related depreciation and amortization | 7,028 | 7,423 | 14,056 | 15,208 |
| Minority interest | (412) | 50 | (483) | (8) |
| Gain on property insurance recovery | — | — | — | (407) |
| Gain on sale of assets | — | — | (240) | — |
| One-time effect of change in accounting principle | — | — | 373 | — |
| Equity in (income) loss of unconsolidated joint ventures | (618) | (37) | (444) | 78 |
| FFO applicable to joint venture minority interest | 1,245 | (74) | 1,232 | (258) |
| Funds from operations | $12,937 | $14,071 | $23,026 | $24,274 |

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The following table illustrates key operating statistics of our portfolio for the three and six months ended June 30, 2001 and 2000:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| All hotels (32 hotels)(a) | | | | |
| Hotel revenues | $81,628 | $84,989 | $153,614 | $157,732 |
| REVPAR | $ 66.63 | $ 68.95 | $ 63.27 | $ 63.84 |
| Occupancy | 68.5% | 71.2% | 65.4% | 66.9% |
| Average daily rate | $ 97.29 | $ 96.82 | $ 96.80 | $ 95.39 |
| Comparable Hotels (30 hotels)(b) | | | | |
| Hotel revenues | $77,099 | $80,034 | $144,493 | $148,481 |
| REVPAR | $ 66.72 | $ 68.79 | $ 63.02 | $ 63.73 |
| Occupancy | 68.6% | 71.3% | 65.2% | 67.1% |
| Average daily rate | $ 97.28 | $ 96.49 | $ 96.59 | $ 94.97 |
| DoubleTree Portfolio (10 hotels) | | | | |
| Hotel revenues | $27,993 | $28,441 | $ 53,180 | $ 53,805 |
| REVPAR | $ 63.34 | $ 63.55 | $ 59.59 | $ 58.58 |
| Occupancy | 70.8% | 73.4% | 67.6% | 69.1% |
| Average daily rate | $ 89.53 | $ 86.63 | $ 88.16 | $ 84.82 |

(a) Includes all hotels owned by Boykin at the end of the quarter, including predecessors' results.
(b) Includes hotels owned by Boykin in both periods.

**BMC**

*Quarter Ended June 30, 2001 Compared to 2000*

For the quarter ended June 30, 2001, BMC's hotel revenues decreased 5.4%, to $66.8 million, compared to $70.6 million for the same period in 2000. The decrease was primarily because of the drop in hotel revenue due to the sale of the Daytona Beach Radisson Resort in January 2001, and the continued softening demand from the slowing economy. Net profit decreased to $1.2 million for the quarter ended June 30, 2001 compared to a net profit of $2.5 million in 2000.

Percentage lease expense for the quarter ended June 30, 2001 decreased 6.5%, to $20.2 million, compared to $21.6 million for the same period in 2000, primarily due to the loss in hotel revenue from the sale of Daytona and the declining demand as a result of the slowing economy. Departmental and other hotel operating expenses, consisting primarily of rooms expenses, food and beverage costs, franchise fees, advertising and promotion expenses, utilities, repairs and maintenance, management fees, and other general and administrative expenses of the hotels were $46.0 million in the quarter ended June 30, 2001 compared to $47.1 million for the same period in 2000. As a percent of hotel revenues, the departmental and other hotel operating expenses increased to 68.9% in 2001 from 66.7% in 2000 primarily because declining revenues from the softening demand caused rooms expense as a percentage of rooms revenues to increase to 23.9% in 2001 versus 23.3% in 2000.

Similar increases as a percentage of hotel revenues were noted in advertising and promotion and general and administrative expenses. Also contributing to the lower net income were expenses associated with the conversion of the ChiBoy lease to a management agreement.

*Six months ended June 30, 2001 compared to 2000*

For the six months ended June 30, 2001, BMC's hotel revenues decreased 4.3%, to $124.8 million, compared to $130.4 million for the same period in 2000. The decrease was primarily due to lower revenues in both rooms and food and beverage operations due to declining demand and economic conditions and the sale of the Daytona Beach Radisson Resort in January 2001.

The percentage lease expense for the six months ended June 30, 2001 decreased 4.6%, to $37.0 million, compared to $38.7 million for the same period in 2000 due to the decrease in hotel revenues. Departmental and other hotel operating expenses, consisting primarily of rooms expenses, food and beverage costs, advertising and promotion expenses, franchise fees, utilities, repairs and maintenance, management fees, and other general and administrative expenses of the hotels were $90.4 million in the six months ended June 30, 2001 compared to $91.1 million for the same period in 2000. As a percent of hotel revenues, the departmental and other hotel operating expenses increased to 72.4% in 2001 from 69.9% in 2000. Rooms expense as a percentage of rooms revenues increased to 24.8% in 2001 versus 24.1% in 2000 due to REVPAR declines from the softening demand. Similar increases were noted in advertising and promotion and general and administrative expenses as a percentage of hotel revenues.

BMC recorded net income of $.2 million for the six months ended June 30, 2001 compared to a net income of $1.9 million in 2000. The decrease in net income is primarily due to decreased revenue performance of the hotels in 2001.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal source of cash to meet our cash requirements, including distributions to shareholders, is our share of the Partnership's cash flow from the percentage leases. The lessees' obligations under the percentage leases are unsecured and the lessees' ability to make rent payments to the Partnership under the percentage leases are dependent on the lessees' ability to generate sufficient cash flow from the operation of the hotels.

Westboy, LLC ("Westboy"), a wholly-owned subsidiary of BMC, leases ten Doubletree-licensed hotels owned by Red Lion Inns Operating L.P ("OLP") pursuant to a percentage lease agreement. The initial term of Westboy's percentage lease agreement expires December 31, 2002. Westboy has the option, but not the obligation, to renew the lease for additional five-year terms, or may negotiate new terms acceptable to both Westboy and OLP. The rent will be reset to market rental rates if any of the ten hotels are sold. Refer to Note 4 of the Notes to Consolidated Financial Statements of BMC included in this Form 10-Q for selected financial information related to Westboy. For the six months ended June 30, 2001, Westboy recognized a net loss of $1.1 million. In the opinion of management, Westboy should be able to continue making its percentage lease payments over the next 12 months. However, there can be no assurance that Westboy will be able to continue making percentage lease payments at the current rate over the long term. In addition, no assurance can be given that the new lease terms with Westboy, or any other party, after 2002 will be made at the current rate.

As of June 30, 2001, we had $2.9 million of unrestricted cash and cash equivalents and $7.7 million of restricted cash for the payment of capital expenditures, real estate taxes and insurance, and we had outstanding borrowings totaling $24.0 million and $281.0 million against our credit facility and term notes payable, respectively.

We have a $100 million credit facility available, as limited under terms of the credit agreement, to fund acquisitions of additional hotels, renovations and capital expenditures, and for our working capital needs. For information relating to the terms of our credit facility and our $130 million, $45 million, and $108 million term notes payable, please see Notes 4 and 5, respectively, of the Notes to Consolidated Financial Statements of Boykin Lodging Company included in this Form 10-Q. We may seek to negotiate additional credit facilities or issue debt instruments. Any debt incurred or issued by us may be secured or unsecured, long-term, medium-term or short-term, bear interest at a fixed or variable rate, and be subject to such other terms as the Board of Directors considers prudent. The availability of borrowings under the credit facility is restrained by borrowing base and loan-to-value limits, as well as other financial performance covenants contained in the agreement. There can be no assurance that funds will be available in anticipated

amounts from the credit facility.

We have an active shelf registration statement with the Securities and Exchange Commission for the issuance of up to $187.5 million in securities. Securities issued under this registration statement may be preferred shares, depository shares, common shares or any combination thereof, and may be issued at different times, depending on market conditions. Warrants to purchase these securities may also be issued. The terms of issuance of any securities covered by this registration statement would be determined at the time of their offering.

In 2001, we expect to spend approximately $20 million on renovations at our hotels. This figure excludes the Pink Shell and Chicago Executive Plaza projects discussed below, but this includes renovating the guestrooms and public space at our newly-acquired Doubletree Guest Suites in Southfield, Michigan at a cost of approximately $5.5 million, which will be reflagged as an Embassy Suites. It also includes completing guestroom renovations at our Berkeley Marina Radisson, Hunt Valley Marriott and Columbus Marriott, which were substantially complete at the end of the first half of 2001. We expect to use cash available from operations and restricted capital expenditure reserves, as well as borrowings under our line of credit, to fund our remaining 2001 renovations.

Over the past two years, we have perfected zoning rights to expand our Pink Shell Beach Resort by 39 rooms. Although we are not obligated at this point to proceed with the project, it is likely that we will move forward with our plans to demolish 53 cottage units, or about 25% of the rooms at the resort. We would then construct a 92-unit tower that would significantly upgrade the character of the resort and sell these units as condos, with the expectation that the condo owners would put their unused room nights back to the resort. We would use our line of credit to fund the approximately mid-$20 million project cost, use the proceeds from the condo sales to pay back the line of credit and expect to reap a significant gain on the sale of the condos. As with any renovation, the shorter-term effects may be lower REVPAR and revenues, due to the demolition of the cottage units. We plan to make the decision to proceed with this project when we have pre-sold a significant portion of condos. The pre-marketing activity for the project has generated significant interest. At this point, we continue to work out details of permits and other construction related items. If we go forward with this project, we now anticipate that it would not start until next spring. This will give us more time to resolve the open issues in connection with the project and will have the added benefit of allowing us to fully capture the peak season in 2002.

In the fall of 2001, we expect to commence an approximate $15 million renovation of the Executive Plaza Hotel in Chicago, Illinois, of which we would provide approximately $3 million of equity funding utilizing availability under our line of credit.

## INFLATION

Our revenues are from percentage leases, which can change based on changes in the revenues of our hotels, as well as from CPI adjustments in the percentage lease rent formulas, which are adjusted each year accordingly with the CPI. Therefore, we rely entirely on the performance of the hotels and the lessees' ability to increase revenues to keep pace with inflation. Operators of hotels in general, and our lessees, can change room rates quickly, but competitive pressures may limit the lessees' ability to raise rates to keep pace with inflation.

Our general and administrative costs, as well as real estate and personal property taxes, property and casualty insurance and ground rent, are subject to inflation.

## SEASONALITY

Our hotels' operations historically have been seasonal. Twenty-nine of our hotels maintain higher occupancy rates during the second and third quarters. The four hotels located in Florida experience their highest occupancy in the first quarter. This seasonality pattern can be expected to cause fluctuations in our quarterly lease payments received under the percentage leases. To the extent that cash flow from operations is insufficient to make distributions during any quarter because of temporary or seasonal fluctuations in percentage lease revenue, we expect to utilize cash on hand or borrowings to make those distributions. No assurance can be given that we will make distributions in the future at the current rate, or at all.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

Our primary market risk exposure consists of changes in interest rates on borrowings under our debt instruments that bear interest at variable rates that fluctuate with market interest rates. These debt instruments include our $100 million secured credit facility, our $45 million secured term loan, our $108 million term loan and our share of floating rate debt under our unconsolidated joint ventures of $18.8 million.

We have entered into both variable and fixed rate debt arrangements to allow us to optimize the balance of using variable rate debt versus fixed rate debt. Our variable rate debt allows us to maximize financial flexibility when selling properties and minimize potential prepayment penalties on fixed rate loans. Our $130 million, 6.9% fixed rate term note allows us to minimize our interest rate risk exposure. In March 2001, we also purchased interest protection on $83 million of our floating rate debt that fixes the overall interest rate on this debt at no more than 7.32%. Based on the new interest protection, approximately 69% and 68% of our consolidated outstanding debt at June 30, 2001 and December 31, 2000 is fixed-rate in nature. The weighted average interest rate of our variable rate debt was 7.1% for the quarter ended June 30, 2001.

We review interest rate exposure quarterly in an effort to minimize the risk of interest rate fluctuations. It is our policy to manage our exposure to fluctuations in market interest rates on our borrowings through the use of fixed rate debt instruments, to the extent that reasonably favorable rates are obtainable with such arrangements, and after considering the need for financial flexibility related to our debt arrangements. We may enter into forward interest rate agreements, or similar agreements, to hedge our variable rate debt instruments where we believe the risk of adverse changes in market rates is significant. Under a forward interest rate agreement, if the referenced interest rate increases, we would be entitled to a receipt in settlement of the agreement that economically would offset the higher financing cost of the debt issued. If the referenced interest rate decreases, we would make payments in settlement of the agreement, creating an expense that economically would offset the reduced financing cost of the debt issued. Other than the interest protection agreement discussed above, we do not have any other material market-sensitive financial instruments.

We do not believe that changes in market interest rates will have a material impact on the performance or fair value of our hotel portfolio because the value of our hotel portfolio is based primarily on the operating cash flow of the hotels, before interest expense charges. However, a change of 1/4% in the index rate to which our variable rate debt is tied would change our annual interest incurred by $.2 million, based upon the balances outstanding on our variable rate instruments at June 30, 2001.

# PART II

## ITEM 1. LEGAL PROCEEDINGS

Our company is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect our financial condition or results of operations.

## ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Boykin held its annual meeting of the shareholders on May 31, 2001 at the Cleveland Airport Marriott in Cleveland, Ohio. At the meeting, the shareholders voted to elect the Board of Directors for the 2002 term. The individuals listed below were elected to Boykin's Board of Directors, each to hold office until the annual meeting next succeeding his election and until his successor is elected and qualified, or until his earlier resignation. The table below indicates the votes for, votes against, as well as the abstentions and shares not voted for each nominee.

| Name | Votes For | Votes Against | Abstention | Shares not Voted |
|---|---|---|---|---|
| Robert W. Boykin | 15,711,466 | 0 | 601,675 | 1,054,498 |
| Raymond P. Heitland | 15,888,937 | 0 | 424,204 | 1,054,498 |
| Albert T. Adams | 15,893,685 | 0 | 419,456 | 1,054,498 |
| Lee C. Howley, Jr. | 16,064,250 | 0 | 248,891 | 1,054,498 |
| Frank E. Mosier | 16,056,215 | 0 | 256,926 | 1,054,498 |
| William H. Schecter | 16,066,869 | 0 | 246,272 | 1,054,498 |
| Ivan J. Winfield | 16,054,982 | 0 | 258,159 | 1,054,498 |

## ITEM 5. OTHER INFORMATION

None.

**ITEM 6. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.**

(a) Exhibits

| | | |
|---|---|---|
| 3.1 | (a) | Amended and Restated Articles of Incorporation, as amended |
| 3.2 | (b) | Code of Regulations |
| 4.1 | (b) | Specimen Share Certificate |
| 4.2 | (a) | Dividend Reinvestment and Optional Share Purchase Plan |
| 4.3 | (c) | Shareholder Rights Agreement, dated as of May 25,1999 between Boykin Lodging Company and National City Bank, as rights agent |

(a) Incorporated by reference from Boykin's form 10-Q for the quarter ended June 30, 1999.

(b) Incorporated by reference from Amendment No. 3 to Boykin's Registration Statement on Form S-11 (Registration No. 333-6341) (the "Form S-11") filed on October 24, 1996. Each of the above exhibits has the same exhibit number in the Form S-11

(c) Incorporated by reference as Exhibit 1 from the registration statement on Form 8-A filed on June 10, 1999.

(b) Reports on Form 8-K

None.

## FORWARD LOOKING STATEMENTS

This Form 10-Q contains statements that constitute forward-looking statements. Those statements appear in a number of places in this Form 10-Q and the documents incorporated by reference herein and include statements regarding our intent, belief or current expectations or those of our directors or officers with respect to:

- Leasing, management or performance of the hotels;
- Boykin's plans for expansion, conversion or renovation of the hotels;
- Adequacy of reserves for renovation and refurbishment;
- Potential acquisitions and dispositions by Boykin;
- Boykin's financing plans;
- Boykin's policies regarding investments, acquisitions, dispositions, financings, conflicts of interest and other matters; and
- Trends affecting Boykin's or any hotel's financial condition or results of operations.

You are cautioned that any such forward-looking statement is not a guarantee of future performance and involves risks and uncertainties, and that actual results may differ materially from those in the forward-looking statement as a result of various factors. The factors that could cause actual results to differ materially from our expectations include, among other factors, financial performance, real estate conditions, execution of hotel acquisition or disposition programs, changes in local or national economic conditions, changes in interest rates, changes in local or national supply and construction of new hotels, impact of changes in local or national economic conditions on the occupancy of our hotels, changes in profitability and margins and the financial condition of our lessees, and other similar variables. The information contained in this Form 10-Q and in the documents incorporated by reference herein and Boykin's periodic filings with the Securities and Exchange Commission also identifies important factors that could cause such differences.

With respect to any such forward-looking statement that includes a statement of its underlying assumptions or bases, we caution that, while we believe such assumptions or bases to be reasonable and have formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, we or our management express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

/s/ Robert W. Boykin

August 13, 2001

Robert W. Boykin
Chairman of the Board
and Chief Executive Officer
(Principal Executive Officer)

/s/ Paul A. O'Neil

August 13, 2001

Paul A. O'Neil
Chief Financial Officer and Treasurer
(Principal Accounting Officer)

## EXHIBIT INDEX

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(c) Incorporated by reference as Exhibit 1 from the registration statement on Form 8-A filed on June 10, 1999.