

DiamondRock Hospitality Co
Form 10-Q
November 09, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

Commission file number 001-32514

DIAMONDROCK HOSPITALITY COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State of Incorporation)

20-1180098

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

3 Bethesda Metro Center, Suite 1500, Bethesda, Maryland 20814

(Address of Principal Executive Offices)

(Zip Code)

(240) 744-1150

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The registrant had 200,315,646 shares of its \$0.01 par value common stock outstanding as of November 8, 2016.

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PART I. FINANCIAL INFORMATION

Item I. Financial Statements

DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Property and equipment, net	\$ 2,642,034	\$ 2,882,176
Restricted cash	47,661	59,339
Due from hotel managers	87,019	86,698
Favorable lease assets, net	18,076	23,955
Prepaid and other assets	47,693	46,758
Cash and cash equivalents	235,965	213,584
Total assets	\$ 3,078,448	\$ 3,312,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage debt, net of unamortized debt issuance costs	\$ 823,626	\$ 1,169,749
Term loan, net of unamortized debt issuance costs	99,336	—
Senior unsecured credit facility	—	—
Total debt	922,962	1,169,749
Deferred income related to key money, net	20,776	23,568
Unfavorable contract liabilities, net	73,123	74,657
Deferred ground rent	79,027	70,153
Due to hotel managers	55,350	65,350
Dividends declared and unpaid	23,586	25,599
Accounts payable and accrued expenses	59,247	58,829
Total liabilities	1,234,071	1,487,905
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value; 400,000,000 shares authorized; 200,796,110 and 200,741,777 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	2,008	2,007
Additional paid-in capital	2,059,638	2,056,878
Accumulated deficit	(217,269) (234,280)
Total stockholders' equity	1,844,377	1,824,605
Total liabilities and stockholders' equity	\$ 3,078,448	\$ 3,312,510

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

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DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Rooms	\$163,158	\$178,529	\$498,714	\$504,729
Food and beverage	44,069	47,256	151,850	155,662
Other	13,012	12,717	39,373	36,801
Total revenues	220,239	238,502	689,937	697,192
Operating Expenses:				
Rooms	39,766	42,415	121,737	122,872
Food and beverage	29,103	32,143	97,718	103,044
Management fees	7,655	7,562	23,036	22,665
Other hotel expenses	74,123	83,358	232,576	237,410
Depreciation and amortization	23,605	25,107	73,731	75,018
Impairment losses	—	—	—	10,461
Hotel acquisition costs	—	453	—	945
Corporate expenses	4,684	6,048	17,420	17,790
Total operating expenses, net	178,936	197,086	566,218	590,205
Operating profit	41,303	41,416	123,719	106,987
Interest and other income, net	(333)	(126)	(451)	(480)
Interest expense	9,504	12,907	32,242	38,963
Gain on sale of hotel properties	(2,198)	—	(10,319)	—
Total other expenses, net	6,973	12,781	21,472	38,483
Income before income taxes	34,330	28,635	102,247	68,504
Income tax expense	(4,393)	(4,171)	(11,357)	(8,576)
Net income	\$29,937	\$24,464	\$90,890	\$59,928
Earnings per share:				
Basic earnings per share	\$0.15	\$0.12	\$0.45	\$0.30
Diluted earnings per share	\$0.15	\$0.12	\$0.45	\$0.30

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

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DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 90,890	\$ 59,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73,731	75,018
Corporate asset depreciation as corporate expenses	49	63
Gain on sale of hotel properties	(10,319)	—
Non-cash ground rent	4,230	4,454
Amortization of debt issuance costs and debt premium	1,760	1,715
Impairment losses	—	10,461
Amortization of favorable and unfavorable contracts, net	(1,434)	(1,134)
Amortization of deferred income related to key money	(2,143)	(839)
Stock-based compensation	4,015	4,403
Changes in assets and liabilities:		
Prepaid expenses and other assets	(735)	(4,445)
Restricted cash	21	13,338
Due to/from hotel managers	(13,092)	(12,441)
Accounts payable and accrued expenses	5,572	7,300
Net cash provided by operating activities	152,545	157,821

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Cash flows from investing activities:				
Hotel capital expenditures	(78,652)	(46,141)
Hotel acquisitions	—		(150,400)
Net proceeds from sale of hotel properties	183,494		—	
Change in restricted cash	3,083		5,737	
Net cash provided by (used in) investing activities	107,925		(190,804)
Cash flows from financing activities:				
Scheduled mortgage debt principal payments	(8,384)	(10,075)
Proceeds from sale of common stock, net	—		7,796	
Proceeds from mortgage debt	—		150,000	
Repayments of mortgage debt	(249,793)	(146,876)
Proceeds from senior unsecured term loan	100,000		—	
Draws on senior unsecured credit facility	75,000		135,000	
Repayments of senior unsecured credit facility	(75,000)	(110,000)
Purchase of interest rate cap	—		(325)
Payment of financing costs	(2,765)	(1,182)
Payment of cash dividends	(75,635)	(71,008)
Repurchase of common stock	(1,512)	(2,735)
Net cash used in financing activities	(238,089)	(49,405)
Net increase (decrease) in cash and cash equivalents	22,381		(82,388)
Cash and cash equivalents, beginning of period	213,584		144,365	
Cash and cash equivalents, end of period	\$ 235,965		\$ 61,977	

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

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DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (CONTINUED)

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2016	2015
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$31,856	\$36,326
Cash paid for income taxes	\$1,621	\$798
Non-cash Investing and Financing Activities:		
Unpaid dividends	\$23,586	\$25,479
Buyer assumption of mortgage debt on sale of hotel included in sale proceeds	\$89,486	\$—

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

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DIAMONDROCK HOSPITALITY COMPANY

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

DiamondRock Hospitality Company (the “Company” or “we”) is a lodging-focused real estate company that owns a portfolio of premium hotels and resorts. Our hotels are concentrated in key gateway cities and in destination resort locations and the majority of our hotels are operated under a brand owned by one of the leading global lodging brand companies (Marriott International, Inc. or Hilton Worldwide). We are an owner, as opposed to an operator, of the hotels in our portfolio. As an owner, we receive all of the operating profits or losses generated by our hotels after we pay fees to the hotel managers, which are based on the revenues and profitability of the hotels.

As of September 30, 2016, we owned 26 hotels with 9,461 guest rooms, located in the following markets: Atlanta, Georgia; Boston, Massachusetts (2); Burlington, Vermont; Charleston, South Carolina; Chicago, Illinois (2); Denver, Colorado (2); Fort Lauderdale, Florida; Fort Worth, Texas; Huntington Beach, California; Key West, Florida (2); New York, New York (4); Salt Lake City, Utah; San Diego, California; San Francisco, California; Sonoma, California; Washington D.C. (2); St. Thomas, U.S. Virgin Islands; and Vail, Colorado.

We conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT, in which our hotel properties are owned by our operating partnership, DiamondRock Hospitality Limited Partnership, or subsidiaries of our operating partnership. The Company is the sole general partner of our operating partnership and currently owns, either directly or indirectly, all of the limited partnership units of our operating partnership.

2. Summary of Significant Accounting Policies

Basis of Presentation

We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2015, included in our Annual Report on Form 10-K filed on February 29, 2016.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of September 30, 2016, the results of our operations for the three and nine months ended September 30, 2016 and 2015, and cash flows for the nine months ended September 30, 2016 and 2015. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations.

Our financial statements include all of the accounts of the Company and its subsidiaries in accordance with U.S. GAAP. All intercompany accounts and transactions have been eliminated in consolidation. If the Company determines that it has an interest in a variable interest entity within the meaning of the FASB ASC 810, Consolidation, the Company will consolidate the entity when it is determined to be the primary beneficiary of the entity.

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation.

Property and Equipment

Investments in hotel properties, land, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets are recorded at fair value upon acquisition. Property and equipment purchased after the hotel acquisition date is recorded at cost. Replacements and improvements are capitalized, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of a fixed asset, the cost and related accumulated depreciation is removed from the Company's accounts and any resulting gain or loss is included in the statements of operations.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 40 years for buildings, land improvements, and building improvements and 1 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets.

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We review our investments in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel, less costs to sell, exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel's estimated fair market value is recorded and an impairment loss is recognized.

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

Revenue Recognition

Revenues from operations of the hotels are recognized when the goods or services are provided. Revenues consist of room sales, food and beverage sales, and other hotel department revenues, such as telephone, parking, gift shop sales and resort fees.

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period plus other potentially dilutive securities such as equity awards or shares issuable in the event of conversion of operating partnership units. No adjustment is made for shares that are anti-dilutive during a period.

Stock-based Compensation

We account for stock-based employee compensation using the fair value based method of accounting. We record the cost of stock-based awards based on the grant-date fair value of the award. The vesting of the awards issued to officers and employees is based on either continued employment (time-based) or based on continued employment and the relative total shareholder returns of the Company or improvement in market share of the Company's hotels (performance-based). The cost of time-based awards and performance-based awards is recognized over the period during which an employee is required to provide service in exchange for the award, adjusted for forfeitures.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings during the period

in which the new rate is enacted.

We have elected to be treated as a real estate investment trust (“REIT”) under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), which requires that we distribute at least 90% of our taxable income annually to our stockholders and comply with certain other requirements. In addition to paying federal and state taxes on any retained income, we may be subject to taxes on “built-in gains” on sales of certain assets. Our taxable REIT subsidiaries will generally be subject to federal, state, local, and/or foreign income taxes.

In order for the income from our hotel property investments to constitute “rents from real properties” for purposes of the gross income tests required for REIT qualification, the income we earn cannot be derived from the operation of any of our hotels. Therefore, we lease each of our hotel properties to a wholly owned subsidiary of Bloodstone TRS, Inc., our taxable REIT subsidiary, or TRS, except for the Frenchman’s Reef & Morning Star Marriott Beach Resort, which is owned by a Virgin Islands corporation, which we have elected to be treated as a TRS.

We had no accruals for tax uncertainties as of September 30, 2016 and December 31, 2015.

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Fair Value Measurements

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

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

Intangible Assets and Liabilities

Intangible assets and liabilities are recorded on non-market contracts assumed as part of the acquisition of certain hotels. We review the terms of agreements assumed in conjunction with the purchase of a hotel to determine if the terms are favorable or unfavorable compared to an estimated market agreement at the acquisition date. Favorable lease assets or unfavorable contract liabilities are recorded at the acquisition date and amortized using the straight-line method over the term of the agreement. We do not amortize intangible assets with indefinite useful lives, but we review these assets for impairment annually or at interim periods if events or circumstances indicate that the asset may be impaired.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which is intended to reduce diversity in practice as to how certain transactions are classified in the statement of cash flows. This standard will be effective for annual periods beginning after December 15, 2017, although early adoption is permitted. We are evaluating the effect of ASU No. 2016-15 on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies various aspects of how share-based payments are accounted for and presented in the financial statements. This standard requires companies to record all of the tax effects related to share-based payments through the income statement, allows companies to elect an accounting policy to either estimate the share based award forfeitures (and expense) or account for forfeitures (and expense) as they occur, and allows companies to withhold up to the maximum individual statutory tax rate the shares upon settlement of an award without causing the award to be classified as liability. This guidance is effective for annual periods

beginning after December 15, 2016, although early adoption is permitted. We are evaluating the effect of ASU 2016-09 on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which primarily changes the lessee's accounting for operating leases by requiring recognition of lease right-of-use assets and lease liabilities. This standard is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We are evaluating the effect of ASU 2016-02 on our consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. We adopted ASU No. 2015-16 effective January 1, 2016 and it did not have an impact on our financial position, results of operations or cash flows.

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In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. We adopted ASU No. 2015-03 effective January 1, 2016 and present all debt issuance costs, other than issuance costs related to our senior unsecured credit facility, as a direct deduction from the carrying value of the debt liability. Adoption of this standard was applied retrospectively for all periods presented, affecting only the presentation of our balance sheet. The adoption of ASU 2015-03 did not have a material impact on our financial position and had no impact on our results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which changes the way reporting enterprises evaluate the consolidation of limited partnerships, variable interests and similar entities. We adopted ASU No. 2015-02 effective January 1, 2016 and concluded that our operating partnership now meets the criteria of a variable interest entity. The Company is the primary beneficiary and, accordingly, we continue to consolidate our operating partnership. The Company's sole significant asset is its investment in its operating partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of its operating partnership. In addition, all of the Company's debt is an obligation of its operating partnership.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which affects virtually all aspects of an entity's revenue recognition. The new standard sets forth five prescribed steps to determine the timing and amount of revenue to be recognized to appropriately depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effectiveness of ASU No. 2014-09 to reporting periods beginning after December 15, 2017 and permitted early application for annual reporting periods beginning after December 15, 2016. We do not believe ASU 2014-09 will have a material impact on the our consolidated financial statements and related disclosures.

3. Property and Equipment

Property and equipment as of September 30, 2016 and December 31, 2015 consists of the following (in thousands):

	September 30, December 31,	
	2016	2015
Land	\$ 553,769	\$ 578,338
Land improvements	7,994	7,994
Buildings	2,337,446	2,538,719
Furniture, fixtures and equipment	424,393	458,577
Construction in progress	29,905	25,016
	3,353,507	3,608,644
Less: accumulated depreciation	(711,473)	(726,468)
	\$ 2,642,034	\$ 2,882,176

As of September 30, 2016 and December 31, 2015, we had accrued capital expenditures of \$6.7 million and \$11.6 million, respectively.

4. Favorable Lease Assets

In connection with the acquisition of certain hotels, we have recognized intangible assets for favorable ground leases and tenant leases. Our favorable lease assets, net of accumulated amortization of \$2.3 million and \$2.6 million as of September 30, 2016 and December 31, 2015, respectively, consist of the following (in thousands):

	September 30, December 31,	
	2016	2015
Westin Boston Waterfront Hotel Ground Lease	\$ 17,914	\$ 18,076
Hilton Minneapolis Ground Lease	—	5,685
Lexington Hotel New York Tenant Leases	162	186
Hilton Boston Downtown Tenant Leases	—	8
	\$ 18,076	\$ 23,955

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Favorable lease assets are recorded at the acquisition date and are generally amortized using the straight-line method over the remaining non-cancelable term of the lease agreement. We recorded \$0.1 million of amortization expense for each of the three months ended September 30, 2016 and 2015. We recorded \$0.2 million and \$0.4 million, respectively, of amortization expense for each of the nine months ended September 30, 2016 and 2015.

On June 30, 2016, we sold the Hilton Minneapolis (see Note 9). In connection with the sale, we wrote off the favorable ground lease asset, which is included in the gain on sale of hotel properties on the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2016.

5. Capital Stock

Common Shares

We are authorized to issue up to 400 million shares of common stock, \$0.01 par value per share. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Holders of our common stock are entitled to receive dividends out of assets legally available for the payment of dividends when authorized by our board of directors.

We have an “at-the-market” equity offering program (the “ATM program”), pursuant to which we may issue and sell shares of our common stock from time to time, having an aggregate offering price of up to \$200 million. We have not sold any shares in 2016 and there is \$128.3 million remaining under the ATM program.

Share Repurchase Program

Our board of directors approved a share repurchase program in November 2015 authorizing us to repurchase up to \$150 million in shares of our common stock. Repurchases under this program are made in open market or privately negotiated transactions as permitted by federal securities laws and other legal requirements. This authority may be exercised from time to time and in such amounts as market conditions warrant, and subject to regulatory considerations. The timing, manner, price and actual number of shares repurchased depends on a variety of factors including stock price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The share repurchase program may be suspended or terminated at any time without prior notice.

During the three months ended September 30, 2016, we repurchased 92,600 shares of our common stock at an average price of \$8.90 per share for a total purchase price of \$0.8 million. Subsequent to September 30, 2016 and through November 8, 2016, we repurchased an additional 516,162 shares of our common stock at an average price of \$8.92 per share for a total purchase price of \$4.6 million. We retired all repurchased shares on their respective settlement dates. As of November 8, 2016, we have \$144.6 million of authorized capacity remaining under our share repurchase program.

Dividends

We have paid the following dividends to holders of our common stock during 2016 as follows:

Payment Date	Record Date	Dividend per Share
January 12, 2016	December 31, 2015	\$ 0.125

April 12, 2016	March 31, 2016	\$ 0.125
July 12, 2016	June 30, 2016	\$ 0.125
October 12, 2016	September 30, 2016	\$ 0.125

Preferred Shares

We are authorized to issue up to 10 million shares of preferred stock, \$0.01 par value per share. Our board of directors is required to set for each class or series of preferred stock the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption. As of September 30, 2016 and December 31, 2015, there were no shares of preferred stock outstanding.

Operating Partnership Units

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Holders of operating partnership units have certain redemption rights, which would enable them to cause our operating partnership to redeem their units in exchange for cash per unit equal to the market price of our common stock, at the time of redemption, or, at our option for shares of our common stock on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or our stockholders. As of September 30, 2016 and December 31, 2015, there were no operating partnership units held by unaffiliated third parties.

6. Stock Incentive Plans

On February 17, 2016, our board of directors adopted the 2016 Equity Incentive Plan (the "2016 Plan"). The 2016 Plan was approved by our stockholders on May 3, 2016 and replaced the 2004 Stock Option and Incentive Plan, as amended (the "2004 Plan"), which was scheduled to expire on April 26, 2017. We no longer make share grants and issuances under the 2004 Plan, although awards previously made under the 2004 Plan that are outstanding will remain in effect in accordance with the terms of that plan and the applicable award agreements. Under the 2016 Plan, we are authorized to issue up to 6,082,664 shares of our common stock. We have issued or committed to issue 53,574 shares under the 2016 Plan as of September 30, 2016.

Restricted Stock Awards

Restricted stock awards issued to our officers and employees generally vest over a 3-year period from the date of the grant based on continued employment. We measure compensation expense for the restricted stock awards based upon the fair market value of our common stock at the date of grant. Compensation expense is recognized on a straight-line basis over the vesting period and is included in corporate expenses in the accompanying condensed consolidated statements of operations. A summary of our restricted stock awards from January 1, 2016 to September 30, 2016 is as follows:

	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested balance at January 1, 2016	474,567	\$ 12.72
Granted	451,739	8.91
Vested	(241,698)	11.83
Forfeited	(122,121)	10.12
Unvested balance at September 30, 2016	562,487	\$ 10.61

The remaining share awards are expected to vest as follows: 245,907 shares during 2017, 187,977 shares during 2018, 117,379 shares during 2019, and 11,224 during 2020. As of September 30, 2016, the unrecognized compensation cost related to restricted stock awards was \$4.4 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 24 months. We recorded \$0.5 million and \$0.7 million, respectively, of compensation expense related to restricted stock awards for the three months ended September 30, 2016 and 2015. We recorded \$2.1 million of compensation expense related to restricted stock awards for the nine month periods ended September 30, 2016 and 2015.

The compensation expense recorded for the three and nine months ended September 30, 2016 includes the reversal of \$0.2 million of previously recognized compensation expense resulting from the forfeiture of restricted stock awards

related to the resignation of our former Executive Vice President and Chief Operating Officer.

Performance Stock Units

Performance stock units (“PSUs”) are restricted stock units that vest three years from the date of grant. Each executive officer is granted a target number of PSUs (the “PSU Target Award”). For the PSUs issued in 2014 and 2015 and vesting in 2017 and 2018, respectively, the actual number of shares of common stock issued to each executive officer is subject to the achievement of certain levels of total stockholder return relative to the total stockholder return of a peer group of publicly traded lodging REITs over a three-year performance period. There will be no payout of shares of our common stock if our total stockholder return falls below the 30th percentile of the total stockholder returns of the peer group. The maximum number of shares of common stock issued to an executive officer is equal to 150% of the PSU Target Award and is earned if our total stockholder return is equal to or greater than the 75th percentile of the total stockholder returns of the peer group. For the PSUs issued in 2016 and vesting in 2019, the calculation of total stockholder return relative to the total stockholder return of a peer group over a three-year performance period remained in effect for 75% of the number of PSUs to be earned in the performance period. The remaining 25% is determined based on achieving improvement in market share for each of our hotels over the three-year performance period.

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We measure compensation expense for the PSUs based upon the fair market value of the award at the grant date. Compensation expense is recognized on a straight-line basis over the three-year performance period and is included in corporate expenses in the accompanying condensed consolidated statements of operations. The grant date fair value of the portion of the PSUs based on our relative total stockholder return is determined using a Monte Carlo simulation performed by a third-party valuation firm. The grant date fair value of the portion of the PSUs based on improvement in market share for each of our hotels is the closing price of our common stock on the grant date.

On February 26, 2016, our board of directors granted 310,398 PSUs to our executive officers. The grant date fair value of the portion of the PSUs based on our relative total stockholder return was \$8.42 using the assumptions of volatility of 24.3% and a risk-free rate of 0.93%. The grant date fair value of the portion of the PSUs based on hotel market share \$8.91.

A summary of our PSUs from January 1, 2016 to September 30, 2016 is as follows:

	Number of Target Units	Weighted- Average Grant Date Fair Value
Unvested balance at January 1, 2016	676,359	\$ 11.41
Granted	310,398	8.54
Additional units from dividends	29,131	9.42
Vested (1)	(242,096)	9.85
Forfeited	(96,301)	10.75
Unvested balance at September 30, 2016	677,491	\$ 10.66

(1) The number of shares of common stock earned for the PSUs vested in 2016 was equal to 89.5% of the PSU Target Award.

The remaining target units are expected to vest as follows: 195,525 units during 2017, 204,010 units during 2018 and 277,956 units during 2019. The number of shares earned upon vesting is subject to the attainment of the performance goals described above. As of September 30, 2016, the unrecognized compensation cost related to the PSUs was \$3.3 million and is expected to be recognized on a straight-line basis over a weighted average period of 23 months. We recorded \$0.1 million and \$0.6 million of compensation expense related to the PSUs for the three months ended September 30, 2016 and 2015, respectively. We recorded \$1.4 million and \$1.7 million of compensation expense related to the PSUs for the nine months ended September 30, 2016 and 2015, respectively.

The compensation expense recorded for the three and nine months ended September 30, 2016 includes the reversal of \$0.4 million of previously recognized compensation expense resulting from the forfeiture of PSUs related to the resignation of our former Executive Vice President and Chief Operating Officer.

Director Stock Grants

On May 11, 2016, we issued (i) 44,645 shares of common stock and (ii) 8,929 deferred stock units to our board of directors having an aggregate value of \$510,000, based on the closing stock price for our common stock on such day. The shares of common stock and the deferred stock units issued to our board of directors vest immediately upon issuance.

7. Earnings Per Share

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

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net income	\$29,937	\$ 24,464	\$90,890	\$ 59,928
Denominator:				
Weighted-average number of common shares outstanding—basic	201,297,820	200,852,072	201,188,500	200,776,641
Effect of dilutive securities:				
Unvested restricted common stock	58,115	99,873	—	130,349
Unexercised stock appreciation rights	—	—	—	1,387
Shares related to unvested PSUs	383,643	215,714	383,643	215,714
Weighted-average number of common shares outstanding—diluted	201,739,601	201,167,659	201,572,206	201,124,091
Earnings per share:				
Basic earnings per share	\$0.15	\$ 0.12	\$0.45	\$ 0.30
Diluted earnings per share	\$0.15	\$ 0.12	\$0.45	\$ 0.30

We did not include unexercised stock appreciation rights of 20,770 for the three and nine months ended September 30, 2016 as they would be anti-dilutive. We did not include the effect of unvested restricted common stock in the calculation of the diluted weighted-average number of common shares outstanding for the nine months ended September 30, 2016 as it would be anti-dilutive.

8. Debt

The following table sets forth information regarding the Company's debt as of September 30, 2016 (dollars in thousands):

Property	Principal Balance	Interest Rate	Maturity Date
Lexington Hotel New York	\$ 170,368	LIBOR + 2.25% (1)	October 2017 (2)
Salt Lake City Marriott Downtown	58,719	4.25%	November 2020
Westin Washington D.C. City Center	66,623	3.99%	January 2023
The Lodge at Sonoma, a Renaissance Resort & Spa	29,044	3.96%	April 2023
Westin San Diego	67,341	3.94%	April 2023
Courtyard Manhattan / Midtown East	85,790	4.40%	August 2024
Renaissance Worthington	85,000	3.66%	May 2025
JW Marriott Denver at Cherry Creek	64,839	4.33%	July 2025
Boston Westin	202,309	4.36%	November 2025
Unamortized debt issuance costs	(6,407)		
Total mortgage debt, net of unamortized debt issuance costs	823,626		
Senior unsecured term loan	100,000	LIBOR + 1.45% (3)	May 2021
Unamortized debt issuance costs	(664)		
Senior unsecured term loan, net of unamortized debt issuance costs	99,336		
Senior unsecured credit facility	—	LIBOR + 1.50%	May 2020 (4)
Total debt, net of unamortized debt issuance costs	\$922,962		
Weighted-Average Interest Rate		3.72%	

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- (1) The interest rate as of September 30, 2016 was 2.77%.
 The loan may be extended for two additional one-year terms subject to the satisfaction of certain conditions,
 (2) including a debt yield based on trailing 12-month hotel cash flows equal to or greater than 13% at the time the first extension option is exercised, and the payment of an extension fee. As of September 30, 2016, the debt yield was approximately 5.7%.
 (3) The interest rate as of September 30, 2016 was 1.97%.
 (4) The credit facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions.

Mortgage Debt

We have incurred limited recourse, property specific mortgage debt secured by certain of our hotels. In the event of default, the lender may only foreclose on the secured assets; however, in the event of fraud, misapplication of funds or other customary recourse provisions, the lender may seek payment from us. As of September 30, 2016, nine of our 26 hotels were secured by mortgage debt.

Our mortgage debt contains certain property specific covenants and restrictions, including minimum debt service coverage ratios that trigger “cash trap” provisions as well as restrictions on incurring additional debt without lender consent. During the quarter ended September 30, 2016, the cash trap provision was triggered on the mortgage loan secured by the Lexington Hotel New York. As of September 30, 2016, we were in compliance with the financial covenants of our mortgage debt.

On January 11, 2016, we repaid the mortgage loan secured by the Chicago Marriott Downtown Magnificent Mile. The loan had an outstanding principal balance of \$201.7 million with interest at a fixed rate of 5.98%.

On May 11, 2016, we repaid the mortgage loan secured by the Courtyard Manhattan Fifth Avenue. The loan had an outstanding principal balance of \$48.1 million with interest at a fixed rate of 6.48%.

On June 30, 2016, in connection with the sale of the Hilton Minneapolis, the buyer assumed \$89.5 million of mortgage debt secured by the hotel. The loan had a fixed interest rate of 5.46%.

Senior Unsecured Credit Facility

We are party to a senior unsecured credit facility. On May 3, 2016, we amended and restated the facility to increase the capacity from \$200 million to \$300 million, decrease the pricing and extend the maturity date to May 2020. The maturity date may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions. The facility also includes an accordion feature to expand up to \$600 million, subject to lender consent. The interest rate on the facility is based upon LIBOR, plus an applicable margin.

The applicable margin is based upon the Company’s leverage ratio, as follows:

Leverage Ratio	Applicable Margin
Less than or equal to 35%	1.50 %
Greater than 35% but less than or equal to 45%	1.65 %
Greater than 45% but less than or equal to 50%	1.80 %
Greater than 50% but less than or equal to 55%	2.00 %
Greater than 55%	2.25 %

In addition to the interest payable on amounts outstanding under the facility, we were required to pay an amount equal to (x) 0.20% of the unused portion of the facility if the average usage of the facility was greater than 50% or (y) 0.30% of the unused portion of the facility if the average usage of the facility was less than or equal to 50%.

The facility also contains various corporate financial covenants. A summary of the most restrictive covenants is as follows:

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	Covenant	Actual at September 30, 2016
Maximum leverage ratio (1)	60%	22.1%
Minimum fixed charge coverage ratio (2)	1.50x	4.32x
Minimum tangible net worth (3)	\$1.91 billion	\$2.54 billion
Secured recourse indebtedness	Less than 45% of Total Asset Value	27.6%

Leverage ratio is net indebtedness, as defined in the credit agreement, divided by total asset value, defined in the (1) credit agreement as the value of our owned hotels based on hotel net operating income divided by a defined capitalization rate.

Fixed charge coverage ratio is Adjusted EBITDA, generally defined in the credit agreement as EBITDA less FF&E reserves, for the most recently ending 12 months, to fixed charges, which is defined in the credit agreement as (2) interest expense, all regularly scheduled principal payments and payments on capitalized lease obligations, for the same most recently ending 12-month period.

Tangible net worth, as defined in the credit agreement, is (i) total gross book value of all assets, exclusive of (3) depreciation and amortization, less intangible assets, total indebtedness, and all other liabilities, plus (ii) 75% of net proceeds from future equity issuances.

As of September 30, 2016, we had no borrowings outstanding under the facility and the Company's leverage ratio was 22.1%. Accordingly, interest on our borrowings under the facility, if any, will be based on LIBOR plus 150 basis points for the following quarter. We incurred interest and unused credit facility fees on the facility of \$0.2 million and \$0.4 million for the three months ended September 30, 2016 and 2015, respectively. We incurred interest and unused credit facility fees on the facility of \$1.1 million and \$0.8 million for the nine months ended September 30, 2016 and 2015, respectively.

Senior Unsecured Term Loan

On May 3, 2016, we closed on a new five-year \$100 million senior unsecured term loan. The interest rate on the term loan is based on a pricing grid ranging from 145 to 220 basis points over LIBOR, based on the Company's leverage ratio. The financial covenants of the term loan are identical to the covenants on our senior unsecured credit facility, which are described above. The total proceeds from the term loan were used to repay a portion of the \$75 million in borrowings then outstanding under our senior unsecured credit facility and to repay the \$48.1 million mortgage loan secured by the Courtyard Manhattan Fifth Avenue.

The applicable margin is based upon the Company's leverage ratio, as follows:

Leverage Ratio	Applicable Margin
Less than or equal to 35%	1.45 %
Greater than 35% but less than or equal to 45%	1.60 %
Greater than 45% but less than or equal to 50%	1.75 %
Greater than 50% but less than or equal to 55%	1.95 %
Greater than 55%	2.20 %

As of September 30, 2016, the Company's leverage ratio was 22.1%. Accordingly, interest on our borrowings under the term loan will be based on LIBOR plus 145 basis points for the following quarter. We incurred interest on the facility of \$0.5 million and \$0.8 million for the three and nine months ended September 30, 2016, respectively.

9. Dispositions

On June 8, 2016, we sold the 485-room Orlando Airport Marriott to an unaffiliated third party for a contractual sales price of \$63 million. We received net proceeds of approximately \$65.4 million from the transaction, which included credit for the hotel's capital replacement reserve. We recognized a pre-tax gain on sale of the hotel of approximately \$3.4 million.

On June 30, 2016, we sold the 821-room Hilton Minneapolis to an unaffiliated third party for a contractual sales price of \$140 million. The buyer assumed the \$89.5 million mortgage loan secured by the hotel. We received net proceeds of approximately \$54.8 million from the transaction, which included credit for the hotel's working capital. We recognized a pre-tax gain on sale of the hotel of approximately \$4.9 million.

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On July 7, 2016, we sold the 169-room Hilton Garden Inn Chelsea/New York City to an unaffiliated third party for a contractual sales price of \$65.0 million. We received net proceeds of approximately \$63.3 million from the transaction. We recognized a pre-tax gain on sale of the hotel of approximately \$2.0 million.

Our condensed consolidated statements of operations include the following pre-tax income (loss), inclusive of the gain on sale, from the hotel properties sold during the nine months ended September 30, 2016 (in thousands):

	Three Months		Nine Months	
	Ended		Ended September	
	September 30,		30,	
	2016	2015	2016	2015
Orlando Airport Marriott	\$(25)	\$(448)	\$7,899	\$1,808
Hilton Minneapolis	174	1,844	4,840	(202)
Hilton Garden Inn Chelsea/New York City	2,025	1,232	3,087	2,015
Total pre-tax income	\$2,174	\$2,628	\$15,826	\$3,621

10. Fair Value of Financial Instruments

The fair value of certain financial assets and liabilities and other financial instruments as of September 30, 2016 and December 31, 2015, in thousands, is as follows:

	September 30, 2016		December 31, 2015	
	Carrying Amount (1)	Fair Value	Carrying Amount (1)	Fair Value
Debt	\$922,962	\$918,134	\$1,169,749	\$1,152,351

(1) The carrying amount of debt is net of unamortized debt issuance costs.

The fair value of our mortgage debt is a Level 2 measurement under the fair value hierarchy (see Note 2). We estimate the fair value of our mortgage debt by discounting the future cash flows of each instrument at estimated market rates. The carrying value of our other financial instruments approximate fair value due to the short-term nature of these financial instruments.

11. Commitments and Contingencies

Litigation

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

Other Matters

In February 2016, the Company was notified by the franchisor of one of its hotels that as a result of low guest satisfaction scores, the Company is in default under the franchise agreement for that hotel. The Company is proactively working with the franchisor and the manager of the hotel to develop and execute a plan to improve the guest satisfaction scores. While the franchisor has reserved all of its rights under the franchise agreement, including the right to terminate the franchise agreement in the future, no action to terminate the franchise agreement has been taken by the franchisor. In addition, the lender that holds the mortgage on this hotel received notice of the foregoing. The lender has provided written notice to the Company that although it has the right to call an event of default under the loan agreement after a notice and cure period has elapsed, the lender is not doing so but reserves all of its rights under the loan agreement. While the Company is working diligently with the franchisor and manager to develop an action plan to resolve the matter, no assurance can be given that the Company will be successful. If the Company is not successful, the franchisor may seek to terminate the franchise agreement and the lender may seek to declare an event of default under the loan agreement, which could result in a material adverse effect on the Company's business, financial condition or results of operation.

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

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of complying with these safe harbor provisions. These forward-looking statements are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions, whether in the negative or affirmative. Forward-looking statements are based on management’s current expectations and assumptions and are not guarantees of future performance. Factors that may cause actual results to differ materially from current expectations include, but are not limited to, the risks discussed herein and the risk factors discussed from time to time in our periodic filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2015 as updated by our Quarterly Reports on Form 10-Q. Accordingly, there is no assurance that the Company’s expectations will be realized. Except as otherwise required by the federal securities laws, the Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this report to reflect events, circumstances or changes in expectations after the date of this report.

Overview

DiamondRock Hospitality Company is a lodging-focused Maryland corporation operating as a real estate investment trust (“REIT”). As of September 30, 2016, we owned a portfolio of 26 premium hotels and resorts that contain 9,461 guest rooms located in 17 different markets in North America and the U.S. Virgin Islands. As an owner, rather than an operator, of lodging properties, we receive all of the operating profits or losses generated by the 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 a highly professional public lodging REIT that delivers long-term returns for our stockholders which exceed long-term returns generated by our peers. Our goal is to deliver long-term stockholder returns through a combination of dividends and enduring capital appreciation. Our strategy is to utilize disciplined capital allocation, focus on high quality lodging properties in North American markets with superior growth prospects and high barriers-to-entry, aggressively asset manage those hotels, and employ conservative amounts of leverage.

Our primary business is to acquire, own, asset manage and renovate full-service hotel properties in the United States. 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, including Marriott International, Inc. and Hilton Worldwide.

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

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

• Occupancy percentage;

• Average Daily Rate (or ADR);

• Revenue per Available Room (or RevPAR);

• Earnings Before Interest, Income Taxes, Depreciation and Amortization (or EBITDA) and Adjusted EBITDA; and

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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 our total revenues for the nine months ended September 30, 2016 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."

Our Hotels

The following table sets forth certain operating information for the nine months ended September 30, 2016 for each of our hotels.

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Property	Location	Number of Rooms	Occupancy (%)	ADR(\$)	RevPAR(\$)	% Change from 2015 RevPAR (1)
Chicago Marriott Downtown	Chicago, Illinois	1,200	69.4 %	\$219.65	\$ 152.52	(7.8) %
Hilton Minneapolis (2)	Minneapolis, Minnesota	821	69.8 %	149.38	104.32	(2.1) %
Westin Boston Waterfront Hotel	Boston, Massachusetts	793	82.0 %	242.15	198.46	2.4 %
Lexington Hotel New York	New York, New York	725	90.3 %	230.77	208.44	(6.0) %
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	71.0 %	161.18	114.44	(1.9) %
Renaissance Worthington	Fort Worth, Texas	504	64.1 %	180.21	115.59	(9.3) %
Frenchman's Reef & Morning Star Marriott Beach Resort	St. Thomas, U.S. Virgin Islands	502	86.5 %	257.46	222.74	1.8 %
Orlando Airport Marriott (3)	Orlando, Florida	485	86.8 %	129.43	112.29	3.2 %
Westin San Diego	San Diego, California	436	86.4 %	189.79	163.95	1.4 %
Westin Fort Lauderdale Beach Resort	Fort Lauderdale, Florida	432	92.1 %	196.63	181.03	15.1 %
Westin Washington, D.C. City Center	Washington, D.C.	410	85.9 %	222.66	191.30	7.1 %
Hilton Boston Downtown	Boston, Massachusetts	403	87.8 %	282.76	248.16	1.9 %
Vail Marriott Mountain Resort & Spa	Vail, Colorado	344	73.4 %	271.71	199.34	6.2 %
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	73.7 %	174.58	128.67	4.7 %
Courtyard Manhattan/Midtown East	New York, New York	321	91.9 %	251.17	230.80	(1.2) %
The Gwen Chicago	Chicago, Illinois	300	76.8 %	208.80	160.33	(2.6) %
Hilton Garden Inn Times Square Central	New York, New York	282	96.4 %	234.74	226.36	(3.7) %
Bethesda Marriott Suites	Bethesda, Maryland	272	71.4 %	170.48	121.78	7.2 %
Hilton Burlington	Burlington, Vermont	258	81.4 %	180.39	146.82	7.7 %
JW Marriott Denver at Cherry Creek	Denver, Colorado	196	81.9 %	270.10	221.10	0.6 %
Courtyard Manhattan/Fifth Avenue	New York, New York	189	88.2 %	250.14	220.50	(5.0) %
Sheraton Suites Key West	Key West, Florida	184	88.2 %	260.24	229.56	(2.4) %
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	81.4 %	294.85	240.07	3.6 %
Courtyard Denver Downtown	Denver, Colorado	177	82.9 %	203.60	168.86	2.1 %
Hilton Garden Inn Chelsea/New York City (4)	New York, New York	169	98.1 %	201.66	197.74	3.5 %
Renaissance Charleston	Charleston, South Carolina	166	90.9 %	223.06	202.75	2.4 %
Shorebreak Hotel	Huntington Beach, California	157	81.3 %	232.01	188.73	(0.3) %
Inn at Key West	Key West, Florida	106	87.1 %	208.16	181.22	(9.6) %
Hotel Rex	San Francisco, California	94	83.9 %	238.58	200.28	(1.5) %
TOTAL/WEIGHTED AVERAGE (1)		10,936	80.7 %	\$217.54	\$ 175.58	(0.2) %

(1) The percentage change from 2015 RevPAR reflects the comparable period in 2015 to our 2016 ownership period for our 2015 acquisitions (Shorebreak Hotel and Sheraton Suites Key West) and our 2016 dispositions (Orlando Airport Marriott, Hilton Minneapolis and Hilton Garden Inn Chelsea/New York City).

- (2) The hotel was sold on June 30, 2016. The operating statistics reflect the period from January 1, 2016 to June 29, 2016.
- (3) The hotel was sold on June 8, 2016. The operating statistics reflect the period from January 1, 2016 to June 7, 2016.
- (4) The hotel was sold on July 7, 2016. The operating statistics reflect the period from January 1, 2016 to July 6, 2016.

Highlights

Mortgage Loan Repayments. On January 11, 2016, we repaid the \$201.7 million mortgage loan secured by the Chicago Marriott Downtown. On May 11, 2016, we repaid the \$48.1 million mortgage loan secured by the Courtyard Manhattan Fifth Avenue.

Amended Credit Facility and New Term Loan. On May 3, 2016, we amended and restated our senior unsecured credit facility to increase the capacity to \$300 million, decrease the pricing and extend the maturity date to May 2020. Also on May 3, 2016, we closed on a new five-year \$100 million senior unsecured term loan.

Hotel Dispositions. In June 2016, we sold the 485-room Orlando Airport Marriott for a contractual sales price of \$63 million and the Hilton Minneapolis for a contractual sales price of \$140 million. In July 2016, we sold the 169-room Hilton Garden Inn Chelsea/New York City for a contractual sales price of \$65 million.

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Results of Operations

Comparison of the Three Months Ended September 30, 2016 to the Three Months Ended September 30, 2015

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

	Three Months Ended September 30,		%
	2016	2015	Change
Rooms	\$ 163.2	\$ 178.5	(8.6)%
Food and beverage	44.0	47.3	(7.0)%
Other	13.0	12.7	2.4 %
Total revenues	\$ 220.2	\$ 238.5	(7.7)%

Our total revenues decreased \$18.3 million from \$238.5 million for the three months ended September 30, 2015 to \$220.2 million for the three months ended September 30, 2016. This decrease includes amounts that are not comparable quarter-over-quarter as follows:

- \$5.5 million decrease from the Orlando Airport Marriott, which was sold on June 8, 2016.
- \$14.9 million decrease from the Minneapolis Hilton, which was sold on June 30, 2016.
- \$3.6 million decrease from the Hilton Garden Inn Chelsea/New York City, which was sold on July 7, 2016.

Excluding these non-comparable amounts our total revenues increased \$5.7 million, or 2.7%.

The following are key hotel operating statistics for the three months ended September 30, 2016 and 2015. The 2015 amounts reflect the period in 2015 comparable to our ownership period in 2016 for the Orlando Airport Marriott, Hilton Minneapolis, and Hilton Garden Inn Chelsea/New York City.

	Three Months Ended September 30,		%
	2016	2015	Change
Occupancy %	84.1	83.5	0.6 percentage points
ADR	\$ 223.34	\$ 223.35	0.0 %
RevPAR	\$ 187.87	\$ 186.51	0.7 %

The increase in room revenue is a result of a 3.7% increase in group business and a 21.7% increase in the contract segment, partially offset by a 2.8% decrease in the business transient segment.

Food and beverage revenues decreased \$3.3 million from the three months ended September 30, 2015, which includes amounts that are not comparable quarter-over-quarter as follows:

- \$1.8 million decrease from the Orlando Airport Marriott, which was sold on June 8, 2016.
- \$5.0 million decrease from the Minneapolis Hilton, which was sold on June 30, 2016.
- \$0.1 million decrease from the Hilton Garden Inn Chelsea/New York City, which was sold on July 7, 2016.

Excluding these non-comparable amounts, food and beverage revenues increased \$3.6 million, or 8.9%, primarily driven by an increase in banquet revenue.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by \$0.3 million, driven primarily by higher resort fees and attrition and cancellation fees.

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

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	Three Months Ended September 30,			% Change (B)/W
	2016	2015		
Rooms departmental expenses	\$39.8	\$42.4	(6.1))%
Food and beverage departmental expenses	29.1	32.1	(9.3))
Other departmental expenses	3.0	4.4	(31.8))
General and administrative	17.7	18.8	(5.9))
Utilities	6.7	7.2	(6.9))
Repairs and maintenance	8.6	9.4	(8.5))
Sales and marketing	14.8	16.3	(9.2))
Franchise fees	5.5	5.9	(6.8))
Base management fees	5.4	5.9	(8.5))
Incentive management fees	2.3	1.7	35.3	
Property taxes	12.3	13.5	(8.9))
Other fixed charges	2.8	3.3	(15.2))
Hotel pre-opening costs	—	0.8	(100.0))
Ground rent—Contractual	1.0	2.4	(58.3))
Ground rent—Non-cash	1.6	1.4	14.3	
Total hotel operating expenses	\$150.6	\$165.5	(9.0))%

Our hotel operating expenses decreased \$14.9 million from \$165.5 million for the three months ended September 30, 2015 to \$150.6 million for the three months ended September 30, 2016. The increase in hotel operating expenses includes amounts that are not comparable quarter-over-quarter as follows:

- \$4.6 million decrease from the Orlando Airport Marriott, which was sold on June 8, 2016.
- \$10.5 million decrease from the Minneapolis Hilton, which was sold on June 30, 2016.
- \$2.2 million decrease from the Hilton Garden Inn Chelsea/New York City, which was sold on July 7, 2016.

Excluding the non-comparable amounts, hotel operating expenses increased \$2.4 million, or 1.6%, from the three months ended September 30, 2015.

Depreciation and amortization. Depreciation and amortization is recorded on our hotel buildings over 40 years for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. Our depreciation and amortization expense decreased \$1.5 million, or 6.0%, from the three months ended September 30, 2015.

Hotel acquisition costs. We incurred \$0.5 million of hotel acquisition costs during the three months ended September 30, 2015.

Corporate expenses. Corporate expenses principally consist of employee-related costs, including base payroll, bonus and restricted stock. Corporate expenses also include corporate operating costs, professional fees and directors' fees. Our corporate expenses decreased \$1.3 million, from \$6.0 million for the three months ended September 30, 2015 to \$4.7 million for the three months ended September 30, 2016. The decrease includes the reversal of \$0.7 million of

previously recognized compensation expense resulting from the forfeiture of equity awards related to the resignation of our former Executive Vice President and Chief Operating Officer. The remaining decrease is primarily due to lower employee-related costs and lower legal fees.

Interest expense. Our interest expense was \$9.5 million and \$12.9 million for the three months ended September 30, 2016 and 2015, respectively, and comprises the following (in millions):

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	Three Months Ended September 30, 2016 2015	
Mortgage debt interest	\$8.2	\$11.9
Term loan interest	0.5	—
Credit facility interest and unused fees	0.3	0.4
Amortization of deferred financing costs and debt premium	0.5	0.5
Interest rate cap fair value adjustment	0.0	0.1
	\$9.5	\$12.9

The decrease in mortgage debt interest expense is primarily related to refinancing a portion of our total debt at lower interest rates. The weighted-average interest rate for our debt decreased from 4.50% as of September 30, 2015 to 3.72% as of September 30, 2016.

Income taxes. We recorded an income tax expense of \$4.4 million for the three months ended September 30, 2016 and \$4.2 million for the three months ended September 30, 2015. The income tax expense for the three months ended September 30, 2016 includes \$4.3 million of income tax expense on the \$10.5 million pre-tax income of our taxable REIT subsidiary, or TRS, and \$0.1 million of state franchise taxes. We incurred less than \$0.1 million of income tax expense on the TRS that owns Frenchman's Reef for the three months ended September 30, 2016. The income tax expense for the three months ended September 30, 2015 includes \$4.4 million of income tax expense incurred on the \$11.0 million pre-tax income of our TRS, \$0.4 million of foreign income tax benefit incurred on the \$1.0 million pre-tax loss of the TRS that owns Frenchman's Reef, and \$0.2 million of state franchise taxes.

Frenchman's Reef is owned by a subsidiary that has elected to be treated as a TRS and is subject to U.S. Virgin Island (USVI) income taxes. We were party to a tax agreement with the USVI that reduced the income tax rate to approximately 7%. The agreement expired on February 14, 2015. The income tax expense related to the TRS that owns Frenchman's Reef reflects the statutory rate of 37.4% from July 1, 2015 through September 30, 2015. In October 2015, we were granted a 15-year extension of the tax agreement, which is retroactive to the expiration date of the prior agreement.

Comparison of the Nine Months Ended September 30, 2016 to the Nine Months Ended September 30, 2015

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

	Nine Months Ended September 30,		
	2016	2015	% Change
Rooms	\$498.7	\$504.7	(1.2)%
Food and beverage	151.8	155.7	(2.5)%
Other	39.4	36.8	7.1%
Total revenues	\$689.9	\$697.2	(1.0)%

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Our total revenues decreased \$7.3 million from \$697.2 million for the nine months ended September 30, 2015 to \$689.9 million for the nine months ended September 30, 2016. This decrease includes amounts that are not comparable period-over-period as follows:

- \$1.3 million increase from the Shorebreak Hotel, which was purchased on February 6, 2015.
- \$10.6 million increase from the Sheraton Suites Key West, which was purchased on June 30, 2015.
- \$7.0 million decrease from the Orlando Airport Marriott, which was sold on June 8, 2016.
- \$15.1 million decrease from the Minneapolis Hilton, which was sold on June 30, 2016.
- \$3.6 million decrease from the Hilton Garden Inn Chelsea/New York City, which was sold on July 7, 2016.

Excluding these non-comparable amounts our total revenues increased \$6.5 million, or 1.0%.

The following are key hotel operating statistics for the nine months ended September 30, 2016 and 2015. The 2015 amounts reflect the period in 2015 comparable to our ownership period in 2016 for our acquisitions of the Shorebreak Hotel and the Sheraton Suites Key West, and our dispositions of the Orlando Airport Marriott, Hilton Minneapolis, and Hilton Garden Inn Chelsea/New York City.

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	Nine Months Ended			
	September 30,			
	2016	2015	% Change	
Occupancy %	80.7	% 81.3	% (0.6)	percentage points
ADR	\$217.54	\$216.25	0.6	%
RevPAR	\$175.58	\$175.86	(0.2)%

Room revenue from contract business increased 35.6%, partially offset by a 1.7% decrease in group business and a 0.4% decrease in the business transient segment.

Food and beverage revenues decreased \$3.9 million from the nine months ended September 30, 2015, which includes amounts that are not comparable period-over-period as follows:

- \$0.3 million increase from the Shorebreak Hotel, which was purchased on February 6, 2015.
- \$1.1 million increase from the Sheraton Suites Key West, which was purchased on June 30, 2015.
- \$2.3 million decrease from the Orlando Airport Marriott, which was sold on June 8, 2016.
- \$5.0 million decrease from the Minneapolis Hilton, which was sold on June 30, 2016.
- \$0.1 million decrease from the Hilton Garden Inn Chelsea/New York City, which was sold on July 7, 2016.

Excluding these non-comparable amounts, food and beverage revenues increased \$2.1 million, or 1.4%.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by \$2.6 million, driven primarily by higher resort fees and attrition and cancellation fees.

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

	Nine Months			
	Ended			
	September 30,			
	2016	2015	% Change	
			(B)/W	
Rooms departmental expenses	\$121.7	\$122.9	(1.0)%
Food and beverage departmental expenses	97.7	103.0	(5.1)
Other departmental expenses	9.2	12.9	(28.7)
General and administrative	58.0	54.9	5.6	
Utilities	20.0	20.9	(4.3)
Repairs and maintenance	27.1	27.4	(1.1)
Sales and marketing	47.4	48.3	(1.9)
Franchise fees	16.5	15.9	3.8	
Base management fees	17.0	17.3	(1.7)
Incentive management fees	6.0	5.4	11.1	
Property taxes	35.2	35.3	(0.3)
Other fixed charges	9.2	9.1	1.1	
Hotel pre-opening costs	—	1.3	(100.0)	
Ground rent—Contractual	5.9	7.1	(16.9)
Ground rent—Non-cash	4.2	4.3	(2.3)
Total hotel operating expenses	\$475.1	\$486.0	(2.2)%

Our hotel operating expenses decreased \$10.9 million from \$486.0 million for the nine months ended September 30, 2015 to \$475.1 million for the nine months ended September 30, 2016. The decrease in hotel operating expenses includes amounts that are not comparable quarter-over-quarter as follows:

- \$1.0 million increase from the Shorebreak Hotel, which was purchased on February 6, 2015.
- \$5.5 million increase from the Sheraton Suites Key West, which was purchased on June 30, 2015.
- \$5.8 million decrease from the Orlando Airport Marriott, which was sold on June 8, 2016.
- \$10.6 million decrease from the Minneapolis Hilton, which was sold on June 30, 2016.
- \$2.2 million decrease from the Hilton Garden Inn Chelsea/New York City, which was sold on July 7, 2016.

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Excluding the non-comparable amounts, hotel operating expenses increased \$1.2 million, or 0.3%, from the nine months ended September 30, 2015.

Depreciation and amortization. Depreciation and amortization is recorded on our hotel buildings over 40 years for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. Our depreciation and amortization expense increased \$1.3 million, or 1.7%, from the nine months ended September 30, 2015.

Impairment losses. During the nine months ended September 30, 2015, we recorded impairment losses of \$0.8 million on the favorable lease asset related to a tenant lease at the Lexington Hotel New York and \$9.7 million on the option to acquire a leasehold interest in a parcel of land adjacent to the Westin Boston Waterfront Hotel for the development of a new hotel.

Hotel acquisition costs. We incurred \$0.9 million of hotel acquisition costs during the nine months ended September 30, 2015 associated with the acquisitions of the Shorebreak Hotel and the Sheraton Suites Key West and additional transfer taxes on another acquired hotel.

Corporate expenses. Corporate expenses principally consist of employee-related costs, including base payroll, bonus and restricted stock. Corporate expenses also include corporate operating costs, professional fees and directors' fees. Our corporate expenses decreased \$0.4 million, from \$17.8 million for the nine months ended September 30, 2015 to \$17.4 million for the nine months ended September 30, 2016. The decrease includes the reversal of \$0.7 million of previously recognized compensation expense resulting from the forfeiture of equity awards related to the resignation of our former Executive Vice President and Chief Operating Officer, primarily offset by higher other employee-related costs.

Interest expense. Our interest expense was \$32.2 million and \$39.0 million for the nine months ended September 30, 2016 and 2015, respectively, and comprises the following (in millions):

	Nine Months Ended September 30, 2016 2015	
Mortgage debt interest	\$28.5	\$36.2
Term loan interest	0.8	—
Credit facility interest and unused fees	1.1	0.8
Amortization of deferred financing costs and debt premium	1.7	1.5
Interest rate cap fair value adjustment	0.1	0.5
	\$32.2	\$39.0

The decrease in mortgage debt interest expense is related to refinancing a portion of our total debt at lower interest rates. The weighted-average interest rate for our debt decreased from 4.50% as of September 30, 2015 to 3.72% as of September 30, 2016.

Income taxes. We recorded an income tax expense of \$11.4 million for the nine months ended September 30, 2016 and \$8.6 million for the nine months ended September 30, 2015. The income tax expense for the nine months ended

September 30, 2016 includes \$10.6 million of income tax expense on the \$25.8 million pre-tax income of our taxable REIT subsidiary, or TRS, \$0.6 million of foreign income tax expense incurred on the \$8.1 million pre-tax income of the TRS that owns Frenchman's Reef and \$0.2 million of state franchise taxes. The income tax expense for the nine months ended September 30, 2015 includes \$6.8 million of income tax expense on the \$16.7 million pre-tax income of our TRS, \$1.5 million of foreign income tax expense incurred on the \$6.0 million pre-tax income of the TRS that owns Frenchman's Reef and \$0.3 million of state franchise taxes.

Frenchman's Reef is owned by a subsidiary that has elected to be treated as a TRS and is subject to U.S. Virgin Island (USVI) income taxes. We were party to a tax agreement with the USVI that reduced the income tax rate to approximately 7%. The agreement expired on February 14, 2015. The income tax expense related to the TRS that owns Frenchman's Reef reflects the statutory rate of 37.4% from February 15, 2015 through September 30, 2015. In October 2015, we were granted a 15-year extension of the tax agreement, which is retroactive to the expiration date of the prior agreement.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds necessary to fund distributions to our stockholders to maintain our REIT status as well as to pay for operating expenses and capital expenditures directly associated with our hotels,

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funding of share repurchases under our share repurchase program, debt repayments upon maturity and scheduled debt payments of interest and principal. We currently expect that our available cash flows, which are generally provided through net cash from hotel operations, existing cash balances, equity issuances, proceeds from new financings and refinancings of maturing debt, proceeds from property dispositions, and, if necessary, short-term borrowings under our senior unsecured credit facility, will be sufficient to meet our short-term liquidity requirements.

Some of our mortgage debt agreements contain “cash trap” provisions that are triggered when the hotel’s operating results

fall below a certain debt service coverage ratio. When these provisions are triggered, all of the excess cash flow generated by the hotel is deposited directly into cash management accounts for the benefit of our lenders until a specified debt service coverage ratio is reached and maintained for a certain period of time. Such provisions do not allow the lender the right to accelerate repayment of the underlying debt. During the quarter ended September 30, 2016, the cash trap provision was triggered on the mortgage loan secured by the Lexington Hotel New York.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional hotels, renovations, and other capital expenditures that need to be made periodically to our hotels, scheduled debt payments, debt maturities and making distributions to our stockholders. We expect to meet our long-term liquidity requirements through various sources of capital, including cash provided by operations, borrowings, issuances of additional equity and/or debt securities and proceeds from property dispositions. Our ability to incur additional debt is dependent upon a number of factors, including the state of the credit markets, our degree of leverage, the value of our unencumbered assets and borrowing restrictions imposed by existing lenders. Our ability to raise capital through the issuance of additional equity and/or debt securities is also dependent on a number of factors including the current state of the capital markets, investor sentiment and intended use of proceeds. We may need to raise additional capital if we identify acquisition opportunities that meet our investment objectives and require liquidity in excess of existing cash balances. Our ability to raise funds through the issuance of equity securities depends on, among other things, general market conditions for hotel companies and REITs and market perceptions about us.

Our Financing Strategy

Since our formation in 2004, we have been committed to a conservative capital structure with prudent leverage. The majority of our outstanding debt is fixed interest rate mortgage debt. We have a preference to maintain a significant portion of our portfolio as unencumbered assets in order to provide balance sheet flexibility. We expect that our strategy will enable us to maintain a balance sheet with an appropriate amount of debt throughout all phases of the lodging cycle. We believe that it is not prudent to increase the inherent risk of highly cyclical lodging fundamentals through the use of a highly leveraged capital structure.

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 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.

We believe that we maintain a reasonable amount of debt. As of September 30, 2016, we had \$923.0 million of debt outstanding with a weighted average interest rate of 3.72% and a weighted average maturity date of approximately 5.7 years. We maintain one of the most durable and lowest levered balance sheets among our lodging REIT peers. We maintain balance sheet flexibility with limited near-term debt maturities, capacity under our senior unsecured credit facility and 17 of our 26 hotels unencumbered by mortgage debt. We remain committed to our core strategy of maintaining a simple capital structure with conservative leverage.

Information about our financing activities is available in Note 8 to the accompanying condensed consolidated financial statements.

Share Repurchase Program

Our board of directors approved a share repurchase program in November 2015 authorizing us to repurchase up to \$150 million in shares of our common stock. Information about our share repurchase program is found in Note 5 to the accompanying condensed consolidated financial statements. As of September 30, 2016, we had repurchased 92,600 shares of our common stock at an average price of \$8.90 per share for a total purchase price of \$0.8 million. Subsequent to September 30, 2016 and through November 8, 2016, we repurchased an additional 516,162 shares of our common stock at average price of \$8.92 per share for a total purchase price of \$4.6 million. We retired all repurchased shares on their respective settlement dates. As of November 8, 2016, we have \$144.6 million of authorized capacity remaining under our share repurchase program.

Short-Term Borrowings

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Other than borrowings under our senior unsecured credit facility, discussed below, we do not utilize short-term borrowings to meet liquidity requirements.

Senior Unsecured Credit Facility

We are party to a \$300 million senior unsecured credit facility expiring in May 2020. Information about our senior unsecured credit facility is found in Note 8 to the accompanying condensed consolidated financial statements. As of September 30, 2016, we had no borrowings outstanding under our senior unsecured credit facility.

Senior Unsecured Term Loan

We are party to a \$100 million senior unsecured term loan expiring in May 2021. Information about our senior unsecured term loan is found in Note 8 to the accompanying condensed consolidated financial statements.

Sources and Uses of Cash

Our principal sources of cash are net cash flow from hotel operations and borrowings under mortgage debt, term loans, our senior unsecured credit facility and proceeds from hotel dispositions. Our principal uses of cash are acquisitions of hotel properties, debt service, debt maturities, capital expenditures, operating costs, corporate expenses and dividends. As of September 30, 2016, we had \$236.0 million of unrestricted corporate cash and \$47.7 million of restricted cash, as well as borrowing capacity under our senior unsecured credit facility.

Our net cash provided by operations was \$152.5 million for the nine months ended September 30, 2016. Our cash from operations generally consists of the net cash flow from hotel operations offset by cash paid for corporate expenses and other working capital changes.

Our net cash provided by investing activities was \$107.9 million for the nine months ended September 30, 2016, which consisted of \$183.5 million of net proceeds from the sale of the Orlando Airport Marriott, Hilton Minneapolis and Hilton Garden Inn Chelsea/New York City, the net return of \$3.1 million from lender reserves, offset by capital expenditures at our hotels of \$78.7 million.

Our net cash used in financing activities was \$238.1 million for the nine months ended September 30, 2016, which consisted of our \$249.8 million repayment of the mortgage debt secured by the Chicago Marriott and Courtyard Manhattan Fifth Avenue, \$75.6 million of dividend payments, \$1.5 million paid to repurchase shares under our share repurchase program and upon the vesting of restricted stock for the payment of tax withholding obligations, \$2.8 million of financing costs related to our senior unsecured credit facility and term loan, and \$8.4 million of scheduled mortgage debt principal payments, partially offset by \$100.0 million of proceeds from our senior unsecured term loan.

We currently anticipate our significant source of cash for the remainder of the year ending December 31, 2016 will be the net cash flow from hotel operations. We expect our estimated uses of cash for the remainder of the year ending December 31, 2016 will be potential share repurchases, regularly scheduled debt service payments, capital expenditures, dividends, and corporate expenses.

Dividend Policy

We intend to distribute to our stockholders dividends at least equal to our REIT taxable income to avoid paying corporate income tax and excise tax on our earnings (other than the earnings of our TRS, which are all subject to tax at

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

• 90% of our REIT taxable income determined without regard to the dividends paid deduction and excluding net capital gains, plus

• 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Code, minus

• any excess non-cash income.

The timing and frequency of distributions will be authorized by our board of directors and declared by us based upon a variety of factors, including our financial performance, restrictions under applicable law and our current and future loan agreements,

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our debt service requirements, our capital expenditure requirements, the requirements for qualification as a REIT under the Code and other factors that our board of directors may deem relevant from time to time.

We have paid the following dividends to holders of our common stock during 2016:

Payment Date	Record Date	Dividend per Share
January 12, 2016	December 31, 2015	\$ 0.125
April 12, 2016	March 31, 2016	\$ 0.125
July 12, 2016	June 30, 2016	\$ 0.125
October 12, 2016	September 30, 2016	\$ 0.125

Capital Expenditures

The management and franchise agreements for each of our hotels provide for the establishment of separate property improvement funds to cover, among other things, the cost of replacing and repairing furniture, fixtures and equipment at our hotels and other routine capital expenditures. Contributions to the property improvement fund are calculated as a percentage of hotel revenues. In addition, we may be required to pay for the cost of certain additional improvements that are not permitted to be funded from the property improvement fund under the applicable management or franchise agreement. As of September 30, 2016, we have set aside \$39.8 million for capital projects in property improvement funds, which are included in restricted cash.

We spent approximately \$78.7 million on capital improvements during the nine months ending September 30, 2016, primarily related to the second phase of the Chicago Marriott Downtown renovation, the first phase of the renovation of The Gwen and the Worthington Renaissance guest room renovation. We expect to spend approximately \$130 million on capital improvements at our hotels in 2016. Significant projects in 2016 include:

The Gwen, a Luxury Collection Hotel: We rebranded the Conrad Chicago to Marriott's Luxury Collection brand on September 1, 2015. The renovation work associated with the brand conversion will be completed in two phases. The first phase, consisting of the lobby, rooftop bar and other public spaces, commenced in January and was completed in May 2016. The second phase of the renovation, consisting of the guest rooms, will be completed during the seasonally slow winter season beginning in late 2016.

Chicago Marriott Downtown: The second and largest phase of the multi-year renovation was completed early in the second quarter of 2016. This phase included the upgrade renovation of approximately 460 guest rooms as well as construction of a new state-of-the-art fitness center. The remaining guest rooms are expected to be renovated during the seasonally slow winter months over the next two years.

The Lodge at Sonoma: We expect to renovate the guest rooms at the hotel during the seasonally slow period during late 2016 and early 2017.

Charleston Renaissance: We expect to renovate the guest rooms at the hotel during the seasonally slow period from the end of the year through early 2017.

Worthington Renaissance: We have commenced the guest room renovation at the hotel and expect to complete the project at the end of 2016.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Non-GAAP Financial Measures

We use the following non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: EBITDA, Adjusted EBITDA, FFO and Adjusted FFO. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with U.S. GAAP. EBITDA, Adjusted EBITDA, FFO and Adjusted FFO, as calculated by us, may not be comparable to other companies that do not define such terms exactly as the Company.

Use and Limitations of Non-GAAP Financial Measures

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Our management and Board of Directors use EBITDA, Adjusted EBITDA, FFO and Adjusted FFO to evaluate the performance of our hotels and to facilitate comparisons between us and other lodging REITs, hotel owners who are not REITs and other capital intensive companies. The use of these non-GAAP financial measures has certain limitations. These non-GAAP financial measures as presented by us, may not be comparable to non-GAAP financial measures as calculated by other real estate companies. These measures do not reflect certain expenses or expenditures that we incurred and will incur, such as depreciation, interest and capital expenditures. We compensate for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions or assessments of our operating performance. Our reconciliations to the most comparable GAAP financial measures, and our consolidated statements of operations and cash flows, include interest expense, capital expenditures, and other excluded items, all of which should be considered when evaluating our performance, as well as the usefulness of our non-GAAP financial measures.

These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. They should not be considered as alternatives to operating profit, cash flow from operations, or any other operating performance measure prescribed by GAAP. These non-GAAP financial measures reflect additional ways of viewing our operations that we believe, when viewed with our GAAP results and the reconciliations to the corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure.

EBITDA and FFO

EBITDA represents net income excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; and (3) depreciation and amortization. We believe EBITDA is useful to an investor in evaluating our operating performance because it helps investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization) from our operating results. In addition, covenants included in our debt agreements use EBITDA as a measure of financial compliance. We also use EBITDA as one measure in determining the value of hotel acquisitions and dispositions.

The Company computes FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"), which defines FFO as net income determined in accordance with U.S. GAAP, excluding gains or losses from sales of properties and impairment losses, plus depreciation and amortization. The Company believes that the presentation of FFO provides useful information to investors regarding its operating performance because it is a measure of the Company's operations without regard to specified non-cash items, such as real estate depreciation and amortization and gains or losses on the sale of assets. The Company also uses FFO as one measure in assessing its operating results.

Adjustments to EBITDA and FFO

We adjust EBITDA and FFO when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance and that the presentation of Adjusted EBITDA and Adjusted FFO, when combined with U.S. GAAP net income, EBITDA and FFO, is beneficial to an investor's complete understanding of our consolidated operating performance. We adjust EBITDA and FFO for the following items:

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Non-Cash Ground Rent: We exclude the non-cash expense incurred from the straight line recognition of rent from our ground lease obligations and the non-cash amortization of our favorable lease assets. We exclude these non-cash items because they do not reflect the actual rent amounts due to the respective lessors in the current period and they are of lesser significance in evaluating our actual performance for that period.

Non-Cash Amortization of Favorable and Unfavorable Contracts: We exclude the non-cash amortization of the favorable and unfavorable contracts recorded in conjunction with certain acquisitions because the non-cash amortization is based on historical cost accounting and is of lesser significance in evaluating our actual performance for that period.

Cumulative Effect of a Change in Accounting Principle: Infrequently, the Financial Accounting Standards Board (FASB) promulgates new accounting standards that require the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude the effect of these adjustments, which include the accounting impact from prior periods, because they do not reflect the Company's actual underlying performance for the current period.

Gains or Losses from Early Extinguishment of Debt: We exclude the effect of gains or losses recorded on the early extinguishment of debt because these gains or losses result from transaction activity related to the Company's capital structure that we believe are not indicative of the ongoing operating performance of the Company or our hotels.

Hotel Acquisition Costs: We exclude hotel acquisition costs expensed during the period because we believe these transaction costs are not reflective of the ongoing performance of the Company or our hotels.

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Severance Costs: We exclude corporate severance costs incurred with the termination of corporate-level employees and severance costs incurred at our hotels related to lease terminations because we believe these costs do not reflect the ongoing performance of the Company or our hotels.

Hotel Manager Transition Costs: We exclude the one-time transition costs associated with a change in hotel manager because we believe these costs do not reflect the ongoing performance of the Company or our hotels. During the nine months ended September 30, 2015, we excluded the transition costs associated with the change of hotel managers in connection with the acquisition of the Westin Fort Lauderdale and the Shorebreak Hotel.

Other Items: From time to time we incur costs or realize gains that we consider outside the ordinary course of business and that we do not believe reflect the ongoing performance of the Company or our hotels. Such items may include, but are not limited to, the following: pre-opening costs incurred with newly developed hotels; lease preparation costs incurred to prepare vacant space for marketing; management or franchise contract termination fees; gains or losses from legal settlements; bargain purchase gains incurred upon acquisition of a hotel; and gains from insurance proceeds.

In addition, to derive Adjusted EBITDA we exclude gains or losses on dispositions and impairment losses because we believe that including them in EBITDA does not reflect the ongoing performance of our hotels. Additionally, the gain or loss on dispositions and impairment losses are based on historical cost accounting and represent either accelerated depreciation or excess depreciation in previous periods, and depreciation is excluded from EBITDA.

In addition, to derive Adjusted FFO we exclude any fair value adjustments to debt instruments. We exclude these non-cash amounts because they do not reflect the underlying performance of the Company. Specifically, we exclude the impact of the non-cash amortization of the debt premium recorded in conjunction with the acquisition of the JW Marriott Denver at Cherry Creek and fair market value adjustments to the Company's interest rate cap agreement.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$29,937	\$24,464	\$90,890	\$59,928
Interest expense	9,504	12,907	32,242	38,963
Income tax expense	4,393	4,171	11,357	8,576
Real estate related depreciation and amortization	23,605	25,107	73,731	75,018
EBITDA	67,439	66,649	208,220	182,485
Non-cash ground rent	1,568	1,467	4,230	4,454
Non-cash amortization of favorable and unfavorable contracts, net	(478)	(407)	(1,434)	(1,134)
Gain on sale of hotel properties	(2,198)	—	(10,319)	—
Hotel acquisition costs	—	453	—	945
Hotel manager transition and pre-opening costs (1)	—	754	—	1,287
Impairment losses	—	—	—	10,461
Severance costs (2)	(682)	428	(563)	428
Adjusted EBITDA	\$65,649	\$69,344	\$200,134	\$198,926

(1) Classified within other hotel expenses on the condensed consolidated statements of operations.

(2) Classified within corporate expenses on the condensed consolidated statements of operations. During the three months ended September 30, 2016, we reversed \$0.7 million of previously recognized compensation expense for forfeited equity awards related to the resignation of our former Executive Vice President and Chief Operating Officer.

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$29,937	\$24,464	\$90,890	\$59,928
Real estate related depreciation and amortization	23,605	25,107	73,731	75,018
Impairment losses	—	—	—	10,461
Gain on sale of hotel properties, net of income tax	(1,877)	—	(8,887)	—
FFO	51,665	49,571	155,734	145,407
Non-cash ground rent	1,568	1,467	4,230	4,454
Non-cash amortization of favorable and unfavorable contracts, net	(478)	(407)	(1,434)	(1,134)
Hotel acquisition costs	—	453	—	945
Hotel manager transition and pre-opening costs (1)	—	754	—	1,287
Severance costs (2)	(682)	428	(563)	428
Fair value adjustments to debt instruments	—	49	19	115
Adjusted FFO	\$52,073	\$52,315	\$157,986	\$151,502

(1) Classified within other hotel expenses on the condensed consolidated statements of operations.

(2) Classified within corporate expenses on the condensed consolidated statements of operations. During the three months ended September 30, 2016, we reversed \$0.7 million of previously recognized compensation expense for forfeited equity awards related to the resignation of our former Executive Vice President and Chief Operating Officer.

Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe that the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Inflation

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates.

Seasonality

The operations of hotels historically have been seasonal depending on location, and accordingly, we expect some seasonality in our business. Volatility in our financial performance from the seasonality of the lodging industry could adversely affect our financial condition and results of operations.

New Accounting Pronouncements Not Yet Implemented

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business strategies, the primary

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market risk to which we are currently exposed, and, to which we expect to be exposed in the future, is interest rate risk. The face amount of our outstanding debt as of September 30, 2016 was \$930.0 million, of which \$270.4 million was variable rate. If market rates of interest on our variable rate debt fluctuate by 25 basis points, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows, by \$0.7 million annually.

Item 4. Controls and Procedures

The Company's management has evaluated, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act, and has concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to give reasonable assurances that information we disclose in reports filed with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There was no change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during the Company's most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and its subsequent Quarterly Reports on Form 10-Q.

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased ⁽¹⁾	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands) ⁽²⁾ ⁽³⁾
July 1 - July 31, 2016	—	\$ —	—	\$ 150,000
August 1 - August 31, 2016	—	\$ —	—	\$ 150,000
September 1 - September 30, 2016	92,600	\$ 8.90	92,600	\$ 149,176

(1) Reflects shares purchased under the Company's \$150 million share repurchase program, which was originally announced on November 5, 2015.

Represents amounts available under the Company's \$150 million share repurchase program. To facilitate repurchases, we make purchases pursuant to a trading plan under Rule 10b5-1 of the Exchange Act, which allows (2) us to repurchase shares during periods when we otherwise may be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. The share repurchase program may be suspended or terminated at any time without prior notice.

(3) Since September 30, 2016, we have continued to repurchase shares of our common stock pursuant to our \$150 million share repurchase program, which was originally announced on November 5, 2015. Between October 1, 2016 and November 8, 2016, we repurchased an additional 516,162 shares of our common stock at an average

price of \$8.92 per share for a total purchase price of \$4.6 million. We retired all repurchased shares on their respective settlement dates. As of November 8, 2016, we have \$144.6 million of authorized capacity remaining under our share repurchase program.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) Exhibits

The following exhibits are filed as part of this Form 10-Q:

Exhibit

- 3.1.1 Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (incorporated by reference to the Registrant's Registration Statement on Form S-11 filed with the Securities and Exchange Commission (File No. 333-123065))
- 3.1.2 Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2007)
- 3.1.3 Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2012)
- 3.1.4 Articles Supplementary of DiamondRock Hospitality Company (incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2014)
- 3.1.5 Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 5, 2016)
- 3.2.1 Fourth Amended and Restated Bylaws of DiamondRock Hospitality Company (incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 5, 2016)
- 4.1 Form of Certificate for Common Stock for DiamondRock Hospitality Company (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 5, 2010)
- 31.1* Certification of Chief Executive Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
- 31.2* Certification of Chief Financial Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
- 32.1* Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Attached as Exhibit 101 to this report are the following materials from DiamondRock Hospitality Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the related notes to these condensed consolidated financial statements.

* Filed herewith

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SIGNATURES

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

DiamondRock Hospitality Company

November 9, 2016

/s/ Sean M. Mahoney

Sean M. Mahoney
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Briony R. Quinn
Briony R. Quinn
Chief Accounting Officer and Corporate Controller
(Principal Accounting Officer)

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