

DiamondRock Hospitality Co  
Form 10-Q  
July 22, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended June 13, 2008**

**OR**

- o 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**

**20-1180098**

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(State of Incorporation)

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

**6903 Rockledge Drive, Suite 800, Bethesda, Maryland**  
(Address of Principal Executive Offices)

**20817**  
(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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  (Do not check if a smaller reporting company)

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 92,173,815 shares of its \$0.01 par value common stock outstanding as of July 22, 2008.

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As of June 13, 2008 and December 31, 2007

(in thousands, except share amounts)

	June 13, 2008 (Unaudited)	December 31, 2007
<b>ASSETS</b>		
Property and equipment, at cost	\$ 2,123,272	\$ 2,086,933
Less: accumulated depreciation	(182,922)	(148,101)
	1,940,350	1,938,832
Deferred financing costs, net	3,652	4,020
Restricted cash	34,138	31,736
Due from hotel managers	72,460	68,153
Favorable lease assets, net	41,721	42,070
Prepaid and other assets	21,065	17,043
Cash and cash equivalents	24,937	29,773
Total assets	<b>\$ 2,138,323</b>	<b>\$ 2,131,627</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Mortgage debt	\$ 823,117	\$ 824,526
Senior unsecured credit facility	32,000	
Total debt	855,117	824,526
Deferred income related to key money, net	20,631	15,884
Unfavorable contract liabilities, net	85,329	86,123
Due to hotel managers	36,048	36,910
Dividends declared and unpaid	23,923	22,922
Accounts payable and accrued expenses	59,309	64,980
Total other liabilities	225,240	226,819
<b>Shareholders Equity:</b>		
Preferred stock, \$.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	945	947

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Common stock, \$.01 par value; 200,000,000 shares authorized; 94,535,000 and 94,730,813 shares issued and outstanding at June 13, 2008 and December 31, 2007, respectively		
Additional paid-in capital	1,144,108	1,145,511
Accumulated deficit	(87,087)	(66,176)
Total shareholders' equity	1,057,966	1,080,282
Total liabilities and shareholders' equity	<b>\$ 2,138,323</b>	<b>\$ 2,131,627</b>

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

For the Fiscal Quarters Ended June 13, 2008 and June 15, 2007 and

the Periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007

(in thousands, except per share amounts)

	Fiscal Quarter Ended June 13, 2008 (Unaudited)	Fiscal Quarter Ended June 15, 2007 (Unaudited)	Period from January 1, 2008 to June 13, 2008 (Unaudited)	Period from January 1, 2007 to June 15, 2007 (Unaudited)
<b>Revenues:</b>				
Rooms	\$ 116,011	\$ 114,252	\$ 201,938	\$ 199,006
Food and beverage	55,532	54,275	95,614	95,722
Other	9,473	9,417	16,327	15,429
Total revenues	181,016	177,944	313,879	310,157
<b>Operating Expenses:</b>				
Rooms	26,249	25,146	47,408	45,259
Food and beverage	36,377	35,745	65,305	64,232
Management fees	8,048	7,882	13,013	13,063
Other hotel expenses	55,189	54,043	101,641	97,835
Depreciation and amortization	18,069	17,371	34,756	33,169
Corporate expenses	3,345	3,273	6,305	6,422
Total operating expenses	147,277	143,460	268,428	259,980
<b>Operating profit</b>	<b>33,739</b>	<b>34,484</b>	<b>45,451</b>	<b>50,177</b>
<b>Other Expenses (Income):</b>				
Interest income	(332)	(666)	(770)	(1,260)
Interest expense	11,430	11,884	22,125	23,379
Total other expenses	11,098	11,218	21,355	22,119
<b>Income before income taxes</b>	<b>22,641</b>	<b>23,266</b>	<b>24,096</b>	<b>28,058</b>
Income tax (provision) benefit	(886)	(3,160)	2,836	(1,580)
<b>Income from continuing operations</b>	<b>21,755</b>	<b>20,106</b>	<b>26,932</b>	<b>26,478</b>
Income from discontinued operations, net of tax		407		825
<b>Net income</b>	<b>\$ 21,755</b>	<b>\$ 20,513</b>	<b>\$ 26,932</b>	<b>\$ 27,303</b>
<b>Earnings per share:</b>				
Continuing operations	\$ 0.23	\$ 0.21	\$ 0.28	\$ 0.28
Discontinued operations		0.00		0.01

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Basic and diluted earnings per share	\$	0.23	\$	0.21	\$	0.28	\$	0.29
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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

For the Periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007

(in thousands)

	Period from January 1, 2008 to June 13, 2008 (Unaudited)	Period from January 1, 2007 to June 15, 2007 (Unaudited)
<b>Cash flows from operating activities:</b>		
Net income	\$ 26,932	\$ 27,303
Adjustments to reconcile net income to net cash provided by operating activities:		
Real estate depreciation	34,756	33,704
Corporate asset depreciation as corporate expenses	75	79
Non-cash ground rent	3,550	3,594
Non-cash financing costs as interest	372	349
Amortization of debt premium and unfavorable contract liabilities	(794)	(868)
Amortization of deferred income	(253)	(164)
Stock-based compensation	1,567	2,097
Yield support received	797	1,741
Non-cash yield support recognized		(189)
Changes in assets and liabilities:		
Prepaid expenses and other assets	(4,022)	(460)
Restricted cash	(582)	530
Due to/from hotel managers	(5,966)	(10,650)
Accounts payable and accrued expenses	(8,455)	(3,630)
<b>Net cash provided by operating activities</b>	<b>47,977</b>	<b>53,436</b>
<b>Cash flows from investing activities:</b>		
Hotel acquisitions		(331,325)
Receipt of deferred key money	5,000	
Hotel capital expenditures	(36,766)	(22,549)
Change in restricted cash	(1,820)	(564)
<b>Net cash used in investing activities</b>	<b>(33,586)</b>	<b>(354,438)</b>
<b>Cash flows from financing activities:</b>		
Repayments of credit facility	(15,000)	(35,000)
Draws on credit facility	47,000	61,500
Scheduled mortgage debt principal payments	(1,413)	(1,707)
Payment of financing costs		(1,113)
Proceeds from sale of common stock		317,935
Payment of costs related to sale of common stock		(380)
Share repurchases	(3,184)	
Payment of dividends	(46,630)	(36,658)
<b>Net cash (used in) provided by financing activities</b>	<b>\$ (19,227)</b>	<b>\$ 304,577</b>

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)

For the Periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007

(in thousands)

	Period from January 1, 2008 to June 13, 2008 (Unaudited)	Period from January 1, 2007 to June 15, 2007 (Unaudited)
Net (decrease) increase in cash and cash equivalents	\$ (4,836)	\$ 3,575
Cash and cash equivalents, beginning of period	29,773	19,691
Cash and cash equivalents, end of period	\$ 24,937	\$ 23,266
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	\$ 24,176	\$ 24,716
Cash paid for income taxes	\$ 861	\$ 340
Capitalized interest	\$ 183	\$
<b>Non-Cash Financing Activities:</b>		
Unpaid dividends	\$ 23,923	\$ 22,947

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) is a lodging focused real estate company that owns twenty hotels and resorts. The Company is committed to maximizing shareholder value through investing in premium full service hotels and, to a lesser extent, premium urban limited service hotels located throughout the United States. The Company's hotels are concentrated in key gateway cities and in destination resort locations and are all operated under a brand owned by one of the top three national brand companies (Marriott International, Inc. (Marriott), Starwood Hotels & Resorts Worldwide, Inc. (Starwood) or Hilton Hotels Corporation (Hilton)).

The Company owns, as opposed to operates, its hotels. As an owner, the Company receives all of the operating profits or losses generated by its hotels, after paying the hotel managers a fee based on the revenues and profitability of the hotels and reimbursing all of their direct and indirect operating costs. As of June 13, 2008, the Company owned twenty hotels, comprising 9,586 rooms, located in the following markets: Atlanta, Georgia (3); Austin, Texas; Boston, Massachusetts; Chicago, Illinois (2); Fort Worth, Texas; Lexington, Kentucky; Los Angeles, California (2); New York, New York (2); Northern California; Oak Brook, Illinois; Orlando, Florida; Salt Lake City, Utah; Washington D.C.; St. Thomas, U.S. Virgin Islands; and Vail, Colorado.

The Company conducts its business through a traditional umbrella partnership REIT, or UPREIT, in which the Company's hotel properties are owned by subsidiaries of its operating partnership, DiamondRock Hospitality Limited Partnership. The Company is the sole general partner of its operating partnership and currently owns, either directly or indirectly, all of the limited partnership units of the operating partnership.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, or GAAP, have been condensed or omitted in the accompanying unaudited condensed consolidated financial statements. The Company believes 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 consolidated financial statements and notes thereto as of and for the year ended December 31, 2007, included in the Company's Annual Report on Form 10-K dated February 28, 2008.

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In the Company's opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly the Company's financial position as of June 13, 2008, and the results of the Company's operations for the fiscal quarters ended June 13, 2008 and June 15, 2007 and for the periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007 and cash flows for the periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations.

The Company's financial statements include all of the accounts of the Company and its subsidiaries in accordance with U.S. generally accepted accounting principles. All intercompany accounts and transactions have been eliminated in consolidation.

### *Reporting Periods*

The results reported in the Company's condensed consolidated statements of operations are based on results of its hotels reported by hotel managers. The Company's hotel managers use different reporting periods. Marriott International, the manager of most of the Company's properties, uses a fiscal year ending on the Friday closest to December 31 and reports twelve weeks of operations for each of the first three quarters and sixteen or seventeen weeks for the fourth quarter of the year for its domestic managed hotels. In contrast, Marriott, for its non-domestic hotels (including Frenchman's Reef), Vail Resorts, manager of the Vail Marriott, Noble Management Group, LLC, manager of the Westin Atlanta North at Perimeter, Hilton Hotels Corporation, manager of the Conrad Chicago, and Westin Hotel Management, L.P, manager of the Westin Boston Waterfront Hotel report results on a monthly basis. Additionally, the Company, as a REIT, is required by U.S. federal tax laws to report results on a calendar year basis. As a result, the Company has adopted the reporting periods used by

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Marriott International for its domestic hotels, except that the fiscal year always ends on December 31 to comply with REIT rules. The first three fiscal quarters end on the same day as Marriott International's fiscal quarters but the fourth quarter ends on December 31 and the full year results, as reported in the statement of operations, always include the same number of days as the calendar year.

Two consequences of the reporting cycle the Company has adopted are: (1) quarterly start dates will usually differ between years, except for the first quarter which always commences on January 1, and (2) the first and fourth quarters of operations and year-to-date operations may not include the same number of days as reflected in prior years.

While the reporting calendar the Company adopted is more closely aligned with the reporting calendar used by the manager of most of its properties, one final consequence of the calendar is the Company is unable to report any results for Frenchman's Reef, Vail Marriott, Westin Atlanta North at Perimeter, Conrad Chicago, or Westin Boston Waterfront Hotel for the month of operations that ends after its fiscal quarter-end because neither Westin Hotel Management, L.P., Hilton Hotels Corporation, Noble Management Group, LLC, Vail Resorts nor Marriott International make mid-month results available. As a result, the quarterly results of operations include results from Frenchman's Reef, the Vail Marriott, the Westin Atlanta North at Perimeter, the Conrad Chicago, and the Westin Boston Waterfront Hotel as follows: first quarter (January, February), second quarter (March to May), third quarter (June to August) and fourth quarter (September to December). While this does not affect full-year results, it does affect the reporting of quarterly results.

*Revenue Recognition*

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

*Earnings Per Share*

Basic earnings per share is calculated by dividing net income, adjusted for dividends on unvested stock grants, by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income, adjusted for dividends on unvested stock grants, by the weighted-average number of common shares outstanding during the period plus other potentially dilutive securities such as stock grants 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*

The Company accounts for stock-based employee compensation using the fair value based method of accounting under Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment*. The Company records the cost of awards with service conditions based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. No awards with performance-based or market-based conditions have been issued.

*Key Money*

Key money received in conjunction with entering into hotel management agreements is deferred and amortized over the term of the hotel management agreement. Key money is classified as deferred income on the accompanying condensed consolidated balance sheets and amortized against management fees on the accompanying condensed consolidated statements of operations.

*Yield Support*

Marriott has provided the Company with operating cash flow guarantees for certain hotels to fund shortfalls of actual hotel operating income compared to a negotiated target net operating income. The Company refers to these guarantees as yield support. Yield support received is recognized over the period earned if the yield support is not refundable and there is reasonable uncertainty of receipt at inception of the management agreement. Yield support is recorded as an offset to base management fees.

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*Intangible Assets*

Intangible assets are recorded on non-market contracts assumed as part of the acquisition of certain hotels. The Company records intangible assets at fair value on the acquisition date. Intangible assets with definite lives are amortized using the straight-line method over the remaining non-cancelable term of the contract. The Company does not amortize intangible assets with indefinite useful lives, but reviews these assets for impairment if events or circumstances indicate that the asset may be impaired.

*Favorable Lease Assets and Unfavorable Contract Liabilities*

The Company reviews the terms of agreements assumed in conjunction with the purchase of a hotel to determine if the terms are favorable or unfavorable compared to a market agreement at the acquisition date. Favorable lease assets or unfavorable contract liabilities are recorded at the acquisition date and amortized over the term of the agreement.

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company maintains cash and cash equivalents with various high credit-quality financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

*Straight-Line Rent*

The Company records rent expense on leases that provide for minimum rental payments that increase in pre-established amounts over the remaining term of the lease on a straight-line basis as required by U.S. generally accepted accounting principles.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

**3. Property and Equipment**

Property and equipment as of June 13, 2008 (unaudited) and December 31, 2007 consists of the following (in thousands):

	<b>June 13, 2008</b>	<b>December 31, 2007</b>
Land	\$ 219,590	\$ 219,590
Land improvements	7,994	7,994
Buildings	1,654,027	1,630,793
Furniture, fixtures and equipment	238,827	213,348
CIP and corporate office equipment	2,834	15,208
	2,123,272	2,086,933
Less: accumulated depreciation	(182,922)	(148,101)
	\$ 1,940,350	\$ 1,938,832

As of June 13, 2008 and December 31, 2007, the Company had accrued capital expenditures of \$10.4 million and \$10.8 million, respectively.

**4. Capital Stock***Common Shares*

The Company is authorized to issue up to 200,000,000 shares of common stock, \$.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



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of the Company's common stock are entitled to receive dividends out of assets legally available for the payment of dividends when authorized by the Company's board of directors.

*Share Repurchase Program*

On February 27, 2008, the Company's Board of Directors authorized a program to repurchase up to 4.8 million shares of its common stock. The common stock may be purchased in the open market or through private transactions, dependent upon market conditions. The plan does not obligate the Company to repurchase any specific number of shares and may be suspended at any time at its discretion. As of July 21, 2008, the Company has purchased 2.8 million shares under this program for an average price of \$10.74 per share. The Company has retired all shares purchased under the program on the settlement date.

*Preferred Shares*

The Company is authorized to issue up to 10,000,000 shares of preferred stock, \$.01 par value per share. The Company's 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 June 13, 2008 and December 31, 2007, there were no shares of preferred stock outstanding.

**5. Stock Incentive Plans**

As of June 13, 2008, the Company has issued or committed to issue 1,493,491 shares of its common stock under its 2004 Stock Option and Incentive Plan, as amended, including 474,701 shares of unvested restricted common stock and a commitment to issue 445,185 units of deferred common stock.

*Restricted Stock Awards*

As of June 13, 2008, the Company's officers and employees have been awarded 1,338,246 shares of restricted common stock, including those shares that have since vested. Shares issued to the Company's officers and employees vest over a three-year period from the date of the grant based on continued employment. The Company measures compensation expense for the restricted stock awards based upon the fair market value of its 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 the Company's restricted stock awards from January 1, 2006 to June 13, 2008 is as follows:

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	Number of Shares		Weighted- Average Grant Date Fair Value
Unvested balance at January 1, 2006	747,000	\$	10.04
Granted	197,360		15.91
Vested	(482,833)		10.02
Unvested balance at December 31, 2006	461,527		12.57
Granted	199,885		17.99
Vested	(314,787)		11.27
Unvested balance at December 31, 2007	346,625		16.88
Granted	194,001		12.59
Vested	(65,925)		18.00
Unvested balance at June 13, 2008	474,701	\$	14.97

The remaining share awards will vest as follows: 81,658 shares during 2008, 197,076 shares during 2009, 131,296 shares during 2010 and 64,671 during 2011. As of June 13, 2008, the unrecognized compensation cost related to restricted stock awards was \$5.4 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 23 months. For the fiscal quarters ended June 13, 2008 and June 15, 2007, the Company recorded \$0.7 million and \$1.1 million, respectively, of compensation expense related to restricted stock awards. For the periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007, the Company recorded \$1.4 million and \$2.1 million, respectively, of compensation expense related to restricted stock awards.

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*Deferred Stock Awards*

At the time of the Company's initial public offering, the Company made a commitment to issue 382,500 shares of deferred stock units to the Company's senior executive officers. These deferred stock units are fully vested and represent the promise of the Company to issue a number of shares of the Company's common stock to each senior executive officer upon the earlier of (i) a change of control or (ii) five years after the date of grant, which was the initial public offering completion date (the Deferral Period). However, if an executive's service with the Company is terminated for cause prior to the expiration of the Deferral Period, all deferred stock unit awards will be forfeited. The executive officers are restricted from transferring these shares until the fifth anniversary of the initial public offering completion date. As of June 13, 2008, the Company has a commitment to issue 445,185 shares under this plan. The share commitment increased from 382,500 to 445,185 since the Company's initial public offering because current dividends are not paid out but instead are effectively reinvested at the dividend payment date's closing price of the Company's common stock. No expense has been recognized during 2008 or 2007 for these awards. During 2005, the Company recorded \$3.7 million of stock based compensation expense related to these awards.

*Stock Appreciation Rights and Dividend Equivalent Rights*

Beginning in 2008, the equity compensation issued to the Company's corporate officers included stock-settled Stock Appreciation Rights (SARs) and Dividend Equivalent Rights (DERs). The SARs/DERs vest over three years based on continued employment and may be exercised, in whole or in part, at any time after the instrument vests and before the tenth anniversary of issuance. Upon exercise, the holder of a SAR is entitled to receive a number of common shares equal to the positive difference, if any, between the closing price of the Company's common stock on the exercise date and the strike price. The strike price is equal to the closing price of the Company's common stock on the SAR grant date. The Company has also issued one DER for each SAR. A DER will entitle the holder to the value of dividends issued on one share of common stock. No dividends will be paid on a DER prior to its vesting, but upon vesting, the holder of each DER will receive a lump sum equal to the cumulative dividends paid per share of common stock from the grant date through the vesting date. The DER will terminate upon exercise or expiration of each SAR. The Company measures compensation expense of the SAR/DER awards based upon the fair market value of these awards at the date of the 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.

On March 4, 2008, the Company issued 300,225 SARs/DERs to its executive officers with an aggregate fair value of approximately \$2.0 million. The strike price of the SARs is \$12.59. For the period from January 1, 2008 to June 13, 2008, the Company has recorded approximately \$0.2 million of compensation expense related to the SARs/DERs. A summary of the Company's unvested SARs/DERs as of June 13, 2008 is as follows:

	Number of SARs/DERs	Weighted- Average Grant Date Fair Value
Balance at January 1, 2008		\$
Granted	300,225	6.62
Vested		
Balance at June 13, 2008	300,225	\$ 6.62

**6. Earnings Per Share**

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Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share is calculated by dividing net income available to common shareholders, that has been adjusted for dilutive securities, by the weighted-average number of common shares outstanding including dilutive securities. No effect is shown for securities that are anti-dilutive. The Company's unvested SARs were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

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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	Fiscal Quarter Ended June 13, 2008 (unaudited)	Fiscal Quarter Ended June 15, 2007 (unaudited)	Period from January 1, 2008 to June 13, 2008 (unaudited)	Period from January 1, 2007 to June 15, 2007 (unaudited)
<b>Basic Earnings per Share Calculation:</b>				
Numerator:				
Net income	\$ 21,755	\$ 20,513	\$ 26,932	\$ 27,303
Less: dividends on unvested restricted common stock	(119)	(158)	(237)	(241)
Net income after dividends on unvested restricted common stock	21,636	20,355	26,695	27,062
Less: discontinued operations		(407)		(825)
Net income from continuing operations after dividends on unvested restricted common stock	\$ 21,636	\$ 19,948	\$ 26,695	\$ 26,237
Weighted-average number of common shares outstanding basic	95,212,142	94,946,628	95,195,961	93,089,822
Basic earnings per share:				
Continuing operations	\$ 0.23	\$ 0.21	\$ 0.28	\$ 0.28
Discontinued operations		0.00		0.01
Total	\$ 0.23	\$ 0.21	\$ 0.28	\$ 0.29
<b>Diluted Earnings per Share Calculation:</b>				
Numerator:				
Net income	\$ 21,755	\$ 20,513	\$ 26,932	\$ 27,303
Less: dividends on unvested restricted common stock	(119)	(158)	(237)	(241)
Net income after dividends on unvested restricted common stock	21,636	20,355	26,695	27,062
Less: discontinued operations		(407)		(825)
Net income from continuing operations after dividends on unvested restricted common stock	\$ 21,636	\$ 19,948	\$ 26,695	\$ 26,237
Weighted-average number of common shares outstanding basic	95,212,142	94,946,628	95,195,961	93,089,822
Unvested restricted common stock	46,406	345,214	80,061	372,846
Unvested SARs				
Weighted-average number of common shares outstanding diluted	95,258,548	95,291,842	95,276,022	93,462,668
Diluted earnings per share:				
Continuing operations	\$ 0.23	\$ 0.21	\$ 0.28	\$ 0.28
Discontinued operations		0.00		0.01
Total	\$ 0.23	\$ 0.21	\$ 0.28	\$ 0.29

**7. Debt**

The Company has incurred limited recourse, property specific mortgage debt in conjunction with certain of its hotels. In the event of default, the lender may only foreclose on the pledged assets; however, in the event of fraud, misapplication of funds and other customary recourse

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provisions, the lender may seek payment from the Company. As of June 13, 2008, twelve of the Company's twenty hotel properties were secured by mortgage debt. The Company's mortgage debt contains certain property specific covenants and restrictions, including minimum debt service coverage ratios that trigger cash management provisions as well as restrictions on incurring additional debt without lender consent. As of June 13, 2008, the Company was in compliance with the financial covenants of its mortgage debt.

The following table sets forth information regarding the Company's debt as of June 13, 2008 (unaudited), in thousands:

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Property	Principal Balance	Interest Rate
Courtyard Manhattan / Midtown East	\$ 41,751	5.195%
Marriott Salt Lake City Downtown	35,077	5.50%
Courtyard Manhattan / Fifth Avenue	51,000	6.48%
Marriott Griffin Gate Resort	28,789	5.11%
Renaissance Worthington	57,400	5.40%
Frenchman s Reef & Morning Star Marriott Beach Resort	62,500	5.44%
Marriott Los Angeles Airport	82,600	5.30%
Orlando Airport Marriott	59,000	5.68%
Chicago Marriott Downtown Magnificent Mile	220,000	5.975%
Renaissance Austin	83,000	5.507%
Renaissance Waverly	97,000	5.503%
Bethesda Marriott Suites	5,000	LIBOR + 0.95 (3.33% as of June 13, 2008)
Total mortgage debt	823,117	
Senior unsecured credit facility	32,000	LIBOR + 0.95 (3.40% as of June 13, 2008)
Total debt	\$ 855,117	
Weighted-Average Interest Rate		5.5%

The Company is party to a four-year, \$200.0 million unsecured credit facility (the Facility) expiring in February 2011. The Company may extend the maturity date of the Facility for an additional year upon the payment of applicable fees and the satisfaction of certain other customary conditions.

Interest is paid on the periodic advances under the Facility at varying rates, based upon either LIBOR or the alternate base rate, plus an agreed upon additional margin amount. The interest rate depends upon the Company s level of outstanding indebtedness in relation to the value of its assets from time to time, as follows:

	Leverage Ratio			
	60% or greater	55% to 60%	50% to 55%	Less than 50%
Alternate base rate margin	0.65%	0.45%	0.25%	0.00%
LIBOR margin	1.55%	1.45%	1.25%	0.95%

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

Covenant	Actual at June 13, 2008
Maximum leverage ratio	65% / 35.6%
Minimum fixed charge coverage ratio	1.6x / 3.9x
Minimum tangible net worth	\$738.4 million / \$1.2 billion
Unhedged floating rate debt as a percentage of total indebtedness	35% / 4.3%

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The Facility requires that the Company maintain a specific pool of unencumbered borrowing base properties. The unencumbered borrowing base assets are subject to the following limitations and covenants:

	<b>Covenant</b>	<b>Actual at June 13, 2008</b>
Minimum implied debt service ratio	1.5x	24.9x
Maximum unencumbered leverage ratio	65%	3.7%
Minimum number of unencumbered borrowing base properties	4	8
Minimum unencumbered borrowing base value	\$150 million	\$869.0 million
Percentage of total asset value owned by borrowers or guarantors	90%	100%

In addition to the interest payable on amounts outstanding under the Facility, the Company is required to pay an amount equal to 0.20% of the unused portion of the Facility if the unused portion of the Facility is greater than 50% and



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0.125% if the unused portion of the Facility is less than 50%. The Company incurred interest and unused credit facility fees on the Facility of \$0.4 million and \$0.6 million for the fiscal quarters ended June 13, 2008 and June 15, 2007, respectively and \$0.6 million and \$1.0 million for the periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007, respectively. As of June 13, 2008, the Company had \$32.0 million outstanding under the Facility. Subsequent to June 13, 2008, the Company drew an additional \$34 million, net, under the Facility.

**8. Discontinued Operations**

On December 21, 2007, the Company sold the SpringHill Suites Atlanta Buckhead for \$36.0 million, resulting in a gain of approximately \$3.8 million, net of \$0.1 million of income taxes. The following table summarizes the components of discontinued operations in the condensed consolidated statements of operations for the periods presented (in thousands):

	<b>Fiscal Quarter Ended June 15, 2007</b>	<b>Period from January 1, 2007 to June 15, 2007</b>
Revenues	\$ 1,600	\$ 3,122
Pre-tax income from operations	342	685
Income tax benefit	65	140
Income from discontinued operations	\$ 407	\$ 825

**9. Dividends**

The Company pays quarterly cash dividends to common stockholders at the discretion of its Board of Directors. The following table sets forth the dividends paid to common stockholders since January 1, 2008:

<b>Payment Date</b>	<b>Record Date</b>	<b>Dividend per Share</b>
January 10, 2008	December 31, 2007	\$ 0.24
April 1, 2008	March 21, 2008	\$ 0.25
June 24, 2008	June 13, 2008	\$ 0.25

**10. Transactions with Hotel Managers**

*Key Money*

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Marriott has contributed to the Company certain amounts in exchange for the right to manage hotels the Company has acquired or for the completion of certain brand enhancing capital projects. The Company refers to these amounts as key money. Marriott has provided the Company with key money of approximately \$22 million in the aggregate in connection with the acquisitions of six of its hotels, \$10 million of which was offered for the Chicago Marriott in exchange for a commitment to complete the renovation of certain public spaces and meeting rooms at the hotel. The Company received \$5 million during the third fiscal quarter of 2007 and the remaining \$5 million in January 2008.

On September 27, 2007, the Company and Hilton Hotels Corporation, the manager of the Conrad Chicago, amended the management agreement of the hotel to allow an exception to the territorial restriction and permit a new Chicago suburban airport Conrad hotel. In connection with this amendment, the Company will receive up to \$1.8 million over the new hotel development period. These payments will be accounted for as key money when received and amortized over the remaining term of the management agreement.

### **11. Commitments and Contingencies**

#### *Litigation*

The Company is not involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company. The Company is involved in routine litigation arising out of the ordinary course of business, all of

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which is expected to be covered by insurance and none of which is expected to have a material impact on its financial condition or results of operations.

*Income Taxes*

The Company had no accruals for tax uncertainties as of June 13, 2008 and December 31, 2007. As of June 13, 2008, all of the Company's federal income tax returns and state tax returns for the jurisdictions in which the Company's hotels are located remain subject to examination by the respective jurisdiction tax authorities.

**12. Fair Value Measurements**

The Company implemented the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ), on January 1, 2008 for financial assets and liabilities recognized or disclosed at fair value. The implementation of SFAS 157 did not have a material impact on the Company's results of operations, financial position or cash flows. There were no assets or liabilities that would have been measured differently had the unimplemented provisions of SFAS 157 deferred by FASB Staff Position No. 157-2 been implemented as of January 1, 2008.

**13. Subsequent Event**

On July 7, 2008, the Company announced that Mark W. Brugger had been named Chief Executive Officer, effective September 1, 2008. After that date, William W. McCarten, the Company's current Chief Executive Officer and Chairman of the Board of Directors, will continue in his role as Executive Chairman. In addition, the Board of Directors has announced that, effective September 1, 2008, it will expand the Board of Directors from 6 members to 7 members in connection with the appointment of Mr. Brugger as a member of the Board of Directors.

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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 risk factors discussed herein and other factors discussed from time to time in our periodic filings with the Securities and Exchange Commission. 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**

We are a lodging focused real estate company that owns, as of July 22, 2008, twenty premium hotels and resorts which contain approximately 9,600 guestrooms. We are committed to maximizing shareholder value through investing in premium full service hotels and, to a lesser extent, premium urban limited service hotels located throughout the United States. Our hotels are concentrated in key gateway cities and in destination resort locations and are all operated under a brand owned by one of the top three national brand companies (Marriott, Starwood or Hilton).

We are owners, as opposed to operators, of hotels. As owners, we receive all of the operating profits or losses generated by our hotels, after we pay the hotel managers a fee based on the revenues and profitability of the hotels and reimburse all of their direct and indirect operating costs.

As owners, we create value by acquiring the right hotels with the right brands in the right markets, prudently financing our hotels, thoughtfully re-investing capital in our hotels, implementing profitable operating strategies and approving the annual operating and capital budgets for our hotels, closely monitoring the performance of our hotels, and deciding if and when to sell our hotels. In addition, we are committed to enhancing the value of our operating platform by being open and transparent in our communications with investors, monitoring our corporate overhead and following corporate governance best practice.

We differentiate ourselves from our competitors because of our adherence to three basic principles:

- high quality urban and resort focused real estate;
- conservative capital structure; and
- thoughtful asset management.

*High Quality Urban and Resort Focused Real Estate*

We own twenty premium hotels and resorts in North America. These hotels and resorts are primarily categorized as upper upscale as defined by Smith Travel Research and are generally located in high barrier to entry markets with multiple demand generators.

Our properties are concentrated in five key gateway cities (New York City, Los Angeles, Chicago, Boston and Atlanta) and in destination resorts (such as the U.S. Virgin Islands and Vail, Colorado). We believe that these gateway cities and destination resorts are high growth markets because they are attractive business and leisure destinations. We also believe that these locations are better insulated from new supply due to relatively high barriers to entry and expensive construction costs.

We believe that higher quality lodging assets create more dynamic cash flow growth and superior long-term capital appreciation.

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*Conservative Capital Structure*

We are committed to maintaining a conservative and flexible capital structure with prudent leverage levels. During 2004 through early 2007, we took advantage of the low interest rate environment by fixing our debt rates for an extended period of time. Depending on the outlook for interest rates in the future, we maintain the flexibility to modify these strategies.

As of June 13, 2008, 95.7% of our debt carried fixed interest rates, with a weighted-average interest rate of 5.5%, and a weighted-average maturity of 6.9 years. As of June 13, 2008, we had \$855.1 million of debt outstanding, representing a net debt-to-enterprise value ratio of 42.1%, which is calculated as our net debt (debt less unrestricted cash) divided by our enterprise value, which is our market capitalization plus net debt.

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 endeavor to structure our hotel acquisitions so that they will not overly complicate 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.

*Thoughtful Asset Management*

We believe that we are able to create significant value in our portfolio by utilizing our management's extensive experience and our innovative asset management strategies.

Our senior management team has established a broad network of hotel industry contacts and relationships, including relationships with hotel owners, financiers, operators, project managers and contractors and other key industry participants.

We use our broad network to maximize the value of our hotels. Under the regulations governing REITs, we are required to engage a hotel manager through one of our subsidiaries to manage each of our hotels pursuant to a management agreement. Our philosophy is to negotiate management agreements that give us the right to exert significant influence over the management of our properties, annual budgets and all capital expenditures, and then to use those rights to continually monitor and improve the performance of our properties. We cooperatively partner with the managers of our hotels in an attempt to increase operating results and long-term asset values at our hotels. In addition to working directly with the personnel at our hotels, our senior management team also has long-standing professional relationships with our hotel managers' senior executives, and we work directly with these senior executives to improve the performance of our portfolio.

We believe we can create significant value in our portfolio through innovative asset management strategies such as rebranding, renovating and repositioning. We are committed to regularly evaluating our portfolio to determine if we can employ these value-added strategies at our hotels. During 2006, 2007 and the period from January 1, 2008 to June 13, 2008, we completed a significant amount of capital reinvestment in our hotels completing projects that ranged from room renovations (Courtyard Manhattan/Midtown East, Los Angeles Airport Marriott, Bethesda Marriott Suites, Orlando Airport Marriott, Frenchman's Reef & Morning Star Marriott Beach Resort and Westin Atlanta North at Perimeter) to a

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total renovation and repositioning of the hotel (Torrance Marriott South Bay and the Oak Brook Hills Marriott Resort) to the addition of new meeting space, spa or restaurant repositioning (Westin Boston Waterfront, Chicago Marriott and Marriott Griffin Gate Resort). By the end of 2008, we expect to have fully renovated nearly all of the hotels in our portfolio. In connection with our planned renovations and repositionings, our senior management team and our asset managers are individually committed to completing these renovations on time, on budget and with minimum disruption at our hotels.

A core tenet of our asset management strategy is to leverage national hotel brands. We strongly believe in the value of powerful national brands because we believe that they are able to produce incremental revenue and profits compared to similar unbranded hotels. Dominant national hotel brands typically have very strong reservation and reward systems and sales organizations, as a result, all of our hotels are operated under a brand owned by one of the top three national brand companies (Marriott, Starwood or Hilton) and all but two of the hotels are operated by the brand company directly. Generally, we are interested in acquiring only those hotels that are operated under a nationally recognized brand or can be converted into a branded hotel.

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

- Occupancy percentage;
- Average Daily Rate (or ADR);
- Revenue per Available Room (or RevPAR);
- Earnings Before Interest, Income Taxes, Depreciation and Amortization (or EBITDA); and
- Funds From Operations (or 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 64% of our total revenues for the fiscal quarter ended June 13, 2008, 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 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 Marriott and its brands as well as the Westin and Conrad brands.

We also use EBITDA and FFO as measures of the financial performance of our business. See Non-GAAP Financial Matters.

**Our Hotels**

The following table sets forth certain operating information for each of our hotels for the period from January 1, 2008 to June 13, 2008. The percent change from 2007 RevPAR for the period from January 1, 2007 to June 15, 2007 includes the results of the Westin Boston Waterfront Hotel for the period prior to our acquisition of the hotel.



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Property	Location	Number of Rooms	Occupancy (%)	ADR(\$)	RevPAR(\$)	% Change from 2007 RevPAR
Chicago Marriott	Chicago, Illinois	1,198	66.3%	\$ 211.34	\$ 140.11	(8.2)%
Los Angeles Airport Marriott	Los Angeles, California	1,004	86.1	116.78	100.57	5.9
Westin Boston Waterfront Hotel (1)	Boston, Massachusetts	793	62.9	196.66	123.76	5.1
Renaissance Waverly Hotel	Atlanta, Georgia	521	71.1	146.55	104.26	0.3
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	70.6	136.27	96.20	(0.2)
Renaissance Worthington	Fort Worth, Texas	504	78.0	183.37	143.00	3.1
Frenchman s Reef & Morning Star Marriott Beach Resort (1)	St. Thomas, U.S. Virgin Islands	502	84.3	282.31	238.12	(1.3)
Renaissance Austin Hotel	Austin, Texas	492	72.6	161.53	117.26	(9.2)
Torrance Marriott South Bay	Los Angeles County, California	487	79.5	127.42	101.28	11.0
Orlando Airport Marriott	Orlando, Florida	486	79.9	129.02	103.12	(1.3)
Marriott Griffin Gate Resort	Lexington, Kentucky	408	61.8	139.65	86.28	2.5
Oak Brook Hills Marriott Resort	Oak Brook, Illinois	386	49.2	131.72	64.84	(7.7)
Westin Atlanta North at Perimeter (1)	Atlanta, Georgia	369	64.1	147.24	94.33	(4.7)
Vail Marriott Mountain Resort & Spa (1)	Vail, Colorado	346	71.7	306.63	219.79	7.0
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	62.8	153.12	96.10	(1.0)
Courtyard Manhattan/Midtown East	New York, New York	312	89.0	286.94	255.38	8.5
Conrad Chicago (1)	Chicago, Illinois	311	68.5	228.80	156.80	8.9
Bethesda Marriott Suites	Bethesda, Maryland	272	72.1	198.56	143.20	3.9
Courtyard Manhattan/Fifth Avenue	New York, New York	185	87.5	288.86	252.71	8.8
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	64.9	209.34	135.96	3.8
<b>TOTAL/WEIGHTED AVERAGE</b>		<b>9,586</b>	<b>72.3%</b>	<b>\$ 180.48</b>	<b>\$ 130.53</b>	<b>1.0%</b>

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(1) The Frenchman's Reef & Morning Star Marriott Beach Resort, Vail Marriott Mountain Resort & Spa, Westin Atlanta North at Perimeter, Conrad Chicago and the Westin Boston Waterfront Hotel report operations on a calendar month and year basis. The period from January 1, 2008 to June 13, 2008 includes the operations for the period from January 1, 2008 to May 31, 2008 for these five hotels.

**Recent Development**

On July 7, 2008, we announced that Mark W. Brugger had been named Chief Executive Officer, effective September 1, 2008. After that date, William W. McCarten, our current Chief Executive Officer and Chairman of the Board of Directors, will continue in his role as Executive Chairman. In addition, the Board of Directors has announced that, effective September 1, 2008, it will expand the Board of Directors from 6 members to 7 members in connection with the appointment of Mr. Brugger as a member of the Board of Directors.

**Outlook**

After several years of above-average growth in the lodging industry, the operating environment has become challenging. The economic drivers that impact underlying lodging demand, such as GDP growth, corporate earnings, consumer confidence and employment, have deteriorated during the first half of 2008. We believe that such economic drivers may remain weak or further weaken in the second half of the year and into 2009. The decline in these lodging demand drivers has resulted in a significantly lower revenue growth rate for our hotels, and thus we currently project that our total revenue from continuing operations will contract during the second half of 2008 compared to the same period in 2007. We have a strong balance sheet and have maintained one of the lowest levels of leverage in the industry.

Furthermore, we believe that slowing economy and its impact on demand drivers has resulted in lower transient demand in the lodging industry, primarily from the customers in the corporate and leisure segments that comprise approximately 60% of our room sales. In an uncertain economy where consumers and corporations have a negative outlook, it is very difficult to accurately forecast the behavior of these individual travelers, but it is clear that lodging demand has declined compared to the prior year. We believe that a number of these individual travelers will continue to postpone or eliminate travel, or travel on a reduced budget, until consumer and business sentiment improves. As a result, we currently expect full year RevPAR to contract by 1 to 3 percent.

Moreover, while we are taking cost containment measures at our hotels certain of our cost categories are increasing at a rate greater than the current rate of inflation, including wages, benefits, utilities and real estate taxes. The combination of declining revenues and increasing operating costs will impact our operating results over the next several fiscal quarters and into 2009. In addition, certain of our markets will experience new hotel supply in 2009, the most significant of which is in Fort Worth, Texas, where we have one hotel.

Although negative operating trends are likely to extend for some period of time, we expect operating results to improve when the general economy improves.

**Results of Operations**

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As of June 13, 2008, we owned twenty hotels. Our total assets were \$2.1 billion as of June 13, 2008. Total liabilities were \$1.1 billion as of June 13, 2008, including \$855.1 million of debt. Shareholders' equity was approximately \$1.1 billion as of June 13, 2008. Our total assets were \$2.1 billion as of December 31, 2007. Total liabilities were \$1.1 billion as of December 31, 2007, including \$824.5 million of debt. Shareholders' equity was approximately \$1.1 billion as of December 31, 2007.

### *Comparison of the Fiscal Quarter Ended June 13, 2008 to the Fiscal Quarter Ended June 15, 2007*

Our net income for the fiscal quarter ended June 13, 2008 was \$21.8 million compared to \$20.5 million for the fiscal quarter ended June 15, 2007.

*Revenue.* Revenue from continuing operations consists primarily of the room, food and beverage and other operating revenues from our hotels. Revenues for the fiscal quarters ended June 13, 2008 and June 15, 2007, respectively, consist of the following (in thousands):

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	Fiscal Quarter Ended June 13, 2008	Fiscal Quarter Ended June 15, 2007
Rooms	\$ 116,011	\$ 114,252
Food and beverage	55,532	54,275
Other	9,473	9,417
Total revenues	\$ 181,016	\$ 177,944

Our total revenues from continuing operations increased \$3.1 million, from \$177.9 million for the fiscal quarter ended June 15, 2007 to \$181.0 million for the fiscal quarter ended June 13, 2008. This increase is primarily the result of a 1.5 percent RevPAR increase at our hotels driven by a 2.2 percent increase in the average daily rate and a 0.5 percent decrease in occupancy. The performance of our hotels varied by market. For instance, our New York City and Chicago markets were stronger while certain of our other markets, including Atlanta and Boston, were softer.

Individual hotel revenues for the fiscal quarters ended June 13, 2008 and June 15, 2007, respectively, consist of the following (in millions):

	Fiscal Quarter Ended June 13, 2008	Fiscal Quarter Ended June 15, 2007	Increase (Decrease)
Chicago Marriott	\$ 28.3	\$ 26.9	\$ 1.4
Westin Boston Waterfront Hotel (1)	19.0	19.6	(0.6)
Frenchman s Reef & Morning Star Marriott Beach Resort (1)	16.5	16.3	0.2
Los Angeles Airport Marriott	13.5	12.9	0.6
Renaissance Worthington	10.0	9.5	0.5
Renaissance Waverly Hotel	8.6	8.4	0.2
Renaissance Austin Hotel	8.5	9.0	(0.5)
Courtyard Manhattan/Midtown East	7.8	7.5	0.3
Marriott Griffin Gate Resort	7.6	7.5	0.1
Vail Marriott Mountain Resort & Spa (1)	7.3	6.9	0.4
Conrad Chicago (1)	7.3	6.6	0.7
Oak Brook Hills Marriott Resort	6.8	7.0	(0.2)
Torrance Marriott South Bay	6.0	5.8	0.2
Salt Lake City Marriott Downtown	5.9	5.5	0.4
Orlando Airport Marriott	5.8	6.2	(0.4)
Bethesda Marriott Suites	4.7	4.7	0.0
The Lodge at Sonoma, a Renaissance Resort & Spa	4.7	4.4	0.3
Westin Atlanta North at Perimeter (1)	4.6	5.3	(0.7)
Courtyard Manhattan/Fifth Avenue	4.4	4.1	0.3
Marriott Atlanta Alpharetta	3.7	3.8	(0.1)
Total	\$ 181.0	\$ 177.9	\$ 3.1

(1) The Frenchman s Reef & Morning Star Marriott Beach Resort, Vail Marriott Mountain Resort & Spa, Westin Atlanta North at Perimeter, Conrad Chicago and the Westin Boston Waterfront Hotel report operations on a calendar month and year basis. The fiscal quarters ended June 13, 2008 and June 15, 2007 include the operations for the period from March 1, 2008 to May 31, 2008 and March 1, 2007 to May 31, 2007, respectively, for these five hotels.

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The following are the pro forma key hotel operating statistics for our hotels for the fiscal quarters ended June 13, 2008 and June 15, 2007, respectively.

	<b>Fiscal Quarter Ended June 13, 2008</b>	<b>Fiscal Quarter Ended June 15, 2007</b>	<b>% Change</b>
Occupancy %	75.7%	76.2%	(0.5) percentage points
ADR	\$ 186.53	\$ 182.60	2.2%
RevPAR	\$ 141.20	\$ 139.14	1.5%

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*Hotel operating expenses.* Hotel operating expenses from continuing operations consist primarily of operating expenses of our hotels, including non-cash ground rent expense. The operating expenses for the fiscal quarters ended June 13, 2008 and June 15, 2007, respectively, consist of the following (in millions):

	Fiscal Quarter Ended June 13, 2008	Fiscal Quarter Ended June 15, 2007
Rooms departmental expenses	\$ 26.2	\$ 25.1
Food and beverage departmental expenses	36.4	35.7
Other hotel expenses	47.5	46.4
Base management fees	5.0	4.9
Yield support		(0.1)
Incentive management fees	3.0	3.1
Property taxes	5.5	5.4
Ground rent Contractual	0.5	0.4
Ground rent Non-cash	1.8	1.9
Total hotel operating expenses	\$ 125.9	\$ 122.8

*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 \$0.7 million from \$17.4 million for the fiscal quarter ended June 15, 2007 to \$18.1 million for the fiscal quarter ended June 13, 2008 due to increased capital expenditures in 2008, primarily consisting of the capital projects at the Chicago Marriott and the Westin Boston Waterfront Hotel.

*Corporate expenses.* Our corporate expenses were \$3.3 million for the fiscal quarters ended June 15, 2007 and June 13, 2008. 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.

*Interest expense.* Our interest expense decreased \$0.5 million from \$11.9 million for the fiscal quarter ended June 15, 2007 to \$11.4 million for the fiscal quarter ended June 13, 2008. The decrease in interest expense is primarily attributable to the refinancing of our mortgage on the Bethesda Marriott in 2007, which resulted in reduced borrowings at a lower interest rate, and a lower interest rate on the outstanding borrowings under our credit facility during the second fiscal quarter of 2008. The 2008 interest expense is comprised of mortgage debt (\$10.8 million), amortization of deferred financing costs (\$0.2 million) and interest and unused facility fees on our credit facility (\$0.4 million). The 2007 interest expense is comprised of mortgage debt (\$11.2 million), amortization of deferred financing costs (\$0.1 million) and interest and unused facility fees on our credit facility (\$0.6 million).

As of June 13, 2008, we had property-specific mortgage debt outstanding on twelve of our hotels. On all but one of the hotels, we have fixed-rate secured debt, which bears interest at rates ranging from 5.11% to 6.48% per year. Amounts drawn under the credit facility bear interest at a variable rate that fluctuates based on the level of outstanding indebtedness in relation to the value of our assets from time to time. The weighted-average interest rate as of June 13, 2008 on the outstanding balance under our credit facility was 3.40% as compared to 6.27% as of June 15, 2007. We had \$32.0 million drawn on the credit facility as of June 13, 2008. Subsequent to June 13, 2008, we drew an additional \$34.0 million, net, under the credit facility. Our weighted-average interest rate on all debt as of June 13, 2008 was 5.5%.

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*Interest income.* Interest income decreased \$0.4 million from \$0.7 million for the fiscal quarter ended June 15, 2007 to \$0.3 million for the fiscal quarter ended June 13, 2008 primarily due to lower interest rates earned on our corporate cash in 2008.

*Discontinued operations.* Income from discontinued operations for the fiscal quarter ended June 15, 2007 was the result of the sale of the SpringHill Suites Atlanta Buckhead on December 21, 2007.

*Income taxes.* We recorded an income tax expense for income from continuing operations of \$0.9 million and \$3.2 million for the fiscal quarters ended June 13, 2008 and June 15, 2007, respectively. The second quarter 2008 income tax expense was incurred on the \$0.6 million pre-tax income of our taxable REIT subsidiary, or TRS, for the fiscal quarter ended June 13, 2008, together with foreign income tax expense of \$0.5 million related to the taxable REIT subsidiary that owns the Frenchman's Reef & Morning Star Marriott Beach Resort. The second quarter 2007 income tax expense was incurred on the \$7.4 million pre-tax income of our TRS for the fiscal quarter ended June 15, 2007, together with foreign income tax expense

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of \$0.2 million related to the taxable REIT subsidiary that owns the Frenchman s Reef & Morning Star Marriott Beach Resort.

### *Comparison of the Period from January 1, 2008 to June 13, 2008 to the Period from January 1, 2007 to June 15, 2007*

Our net income for the period from January 1, 2008 to June 13, 2008 was \$26.9 million compared to \$27.3 million for the period from January 1, 2007 to June 15, 2007.

*Revenue.* Revenue from continuing operations consists primarily of the room, food and beverage and other operating revenues from our hotels. Revenues for the periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007, respectively, consist of the following (in thousands):

	<b>Period from January 1, 2008 to June 13, 2008</b>	<b>Period from January 1, 2007 to June 15, 2007</b>
Rooms	\$ 201,938	\$ 199,006
Food and beverage	95,614	95,722
Other	16,327	15,429
Total revenues	\$ 313,879	\$ 310,157

Our total revenues from continuing operations increased \$3.7 million, from \$310.2 million for the period from January 1, 2007 to June 15, 2007 to \$313.9 million for the period from January 1, 2008 to June 13, 2008. The increase is primarily due to a 1.0 percent increase in RevPAR, driven by a 2.7 percent increase in average daily rate and a 1.2 percent decrease in occupancy. Throughout the first half of 2008 our hotels experienced a wide range in operating performance, varying by market. The results for the period from January 1, 2008 to June 13, 2008 were significantly impacted by the performance of the Chicago Marriott Downtown, which experienced both disruption from a substantial renovation as well as a weak convention calendar during the first quarter of 2008, partially offset by a stronger market during the second quarter of 2008.

Individual hotel revenues for the periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007, respectively, consist of the following (in millions):

	<b>Period from January 1, 2008 to June 13, 2008</b>	<b>Period from January 1, 2007 to June 15, 2007</b>	<b>Increase (Decrease)</b>
Chicago Marriott	\$ 39.2	\$ 44.3	\$ (5.1)
Los Angeles Airport Marriott	27.9	27.2	0.7
Westin Boston Waterfront Hotel (1)(2)	27.9	23.6	4.3
Frenchman s Reef & Morning Star Marriott Beach Resort (1)	27.7	27.1	0.6
Renaissance Worthington	19.5	19.2	0.3
Renaissance Waverly Hotel	17.3	17.5	(0.2)
Renaissance Austin Hotel	16.7	17.7	(1.0)



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Vail Marriott Mountain Resort & Spa (1)	15.6	14.6	1.0
Courtyard Manhattan/Midtown East	13.8	12.7	1.1
Orlando Airport Marriott	13.4	13.3	0.1
Salt Lake City Marriott Downtown	12.3	12.3	
Torrance Marriott South Bay	11.7	10.8	0.9
Marriott Griffin Gate Resort	11.6	11.5	0.1
Oak Brook Hills Marriott Resort	10.1	10.5	(0.4)
Conrad Chicago (1)	9.8	9.0	0.8
Westin Atlanta North at Perimeter (1)	8.3	8.7	(0.4)
Bethesda Marriott Suites	8.3	8.2	0.1
Courtyard Manhattan/Fifth Avenue	7.8	7.2	0.6
The Lodge at Sonoma, a Renaissance Resort & Spa	7.7	7.4	0.3
Marriott Atlanta Alpharetta	7.3	7.4	(0.1)
Total	\$ 313.9	\$ 310.2	\$ 3.7

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(1) The Frenchman's Reef & Morning Star Marriott Beach Resort, Vail Marriott Mountain Resort & Spa, Westin Atlanta North at Perimeter, Conrad Chicago and the Westin Boston Waterfront Hotel report operations on a calendar month and year basis. The periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007 include the operations for the period from January 1, 2008 to May 31, 2008 and January 1, 2007 to May 31, 2007, respectively, for these five hotels.

(2) The Westin Boston Waterfront Hotel was acquired on January 31, 2007. The period from January 1, 2007 to June 15, 2007, includes the operations for the period from January 31, 2007 (date of acquisition) to May 31, 2007.

The following are the pro forma key hotel operating statistics for our hotels for the period from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007, respectively. The pro forma hotel operating statistics presented below include the results of operations of the Westin Boston Waterfront Hotel under previous ownership for the period from January 2, 2007 to January 30, 2007.

	<b>Period from January 1, 2008 to June 13, 2008</b>	<b>Period from January 1, 2007 to June 15, 2007</b>	<b>% Change</b>
Occupancy %	72.3%	73.5%	(1.2) percentage points
ADR	\$ 180.48	\$ 175.76	2.7%
RevPAR	\$ 130.53	\$ 129.19	1.0%

*Hotel operating expenses.* Hotel operating expenses from continuing operations consist primarily of operating expenses of our hotels, including non-cash ground rent expense. The operating expenses for the periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007, respectively, consist of the following (in millions):

	<b>Period from January 1, 2008 to June 13, 2008</b>	<b>Period from January 1, 2007 to June 15, 2007</b>
Rooms departmental expenses	\$ 47.4	\$ 45.3
Food and beverage departmental expenses	65.3	64.2
Other hotel expenses	86.6	83.1
Base management fees	8.6	8.5
Yield support		(0.1)
Incentive management fees	4.4	4.7
Property taxes	10.6	10.3
Ground rent Contractual	1.0	0.8
Ground rent Non-cash	3.5	3.6
Total hotel operating expenses	\$ 227.4	\$ 220.4

*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 \$1.6 million from \$33.2 million for the period from January 1, 2007 to June 15, 2007 to \$34.8 million for the period from January 1, 2008 to June 13, 2008 due to increased capital expenditures in 2008 primarily consisting of the capital projects at the Chicago Marriott and the Boston Westin.

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*Corporate expenses.* Our corporate expenses decreased from \$6.4 million for the period from January 1, 2007 to June 15, 2007 to \$6.3 million for the period from January 1, 2008 to June 13, 2008 primarily due to lower stock compensation expense in 2008 partially offset by higher legal and payroll costs. 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.

*Interest expense.* Our interest expense decreased \$1.3 million from \$23.4 million for the period from January 1, 2007 to June 15, 2007 to \$22.1 million for the period from January 1, 2008 to June 13, 2008. The decrease in interest expense is primarily attributable to the refinancing of our mortgage on the Bethesda Marriott in 2007, which resulted in reduced borrowings at a lower interest rate and a lower interest rate on outstanding borrowings under our credit facility during the period from January 1, 2008 to June 13, 2008. The 2008 interest expense is comprised of mortgage debt (\$21.1 million), amortization of deferred financing costs (\$0.4 million) and interest and unused facility fees on our credit facility (\$0.6 million). The 2007 interest expense is comprised of mortgage debt (\$22.1 million), amortization of deferred financing costs (\$0.3 million) and interest and unused facility fees on our credit facility (\$1.0 million).

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As of June 13, 2008, we had property-specific mortgage debt outstanding on twelve of our hotels. On all but one of the hotels, we have fixed-rate secured debt, which bears interest at rates ranging from 5.11% to 6.48% per year. Amounts drawn under the credit facility bear interest at a variable rate that fluctuates based on the level of outstanding indebtedness in relation to the value of our assets from time to time. The weighted-average interest rate as of June 13, 2008 on our outstanding balance under our credit facility was 3.40% as compared to 6.27% as of June 15, 2007. We had \$32.0 million drawn on the credit facility as of June 13, 2008. Subsequent to June 13, 2008, we drew an additional \$34 million, net, under the credit facility. Our weighted-average interest rate on all debt as of June 13, 2008 was 5.5%.

*Interest income.* Interest income decreased \$0.5 million from \$1.3 million for the period from January 1, 2007 to June 15, 2007 to \$0.8 million for the period from January 1, 2008 to June 13, 2008 primarily due to lower interest rates earned on our corporate cash in 2008.

*Discontinued operations.* Income from discontinued operations for the period from January 1, 2007 to June 15, 2007 was the result of the sale of the SpringHill Suites Atlanta Buckhead on December 21, 2007.

*Income taxes.* We recorded an income tax benefit of \$2.8 million for the period from January 1, 2008 to June 13, 2008 and an income tax expense of \$1.6 million for the period January 1, 2007 to June 15, 2007, respectively. The 2008 income tax benefit was incurred on the \$9.9 million pre-tax loss of our taxable REIT subsidiary, or TRS, for the period from January 1, 2008 to June 13, 2008, together with foreign income tax expense of \$0.9 million related to the taxable REIT subsidiary that owns the Frenchman's Reef & Morning Star Marriott Beach Resort. The 2007 income tax expense was incurred on the \$3.1 million pre-tax income of our TRS for the period from January 1, 2007 to June 15, 2007, together with foreign income tax expense of \$0.4 million related to the taxable REIT subsidiary that owns the Frenchman's Reef & Morning Star Marriott Beach Resort.

**Liquidity and Capital Resources**

Our short-term liquidity requirements consist primarily of funds necessary to fund future distributions to our stockholders to maintain our REIT status, funds required to purchase shares under our share repurchase program and funds required for corporate expenses as well as to pay for operating expenses and other expenditures directly associated with our hotels, including maintenance and recurring capital expenditures as well as payments of interest and principal. We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and short-term borrowings under our credit facility.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional hotels, renovations, expansions and other capital expenditures that need to be made periodically to our hotels, scheduled debt payments and making distributions to our stockholders. We expect to meet our long-term liquidity requirements through various sources of capital, cash provided by operations, existing cash balances, and borrowings as well as through the issuances of additional equity or debt securities. Our ability to incur additional debt is dependent upon a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions imposed by existing lenders. Our ability to raise funds through the issuance of debt and equity securities is dependent upon, among other things, general market conditions for REITs and market perceptions about us.

*Our Financing Strategy*

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We are committed to maintaining a conservative capital structure with aggregate leverage weighted towards long-term fixed-rate debt. However, we maintain the flexibility to modify these strategies if we believe fundamental changes have occurred in the capital or lodging markets.

As of June 13, 2008, 95.7% of our debt carries fixed interest rates, with a weighted-average interest rate of 5.5%, and a weighted-average maturity of 6.9 years. As of June 13, 2008, we had \$855.1 million of debt outstanding.

We have a strong preference towards fixed-rate, long-term, limited recourse, single property specific debt. When possible and desirable, we will seek to replace short-term sources of capital with long-term financing. In addition to property-specific debt and our credit facility, we intend to use other financing methods as necessary, including obtaining funds from banks, institutional investors or other lenders, bridge loans, letters of credit and other arrangements, any of which may be unsecured or may be secured by mortgages or other interests in our investments. In addition, we may issue publicly or privately placed debt instruments.

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*Share Repurchase Program*

On February 27, 2008, our Board of Directors authorized a program to repurchase up to 4.8 million shares of our common stock. The common stock may be purchased in the open market or through private transactions, dependent upon market conditions. The plan does not obligate us to repurchase any specific number of shares and may be suspended at any time at our discretion. As of July 21, 2008, we have purchased 2.8 million shares under this program at an average price of \$10.74 per share. We have retired all shares purchased under the program on the settlement date.

*Credit Facility*

We are party to a four-year, \$200.0 million unsecured credit facility (the Facility) expiring in February 2011. We may extend the maturity date of the Facility for an additional year upon the payment of applicable fees and the satisfaction of certain other customary conditions.

Interest is paid on the periodic advances under the Facility at varying rates, based upon either LIBOR or the alternate base rate, plus an agreed upon additional margin amount. The interest rate depends upon our level of outstanding indebtedness in relation to the value of our assets from time to time, as follows:

	<b>Leverage Ratio</b>			
	<b>60% or greater</b>	<b>55% to 60%</b>	<b>50% to 55%</b>	<b>less than 50%</b>
Alternate base rate margin	0.65%	0.45%	0.25%	0.00%
LIBOR margin	1.55%	1.45%	1.25%	0.95%

Our Facility contains various corporate financial covenants. A summary of the most restrictive covenants is as follows:

	<b>Covenant</b>	<b>Actual at June 13, 2008</b>
Maximum leverage ratio	65%	35.6%
Minimum fixed charge coverage ratio	1.6x	3.9x
Minimum tangible net worth	\$738.4 million	\$1.2 billion
Unhedged floating rate debt as a percentage of total indebtedness	35%	4.3%

Our Facility requires that we maintain a specific pool of unencumbered borrowing base properties. The unencumbered borrowing base assets are subject to the following limitations and covenants:

<b>Covenant</b>	<b>Actual at June 13, 2008</b>
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Minimum implied debt service ratio	1.5x	24.9x
Maximum unencumbered leverage ratio	65%	3.7%
Minimum number of unencumbered borrowing base properties	4	8
Minimum unencumbered borrowing base value	\$150 million	\$869.0 million
Percentage of total asset value owned by borrowers or guarantors	90%	100%

In addition to the interest payable on amounts outstanding under the Facility, we are required to pay an amount equal to 0.20% of the unused portion of the Facility if the unused portion of the Facility is greater than 50% and 0.125% if the unused portion of the Facility is less than 50%. We incurred interest and unused credit facility fees on the Facility of \$0.4 million and \$0.6 million for the fiscal quarters ended June 13, 2008 and June 15, 2007, respectively and we incurred interest and unused credit facility fees on the Facility of \$0.6 million and \$1.0 million for the periods from January 1, 2008 to June 13, 2008 and January 1, 2007 to June 15, 2007, respectively. As of June 13, 2008, we had \$32.0 million outstanding on the Facility. Subsequent to June 13, 2008, we drew an additional \$34.0 million, net, under the Facility.

### Sources and Uses of Cash

Our principal sources of cash are revenues from operations, borrowing under mortgage financings, draws on the Facility and the proceeds from our equity offerings. Our principal uses of cash are debt service, share repurchases, capital expenditures, operating costs, corporate expenses and dividends.

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*Cash Provided by Operating Activities.* Our cash provided by operating activities was \$48.0 million for the period from January 1, 2008 to June 13, 2008, which is the result of our \$26.9 million net income adjusted for the impact of several non-cash charges, including \$34.8 million of depreciation, \$3.6 million of non-cash ground rent, \$0.4 million of amortization of deferred financing costs, \$0.8 million of yield support received and \$1.6 million of stock compensation, offset by \$0.8 million of amortization of unfavorable agreements, \$0.3 million of amortization of deferred income and unfavorable working capital changes of \$19.0 million.

Our cash provided by operating activities was \$53.4 million for the period from January 1, 2007 to June 15, 2007, which is the result of our \$27.3 million net income, adjusted for the impact of several non-cash charges, including \$33.7 million of depreciation, \$3.6 million of non-cash straight line ground rent, \$1.7 of yield support received, \$0.3 million of amortization of deferred financing costs, \$2.1 million of stock compensation, offset by \$0.9 million of amortization of debt premium and unfavorable agreements, and unfavorable working capital changes of \$14.2 million.

*Cash Used In Investing Activities.* Our cash used in investing activities was \$33.6 million for the period from January 1, 2008 to June 13, 2008. During the period from January 1, 2008 to June 13, 2008, we incurred capital expenditures at our hotels of \$36.8 million and a decrease in restricted cash of \$1.8 million, which was offset by the receipt of \$5.0 million of key money related to the Chicago Marriott Downtown.

Our cash used in investing activities was \$354.4 million for the period from January 1, 2007 to June 15, 2007. During the period from January 1, 2007 to June 15, 2007, we utilized \$331.3 million of cash for the acquisition of the Westin Boston Waterfront Hotel and incurred capital expenditures at our hotels of \$22.5 million.

*Cash Used In Financing Activities.* Our cash used in financing activities was \$19.2 million for the period from January 1, 2008 to June 13, 2008 consisted of \$1.4 million of scheduled debt principal payments, \$3.2 million of share repurchases and \$46.6 million of dividend payments offset by \$32.0 million of net draws under our credit facility.

Our cash provided by financing activities for the period from January 1, 2007 to June 15, 2007, primarily consists of \$317.6 million of net proceeds from sale of our common stock and \$61.5 million in draws under our credit facility. The cash provided by financing activities for the period from January 1, 2007 to June 15, 2007 was offset by the \$35.0 million in repayments of the credit facility, \$1.7 million of scheduled debt principal payments, \$1.1 million payment of financing costs and \$36.7 million of dividend payments.

The following table summarizes our significant financing activities through July 22, 2008:

Transaction Date	Description of Transaction	Amount
<b>Debt:</b>		
January	Draw under credit facility	\$ 8.0 million



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February	Draw under credit facility	3.0 million
March	Draws under credit facility	23.0 million
April	Draws under credit facility	5.0 million
May	Repayments of credit facility	(15.0 million)
June	Draws under credit facility	32.0 million
July	Draw under credit facility	18.0 million
July	Repayment of credit facility	(8.0 million)

### Equity:

January	Payment of fourth quarter 2007 dividends	(22.8 million)
April	Payment of first quarter 2008 dividends	(23.8 million)
June	Payment of second quarter 2008 dividends	(23.8 million)
June	Share repurchases	(14.1 million)
July	Share repurchases	(16.3 million)

### Dividend Policy

Generally, we intend to continue to distribute to our stockholders each year on a regular quarterly basis sufficient amounts of our REIT taxable income so as to avoid paying corporate income tax and excise tax on our earnings (other than the earnings of our TRS and TRS lessees, which are all subject to tax at regular corporate rates) and to qualify for the tax benefits afforded to REITs under the Internal Revenue Code of 1986, as amended (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, plus

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- 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.

We pay quarterly cash dividends to common stockholders at the discretion of our Board of Directors. The following table sets forth the dividends paid to common stockholders since January 1, 2008:

Payment Date	Record Date	Dividend per Share	
January 10, 2008	December 31, 2007	\$	0.24
April 1, 2008	March 21, 2008	\$	0.25
June 24, 2008	June 13, 2008	\$	0.25

**Capital Expenditures**

The management 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 and fixtures at our hotels. Contributions to the property improvement fund are calculated as a percentage of hotel sales. 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 agreement. As of June 13, 2008, we have set aside \$32.2 million for capital projects in property improvement funds. Funds held in property improvement funds for one hotel are typically not permitted to be applied to any other property.

We have and continue to make significant capital investments in our hotels. In 2008, we expect to incur approximately \$70 to \$80 million of capital improvements at our hotels. We incurred \$36.8 million of capital projects in the period from January 1, 2008 to June 13, 2008. The most significant projects are as follows:

- **Chicago Marriott Downtown:** We completed a \$35 million renovation of the hotel in April 2008. The renovation, which began in the third quarter of 2007, included a complete redo of all the meeting and ballrooms, adding 17,000 square feet of new meeting space, reconcepting and relocating the restaurant, expanding the lobby bar and creating a Marriott great room in the lobby.
- **Westin Boston Waterfront:** We have completed the construction of additional meeting rooms in the building attached to the hotel in March 2008. The \$19 million project, which began in the third quarter of 2007, included the creation of over 37,000 square feet to meeting/exhibit space.

- Conrad Chicago: We completed a renovation of the guestrooms and corridors during the first quarter and plans to upgrade the arrival experience with a front entrance repositioning to be completed in the fourth quarter of 2008.
- Salt Lake City: We plan to significantly renovate the guestrooms at the hotel in late 2008.

#### **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 two non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: (1) EBITDA and (2) FFO. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP.

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 indebtedness use EBITDA

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as a measure of financial compliance. We also use EBITDA as one measure in determining the value of hotel acquisitions and dispositions.

	<b>Fiscal Quarter Ended June 13, 2008</b>	<b>Fiscal Quarter Ended June 15, 2007</b>	<b>Period from January 1, 2008 to June 13, 2008</b>	<b>Period from January 1, 2007 to June 15, 2007</b>
	(in thousands)			
Net income	\$ 21,755	\$ 20,513	\$ 26,932	\$ 27,303
Interest expense	11,430	11,884	22,125	23,379
Income tax provision(benefit)(1)	886	3,095	(2,836)	1,440
Real estate related depreciation and amortization (2)	18,069	17,643	34,756	33,704
EBITDA	\$ 52,140	\$ 53,135	\$ 80,977	\$ 85,826

(1) Amount for the fiscal quarter ended June 15, 2007 and the period from January 1, 2007 to June 15, 2007 includes \$0.1 million and \$0.1 million of income tax benefit included in discontinued operations, respectively.

(2) Amount for the fiscal quarter ended June 15, 2007 and the period from January 1, 2007 to June 15, 2007 includes \$0.3 million and \$0.5 million of depreciation expense included in discontinued operations, respectively.

We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, which defines FFO as net income (determined in accordance with GAAP), excluding gains (losses) from sales of property, plus depreciation and amortization. We believe that the presentation of FFO provides useful information to investors regarding our operating performance because it is a measure of our operations without regard to specified non-cash items, such as real estate depreciation and amortization and gain or loss on sale of assets. We also use FFO as one measure in assessing our results.