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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
3 Bethesda Metro Center, Suite 1500, Bethesda, Maryland	**20814**
(Address of Principal Executive Offices)	**(Zip Code)**

(240) 744-1150
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☑	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The registrant had 195,679,187 shares of its $0.01 par value common stock outstanding as of May 12, 2014.

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PART I. FINANCIAL INFORMATION
Item I. Financial Statements

DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	March 31, 2014	December 31, 2013
	(Unaudited)	
ASSETS		
Property and equipment, at cost	$ 3,188,753	$ 3,168,088
Less: accumulated depreciation	(625,692)	(600,555)
	2,563,061	2,567,533
Deferred financing costs, net	6,910	7,702
Restricted cash	97,949	89,106
Due from hotel managers	76,056	69,353
Note receivable	44,762	50,084
Favorable lease assets, net	39,677	39,936
Prepaid and other assets	76,946	79,474
Cash and cash equivalents	111,482	144,584
Total assets	**$ 3,016,843**	**$ 3,047,772**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage debt	$ 1,088,259	$ 1,091,861
Senior unsecured credit facility	—	—
Total debt	1,088,259	1,091,861
Deferred income related to key money, net	23,435	23,707
Unfavorable contract liabilities, net	77,625	78,093
Due to hotel managers	54,914	54,225
Dividends declared and unpaid	20,330	16,981
Accounts payable and accrued expenses	88,564	102,214
Total liabilities	1,353,127	1,367,081
Stockholders' Equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value; 400,000,000 shares authorized; 195,679,187 and 195,470,791 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	1,957	1,955
Additional paid-in capital	1,978,800	1,979,613
Accumulated deficit	(317,041)	(300,877)
Total stockholders' equity	1,663,716	1,680,691
Total liabilities and stockholders' equity	**$ 3,016,843**	**$ 3,047,772**

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

DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2014	**2013**
Revenues:		
Rooms	$ 129,736	$ 120,381
Food and beverage	48,611	44,017
Other	11,737	11,465
Total revenues	190,084	175,863
Operating Expenses:		
Rooms	38,105	35,181
Food and beverage	34,500	32,842
Management fees	5,293	4,735
Other hotel expenses	72,476	67,655
Depreciation and amortization	25,123	26,251
Corporate and other expenses	5,188	7,845
Gain on insurance proceeds	(663)	—
Total operating expenses	180,022	174,509
Operating profit	10,062	1,354
Other Expenses (Income):		
Interest income	(1,652)	(1,285)
Interest expense	14,525	13,583
Total other expenses, net	12,873	12,298
Loss from continuing operations before income taxes	(2,811)	(10,944)
Income tax benefit	6,848	6,145
Income (loss) from continuing operations	4,037	(4,799)
Income from discontinued operations, net of income taxes	—	673
Net income (loss)	$ 4,037	$ (4,126)
Earnings (loss) per share:		
Continuing operations	$ 0.02	$ (0.02)
Discontinued operations	—	0.00
Basic and diluted earnings (loss) per share	$ 0.02	$ (0.02)

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

DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2014	**2013**
Cash flows from operating activities:		
Net income (loss)	$ 4,037	$ (4,126)
Adjustments to reconcile net income to net cash provided by operating activities:		
Real estate depreciation	25,123	26,834
Corporate asset depreciation as corporate expenses	27	25
Non-cash ground rent	1,696	1,693
Non-cash financing costs, debt premium and interest rate cap as interest	708	703
Amortization of note receivable discount as interest income	(696)	(533)
Amortization of favorable and unfavorable contracts, net	(353)	(354)
Amortization of deferred income	(272)	(265)
Stock-based compensation	1,047	1,860
Changes in assets and liabilities:		
Prepaid expenses and other assets	2,411	2,286
Restricted cash	(7,085)	(1,239)
Due to/from hotel managers	(6,014)	(3,130)
Accounts payable and accrued expenses	(9,785)	(5,541)
Net cash provided by operating activities	10,844	18,213
Cash flows from investing activities:		
Hotel capital expenditures	(25,967)	(13,937)
Mortgage loan principal payments	6,000	5,074
Change in restricted cash	(1,758)	(12,737)
Net cash used in investing activities	(21,725)	(21,600)
Cash flows from financing activities:		
Scheduled mortgage debt principal payments	(3,512)	(2,980)
Repurchase of common stock and other	(1,898)	(1,620)
Proceeds from mortgage debt	—	102,000
Draws on senior unsecured credit facility	—	25,000
Repayments of senior unsecured credit facility	—	(35,000)
Payment of financing costs	—	(525)
Payment of cash dividends	(16,811)	(15,736)
Net cash (used in) provided by financing activities	(22,221)	71,139
Net (decrease) increase in cash and cash equivalents	(33,102)	67,752
Cash and cash equivalents, beginning of period	144,584	9,623
Cash and cash equivalents, end of period	$ 111,482	$ 77,375
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 13,111	$ 12,354
Cash paid for income taxes	$ 87	$ 52
Capitalized interest	$ 343	$ 367
Non-cash Financing Activities:		
Unpaid dividends	$ 20,330	$ 16,862

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

DIAMONDROCK HOSPITALITY COMPANY

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

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

As of March 31, 2014, we owned 26 hotels with 11,121 guest rooms, located in the following markets: Atlanta, Georgia; Boston, Massachusetts (2); Burlington, Vermont; Charleston, South Carolina; Chicago, Illinois (2); Denver, Colorado (2); Fort Worth, Texas; Los Angeles, California; Minneapolis, Minnesota; New York, New York (4); Oak Brook, Illinois; Orlando, Florida; Salt Lake City, Utah; San Diego, California; San Francisco, California; Sonoma, California; Washington D.C. (2); St. Thomas, U.S. Virgin Islands; and Vail, Colorado. We also own a senior mortgage loan secured by a 443-room hotel located in Chicago, Illinois and have the right to acquire, upon completion in 2014, a 282-room hotel under development in New York City.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2013, included in our Annual Report on Form 10-K filed on February 25, 2014.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of March 31, 2014 and the results of our operations and our cash flows for the three months ended March 31, 2014 and March 31, 2013. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations.

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

Property and Equipment

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

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

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

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

Note Receivable

Notes receivable are carried at cost, net of any premiums or discounts which are recognized as an adjustment of yield over the remaining life of the note using the effective interest rate method. Notes receivable are evaluated for collectability and if collectability of the original amounts due is in doubt, the value is adjusted for impairment. Our impairment analysis considers the anticipated cash receipts as well as the underlying value of the collateral. If collectability is in doubt, the note is placed in non-accrual status. No interest is recorded on such notes until the timing and amounts of cash receipts can be reasonably estimated. We record cash payments received on non-accrual notes receivable as a reduction in basis. We continually assess the current facts and circumstances to determine whether we can reasonably estimate cash flows. If we can reasonably estimate the timing and amount of cash flows to be collected, then income recognition becomes possible.

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, parking, gift shop sales and resort fees.

Earnings (Loss) Per Share

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

Comprehensive Income (Loss)

We do not have any items of comprehensive income (loss) other than net income (loss). If we do incur any additional items of comprehensive income (loss), such that a statement of comprehensive income would be necessary, such statement will be reported as one statement with the condensed consolidated statement of operations.

Stock-based Compensation

We account for stock-based employee compensation using the fair value based method of accounting. We record the cost of stock-based awards based on the grant-date fair value of the award. 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.

Income Taxes

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

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

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

We had no accruals for tax uncertainties as of March 31, 2014 and December 31, 2013.

Fair Value Measurements

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

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

Intangible Assets and Liabilities

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

Straight-Line Rental Income and Expense

We record rental income and expense on a straight-line basis for leases that provide for minimum rental payments that increase in pre-established amounts over the remaining term of the lease.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of our note receivable and cash and cash equivalents. We perform periodic evaluations of the underlying hotel property securing the note receivable. See further discussion in Note 5. We maintain cash and cash equivalents with various financial institutions. We perform periodic evaluations of the relative credit standing of these financial institutions and limit the amount of credit exposure with any one institution.

Use of Estimates

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

Risks and Uncertainties

The state of the overall economy can significantly impact hotel operational performance and thus, impact our financial position. Should any of our hotels experience a significant decline in operational performance, it may affect our ability to make distributions to our stockholders and service debt or meet other financial obligations.

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") recently issued Accounting Standards Update No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which amends U.S. GAAP to require reporting of discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This pronouncement will be effective for the first annual reporting period beginning after December 15, 2015 with early adoption permitted. The Company adopted this accounting pronouncement effective January 1, 2014. Disposals that have already been reported within discontinued operations in previously issued financial statements will continue to be reported under the previous guidance.

3. Property and Equipment

Property and equipment as of March 31, 2014 and December 31, 2013 consists of the following (in thousands):

	March 31, 2014	December 31, 2013
Land	$ 394,957	$ 394,957
Land improvements	7,994	7,994
Buildings	2,324,241	2,321,666
Furniture, fixtures and equipment	452,167	420,367
CIP and corporate office equipment	9,394	23,104
	3,188,753	3,168,088
Less: accumulated depreciation	(625,692)	(600,555)
	$ 2,563,061	$ 2,567,533

As of March 31, 2014, we had accrued capital expenditures of $3.3 million. As of December 31, 2013, we had accrued capital expenditures of $8.6 million.

4. Favorable Lease Assets

In connection with the acquisition of certain hotels, we have recognized intangible assets for favorable ground leases and tenant leases. Our favorable lease assets, net of accumulated amortization, as of March 31, 2014 and December 31, 2013 consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Westin Boston Waterfront Hotel Ground Lease	$ 18,455	$ 18,510
Westin Boston Waterfront Hotel Lease Right	9,045	9,045
Hilton Minneapolis Ground Lease	5,816	5,835
Oak Brook Hills Resort Ground Lease	4,951	5,058
Lexington Hotel New York Tenant Leases	1,139	1,176
Hilton Boston Downtown Tenant Leases	271	312
	$ 39,677	$ 39,936

The favorable lease assets are recorded at the acquisition date and are generally amortized using the straight-line method over the remaining non-cancelable term of the lease agreement. Amortization expense for the three months ended March 31, 2014 was approximately $0.3 million.

We own a favorable lease asset related to the right to acquire a leasehold interest in a parcel of land adjacent to the Westin Boston Waterfront Hotel for the development of a 320 to 350 room hotel (the “lease right”). The option expires in 2016. We do not amortize the lease right but review the asset for impairment annually or at interim periods if events or circumstances indicate that the asset may be impaired. No impairment loss was recorded for the three months ended March 31, 2014 or March 31, 2013.

The fair value of the lease right is a Level 3 measurement under the fair value hierarchy (see Note 2) and is derived from a discounted cash flow model using the favorable difference between the estimated participating rents or actual rents in accordance with the lease terms and the estimated market rents. The discount rate is estimated using a risk adjusted rate of return, the estimated participating rents are estimated based on a hypothetical hotel comparable to our Westin Boston Waterfront Hotel, and market rents are based on comparable long-term ground leases in the City of Boston.

5. Note Receivable

We own a $66.0 million senior mortgage loan secured by the 443-room Allerton Hotel in Chicago, Illinois (the "Allerton Loan"), which has a four-year term (plus a one-year extension option) and bears annual interest at a fixed rate of 5.5%. Principal payments are based on a 30-year amortization schedule, but are only due to the extent there is available cash flow from operations. In connection with the sale of the Allerton Hotel in March 2014, we received a $6.0 million principal payment. As of March 31, 2014, the outstanding principal balance of the Allerton Loan is $58.5 million. We recorded $1.6 million of interest income on the Allerton Loan for the three months ended March 31, 2014, of which $0.7 million is the amortization of the discount and the remainder is contractual interest income. We recorded $1.3 million of interest income on the Allerton Loan for the three months ended March 31, 2013, of which $0.5 million is the amortization of the discount and the remainder is contractual interest income earned. Subsequent to March 31, 2014, the owner of the Allerton Hotel sent notice to us of their intent to prepay the Allerton Loan in full. We expect to receive payment during the second quarter, however the prepayment is subject to the borrower's ability to raise the capital required to prepay the loan.

6. Capital Stock

Common Shares

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

We have paid the following dividends to holders of our common stock during 2014 as follows:

Payment Date	Record Date	Dividend per Share
January 10, 2014	December 31, 2013	$ 0.0850
April 10, 2014	March 31, 2014	$ 0.1025

Preferred Shares

We are authorized to issue up to 10 million shares of preferred stock, $0.01 par value per share. Our board of directors is required to set for each class or series of preferred stock the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption. As of March 31, 2014 and December 31, 2013, there were no shares of preferred stock outstanding.

Operating Partnership Units

Holders of operating partnership units would have certain redemption rights, which would enable them to cause our operating partnership to redeem their units in exchange for cash per unit equal to the market price of our common stock, at the time of redemption, or, at our option for shares of our common stock on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or our stockholders. As of March 31, 2014 and December 31, 2013, there were no operating partnership units held by unaffiliated third parties.

7. Stock Incentive Plans

We are authorized to issue up to 8 million shares of our common stock under our 2004 Stock Option and Incentive Plan, as amended (the "Incentive Plan"), of which we have issued or committed to issue 3,625,877 shares as of March 31, 2014. In addition to these shares, additional shares of common stock could be issued in connection with the market stock unit awards and performance stock unit awards as further described below.

Restricted Stock Awards

Restricted stock awards issued to our officers and employees generally vest over a 3-year period from the date of the grant based on continued employment. We measure compensation expense for the restricted stock awards based upon the fair market value of our common stock at the date of grant. Compensation expense is recognized on a straight-line basis over the vesting period and is included in corporate expenses in the accompanying condensed consolidated statements of operations. A summary of our restricted stock awards from January 1, 2014 to March 31, 2014 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2014	583,021	$ 9.80
Granted	221,240	12.43
Additional shares from dividends	—	—
Forfeited	—	—
Vested	(270,440)	10.10
Unvested balance at March 31, 2014	533,821	$ 10.74

The remaining share awards are expected to vest as follows: 274,187 during 2015, 178,648 during 2016, and 80,986 during 2017. As of March 31, 2014, the unrecognized compensation cost related to restricted stock awards was $5.5 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 28 months. We recorded $0.7 million and $1.4 million, respectively, of compensation expense related to restricted stock awards for each of the three months ended March 31, 2014 and March 31, 2013. The compensation expense for the three months ended March 31, 2013 includes $0.7 million related to the accelerated vesting of awards in connection with the departure of our former Chief Operating Officer in 2013.

Market Stock Units

From 2010 to 2012, we awarded our executive officers market stock units ("MSUs"). MSUs are restricted stock units that vest three years from the date of grant. As of March 31, 2014, there are 95,915 MSUs outstanding, which represent awards granted in 2012. The unrecognized compensation cost related to the MSUs was $0.2 million as of March 31, 2014 and is expected to be recognized on a straight-line basis over a weighted average period of 11 months. For the three months ended March 31, 2014 and March 31, 2013, we recorded approximately $0.1 million and $0.4 million, respectively, of compensation expense related to the MSUs. The compensation expense for the three months ended March 31, 2013 includes $0.2 million related to the accelerated vesting of awards in connection with the departure of our former Chief Operating Officer in 2013.

Performance Stock Units

Beginning in 2013, we have awarded our executive officers performance stock units ("PSUs"). PSUs are restricted stock units that vest three years from the date of grant. Each executive officer is granted a target number of PSUs (the "PSU Target Award"). The actual number of shares of common stock issued to each executive officer is subject to the achievement of certain levels of total stockholder return relative to the total stockholder return of a peer group of publicly-traded lodging REITs over a three-year performance period. There will be no payout of shares of our common stock if our total stockholder return falls below the 30th percentile of the total stockholder returns of the peer group. The maximum number of shares of common stock issued to an executive officer is equal to 150% of the PSU Target Award and is earned if our total stockholder return is equal to or greater than the 75th percentile of the total stockholder returns of the peer group.

The fair values of the PSU awards are determined using a Monte Carlo simulation performed by a third-party valuation firm. The determination of the grant-date fair values of the awards included the following assumptions:

Award Grant Date	Volatility	Risk-Free Rate	Fair Value at Grant Date
March 3, 2013	39.2%	0.36%	$ 9.55
May 15, 2013	37.9%	0.40%	$ 10.41
March 3, 2014	33.5%	0.66%	$ 12.77

The simulations also considered the share performance of the Company and the peer group. A summary of our PSUs from January 1, 2014 to March 31, 2014 is as follows:

	Number of Units	Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2014	223,176	$ 9.66
Granted	170,321	12.77
Additional units from dividends	1,636	11.60
Unvested balance at March 31, 2014	395,133	$ 11.00

As of March 31, 2014, the unrecognized compensation cost related to the PSUs was $3.5 million and is expected to be recognized on a straight-line basis over a period of 30 months. For the three months ended March 31, 2014 and March 31, 2013, we recorded approximately $0.2 million and $0.1 million, respectively, of compensation expense related to the PSUs.

8. Earnings (Loss) Per Share

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

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

	Three Months Ended March 31,	
	2014	2013
Numerator:		
Income (loss) from continuing operations	$ 4,037	$ (4,799)
Income from discontinued operations	—	673
Net income (loss)	$ 4,037	$ (4,126)
Denominator:		
Weighted-average number of common shares outstanding—basic	195,623,959	195,301,268
Effect of dilutive securities:		
Unvested restricted common stock	205,363	—
Shares related to unvested MSUs and PSUs	575,733	—
Weighted-average number of common shares outstanding—diluted	196,405,055	195,301,268
Basic earnings (loss) per share:		
Continuing operations	$ 0.02	$ (0.02)
Discontinued operations	—	0.00
Total	$ 0.02	$ (0.02)
Diluted earnings (loss) per share:		
Continuing operations	$ 0.02	$ (0.02)
Discontinued operations	—	0.00
Total	$ 0.02	$ (0.02)

We did not include the following in our calculation of diluted earnings (loss) per share as they would be anti-dilutive:

	Three Months Ended March 31,	
	2014	2013
Unvested restricted common stock	—	181,225
Unexercised stock appreciation rights	262,461	262,461
Shares related to unvested MSUs and PSUs	—	171,987
	262,461	615,673

9. Debt

The following table sets forth information regarding the Company's debt as of March 31, 2014, in thousands:

Property	Principal Balance	Interest Rate	Maturity Date
Courtyard Manhattan / Midtown East	$ 41,424	8.81%	October 2014
Marriott Salt Lake City Downtown	62,525	4.25%	November 2020
Courtyard Manhattan / Fifth Avenue	49,429	6.48%	June 2016
Renaissance Worthington	53,563	5.40%	July 2015
Frenchman's Reef & Morning Star Marriott Beach Resort	57,397	5.44%	August 2015
Marriott Los Angeles Airport	82,600	5.30%	July 2015
Orlando Airport Marriott	56,558	5.68%	January 2016
Chicago Marriott Downtown Magnificent Mile	207,580	5.975%	April 2016
Hilton Minneapolis	94,499	5.464%	May 2021
JW Marriott Denver at Cherry Creek	39,507	6.47%	July 2015
Lexington Hotel New York	170,368	LIBOR + 3.00% (3.155% at March 31, 2014)	March 2015 (1)
Westin Washington D.C. City Center	71,971	3.99%	January 2023
The Lodge at Sonoma, a Renaissance Resort & Spa	30,511	3.96%	April 2023
Westin San Diego	69,875	3.94%	April 2023
Debt premium (2)	452		
Total mortgage debt	1,088,259		
Senior unsecured credit facility	—	LIBOR + 1.90%	January 2017 (3)
Total debt	$ 1,088,259		
Weighted-Average Interest Rate		5.17%	

(1) The loan may be extended for two additional one-year terms subject to the satisfaction of certain conditions and the payment of an extension fee.
(2) Recorded upon our assumption of the JW Marriott Denver at Cherry Creek mortgage debt in 2011.
(3) The credit facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions.

Mortgage Debt

We have incurred limited recourse, property specific mortgage debt secured by certain of our hotels. In the event of default, the lender may only foreclose on the secured assets; however, in the event of fraud, misapplication of funds or other customary recourse provisions, the lender may seek payment from us. As of March 31, 2014, 14 of our 26 hotels were secured by mortgage debt. Our mortgage debt contains certain property specific covenants and restrictions, including minimum debt service coverage ratios that trigger "cash trap" provisions as well as restrictions on incurring additional debt without lender consent.

The Lexington Hotel New York mortgage loan contains a quarterly financial covenant requiring a minimum debt service coverage ratio ("DSCR"), as defined in the loan agreement, of 1.1 times. As a result of the ongoing renovation of the hotel during most of 2013, the DSCR fell below the minimum requirement. Under the loan agreement, we have the ability to cure the default by depositing the amount of the DSCR shortfall into a reserve with the lender. If we do not fund the DSCR shortfall and cure the default, the loan becomes due and payable. As of March 31, 2014, the lender is holding $4.2 million in a reserve to cover the DSCR shortfall. The reserve will be released back to us when the DSCR is above 1.1 times, which we expect to occur as of the second quarter of 2014. In addition, the cash trap provision was triggered on the loan during 2013.

As of March 31, 2014, we are in compliance with the other financial covenants of our mortgage debt.

Senior Unsecured Credit Facility

We are party to a $200 million unsecured credit facility, which expires in January 2017. The maturity date of the facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain other customary conditions. We also have the right to increase the amount of the facility up to $400 million with lender approval. Interest is paid on the periodic advances under the facility at varying rates, based upon LIBOR, plus an agreed upon additional margin amount. The applicable margin is based upon the Company's ratio of net indebtedness to EBITDA, as follows:

Ratio of Net Indebtedness to EBITDA	Applicable Margin
Less than 4.00 to 1.00	1.75%
Greater than or equal to 4.00 to 1.00 but less than 5.00 to 1.00	1.90%
Greater than or equal to 5.00 to 1.00 but less than 5.50 to 1.00	2.10%
Greater than or equal to 5.50 to 1.00 but less than 6.00 to 1.00	2.20%
Greater than or equal to 6.00 to 1.00 but less than 6.50 to 1.00	2.50%
Greater than or equal to 6.50 to 1.00	2.75%

In addition to the interest payable on amounts outstanding under the facility, we are required to pay an amount equal to 0.35% of the unused portion of the facility if the unused portion of the facility is greater than 50% or 0.25% if the unused portion of the facility is less than or equal to 50%.

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

	Covenant	Actual at March 31, 2014
Maximum leverage ratio (1)	60%	48.6%
Minimum fixed charge coverage ratio (2)	1.50x	2.43x
Minimum tangible net worth (3)	$1.857 billion	$2.290 billion
Secured recourse indebtedness	Less than 45% of Total Asset Value	44.5%

(1) Leverage ratio is total indebtedness, as defined in the credit agreement which includes our commitment on the Times Square development hotel, divided by total asset value, defined in the credit agreement as a) total cash and cash equivalents plus b) the value of our owned hotels based on hotel net operating income divided by a defined capitalization rate, and (c) the book value of the Allerton Loan.

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

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

The facility requires us to maintain a specific pool of unencumbered borrowing base properties. The unencumbered borrowing base assets must include a minimum of five properties with an unencumbered borrowing base value, as defined in the credit agreement, of not less than $250 million. As of March 31, 2014, the unencumbered borrowing base included five properties with a borrowing base value of $329 million.

As of March 31, 2014, we had no borrowings outstanding under the facility and the Company's ratio of net indebtedness to EBITDA was 4.7x. Accordingly, interest on any draws under the facility will be based on LIBOR plus 190 basis points for the next quarter. We incurred interest and unused credit facility fees on the facility of $0.2 million and $0.3 million for the three months ended March 31, 2014 and March 31, 2013, respectively.

10. Discontinued Operations

On November 21, 2013, we sold the 487-room Torrance Marriott South Bay to an unaffiliated third party. The operating results are reported in discontinued operations on the accompanying condensed consolidated statement of operations for the three months ended March 31, 2013.

The following table summarizes the components of discontinued operations in the condensed consolidated statement of operations for the three months ended March 31, 2013 (unaudited; in thousands, except per share data):

		Three Months Ended March 31, 2013
Hotel revenues	$	5,440
Hotel operating expenses		(4,182)
Operating income		1,258
Depreciation and amortization		(583)
Income tax expense		(2)
Income from discontinued operations	$	673
Basic and diluted income from discontinued operations per share	$	0.00

11. Fair Value of Financial Instruments

The fair value of certain financial assets and liabilities and other financial instruments as of March 31, 2014 and December 31, 2013, in thousands, are as follows:

	March 31, 2014				December 31, 2013			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
Note receivable	$	44,762	$	58,500	$	50,084	$	64,500
Debt	$	1,088,259	$	1,098,053	$	1,091,861	$	1,087,516

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

12. Commitments and Contingencies

Litigation

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

Hotel under Development

We are party to a purchase and sale agreement to acquire, upon completion, a hotel property under development on West 42nd Street in Times Square, New York City. Upon completion by the third-party developer, the hotel will have 282 guest rooms. The contractual purchase price is approximately $128 million, or approximately $450,000 per guest room. The purchase and sale agreement is for a fixed-price and we are not assuming any construction risk (including not assuming the risk of construction cost overruns). We expect that the hotel will open during 2014. We have made deposits totaling $26.9 million with a third-party escrow agent. All deposits are interest bearing. We will forfeit our deposits if we do not close on the acquisition of the hotel upon substantial completion of construction, unless the seller fails to meet certain conditions, including substantial completion of the hotel within a specified time frame and construction of the hotel within the contractual scope.

13. Subsequent Events

Hotel Disposition

On April 14, 2014, we sold the 386-room Oak Brook Hills Resort to an unaffiliated third party for $30.1 million, including $4.0 million of seller financing. The loan provided to the buyer is unsecured and has a one year interest-only period after which the loan will amortize based on a twenty-five year schedule. The loan accrues interest at a floating rate rate of LIBOR plus 650 basis points for the first year. The interest rate margin increases by 100 basis points annually for the remainder of the loan term. The loan is subordinate to the buyer's senior mortgage loan. The loan agreement provides repayment options, which include:

- the hotel achieving a certain operating profit threshold by mid-2016
- refinancing proceeds in excess of the outstanding balance of the senior mortgage loan
- proceeds in excess of the outstanding balance of the senior mortgage loan from the sale of the hotel

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

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of complying with these safe harbor provisions. These forward-looking statements are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions, whether in the negative or affirmative. Forward-looking statements are based on management's current expectations and assumptions and are not guarantees of future performance. Factors that may cause actual results to differ materially from current expectations include, but are not limited to, the risks discussed herein and the risk factors discussed from time to time in our periodic filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2013 as updated by our Quarterly Reports on Form 10-Q. Accordingly, there is no assurance that the Company's expectations will be realized. Except as otherwise required by the federal securities laws, the Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this report to reflect events, circumstances or changes in expectations after the date of this report.

Overview

DiamondRock Hospitality Company is a lodging-focused Maryland corporation operating as a real estate investment trust (REIT). As of March 31, 2014, we owned a portfolio of 26 premium hotels and resorts that contain 11,121 guest rooms. We also hold the senior note on a mortgage loan secured by an additional hotel and have the right to acquire, upon completion, a hotel under development. As an owner, rather than an operator, of lodging properties, we receive all of the operating profits or losses generated by the hotels after the payment of fees due to hotel managers, which are calculated based on the revenues and profitability of each hotel.

Our vision is to be the premier allocator of capital in the lodging industry. Our mission is to deliver long-term stockholder returns through a combination of dividends and enduring capital appreciation. Our strategy is to utilize disciplined capital allocation and focus on the acquisition, ownership and innovative asset management of high quality lodging properties in North American markets with superior growth prospects and high barriers to entry.

We differentiate ourselves from our competitors by adhering to three basic principles in executing our strategy:

- owning high-quality urban and destination resort hotels;
- implementing innovative asset management strategies; and
- maintaining a conservative capital structure.

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

We critically evaluate each of our hotels to ensure that we own a portfolio of hotels that conforms to our vision, supports our mission and corresponds with our strategy. On a regular basis, we analyze our portfolio to identify opportunities to invest capital in certain projects or market non-core assets for sale in order to increase our portfolio quality.

We are committed to a conservative capital structure with prudent leverage. We regularly assess the availability and affordability of capital in order to maximize the stockholder value and minimize enterprise risk. In addition, we are committed to following sound corporate governance practices and being open and transparent in our communications with stockholders.

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

As of March 31, 2014, we owned 26 premium hotels and resorts throughout North America and the U.S. Virgin Islands. Our hotels and resorts are primarily categorized as upper upscale as defined by Smith Travel Research and are generally located in high barrier-to-entry markets with multiple demand generators.

Our properties are concentrated in key gateway cities (primarily New York City, Chicago, Boston and Los Angeles) and in destination resort locations (such as the U.S. Virgin Islands and Vail, Colorado). We consider lodging properties located in gateway cities and resort destinations to be the most capable of creating dynamic cash flow growth and achieving superior long-term capital appreciation. We also believe that these locations are better insulated from new supply due to relatively high barriers-to-entry, including expensive construction costs and limited development sites.

We have been executing on our strategy to elevate and enhance our hotel portfolio by actively recycling capital early in the recovery phase of this lodging cycle. Our efforts have led to the repositioning of our portfolio through the acquisition of $1.3 billion of urban hotels that align with our strategic goals while disposing of more than $400 million in slower-growth, non-core hotels. These acquisitions increased our urban exposure with additional hotels in cities such as New York, San Francisco, Boston, Denver, Washington D.C. and San Diego. Over 85% of our portfolio EBITDA is currently derived from core urban and resort hotels. Our capital recycling program over the past three years also achieved several other important strategic portfolio goals that include improving our portfolio's geographic and brand diversity and achieving a mix of 50 percent brand-managed and 50 percent third-party managed hotels in our portfolio.

Moreover, the primary focus of our acquisitions over the past three years was on hotels that we believe presented unique value-add opportunities, such as repositioning through a change in brand or comprehensive renovation or changing the third-party hotel manager to a more efficient operator. For example, we executed a $140 million capital expenditure program in 2013, which included major capital investments at the Lexington Hotel New York, Courtyard Manhattan/Fifth Avenue, Courtyard Manhattan/Midtown East, Westin Washington D.C. City Center, Westin San Diego, Hilton Boston Downtown and Hilton Minneapolis.

We leverage some of the leading global hotel brands with all but two of our hotels flagged under a brand owned by Marriott, Hilton or Starwood. We believe that premier global hotel brands create significant value as a result of each brand's ability to produce incremental revenue through their strong reservation and rewards systems and sales organizations with the result being that branded hotels are able to generate greater profits than similar unbranded hotels. We are primarily interested in owning hotels that are currently operated under, or can be converted to, a globally-recognized brand. We would also consider opportunities to acquire other non-branded hotels located in premier or unique markets where we believe that the returns on such a hotel may be higher than if the hotel were operated under a globally-recognized brand.

Innovative Asset Management

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

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

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

Conservative Capital Structure

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

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

- provides capacity to fund attractive early-cycle acquisitions;
- provides optionality to fund acquisitions with the most efficient funding source;
- enhances our ability to maintain a sustainable dividend;
- enables us to opportunistically repurchase shares during periods of stock price dislocation; and
- provides capacity to fund late-cycle capital needs.

Our current debt outstanding consists primarily of fixed interest rate mortgage debt. We have no outstanding borrowings under our senior unsecured credit facility, which bears interest at what we believe is an attractive floating rate. We prefer that a significant portion of our portfolio remains unencumbered by debt in order to provide maximum balance sheet flexibility. In addition, to the extent that we incur additional debt, our preference is non-recourse secured mortgage debt. We expect that our strategy will enable us to maintain a balance sheet with an appropriate amount of debt throughout all phases of the lodging cycle.

We have mortgage debt maturities that start in late 2014, with significant maturities in 2015 (approximately $230 million) and 2016 (approximately $305 million). We anticipate addressing these maturities, as well as other capital needs, with a combination of the following:

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

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

Key Indicators of Financial Condition and Operating Performance

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

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

Occupancy, ADR and RevPAR are commonly used measures within the hotel industry to evaluate operating performance. RevPAR, which is calculated as the product of ADR and occupancy percentage, is an important statistic for monitoring operating performance at the individual hotel level and across our business as a whole. We evaluate individual hotel RevPAR performance on an absolute basis with comparisons to budget and prior periods, as well as on a company-wide and regional basis. ADR and RevPAR include only room revenue. Room revenue comprised approximately 68% of total revenues for the three months ended March 31, 2014 and is dictated by demand, as measured by occupancy percentage, pricing, as measured by ADR, and our available supply of hotel rooms.

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

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

Our Hotels

The following table sets forth certain operating information for the three months ended March 31, 2014 for each of our hotels.

Property	Location	Number of Rooms	Occupancy (%)	ADR($)	RevPAR($)	% Change from 2013 RevPAR
Chicago Marriott	Chicago, Illinois	1,198	57.9%	$ 157.63	$ 91.31	(10.1)%
Los Angeles Airport Marriott	Los Angeles, California	1,004	93.2%	124.63	116.14	24.2 %
Hilton Minneapolis	Minneapolis, Minnesota	821	56.8%	114.31	64.91	(9.6)%
Westin Boston Waterfront Hotel	Boston, Massachusetts	793	65.0%	189.65	123.19	11.6 %
Lexington Hotel New York	New York, New York	725	80.8%	186.43	150.69	57.5 %
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	67.2%	146.86	98.70	(0.9)%
Renaissance Worthington	Fort Worth, Texas	504	72.0%	179.48	129.28	14.7 %
Frenchman’s Reef & Morning Star Marriott Beach Resort	St. Thomas, U.S. Virgin Islands	502	91.3%	327.97	299.47	6.6 %
Orlando Airport Marriott	Orlando, Florida	485	90.9%	120.93	109.91	14.5 %
Westin San Diego	San Diego, California	436	82.0%	163.92	134.43	2.4 %
Westin Washington, D.C. City Center	Washington, D.C.	406	54.3%	206.03	111.81	(16.5)%
Oak Brook Hills Resort (1)	Oak Brook, Illinois	386	23.8%	105.44	25.13	(48.7)%
Hilton Boston Downtown	Boston, Massachusetts	362	82.8%	179.94	148.96	20.5 %
Vail Marriott Mountain Resort & Spa	Vail, Colorado	344	86.7%	376.44	326.43	5.5 %
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	67.1%	171.40	115.01	7.6 %
Courtyard Manhattan/Midtown East	New York, New York	317	86.5%	221.21	191.30	15.4 %
Conrad Chicago	Chicago, Illinois	311	71.8%	163.84	117.67	(0.1)%
Bethesda Marriott Suites	Bethesda, Maryland	272	54.9%	165.22	90.66	4.7 %
Hilton Burlington	Burlington, Vermont	258	64.1%	118.80	76.21	0.3 %
JW Marriott Denver at Cherry Creek	Denver, Colorado	196	79.2%	235.98	186.97	9.0 %
Courtyard Manhattan/Fifth Avenue	New York, New York	185	84.8%	219.61	186.13	23.8 %
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	58.8%	208.74	122.73	(1.1)%
Courtyard Denver Downtown	Denver, Colorado	177	81.3%	173.63	141.23	16.0 %
Hilton Garden Inn Chelsea/New York City	New York, New York	169	91.5%	174.12	159.26	(7.6)%
Renaissance Charleston	Charleston, South Carolina	166	87.6%	181.31	158.78	6.9 %
Hotel Rex	San Francisco, California	94	78.3%	183.18	143.39	8.1 %
TOTAL/WEIGHTED AVERAGE		11,121	72.2%	$ 179.95	$ 129.89	7.6 %

(1) Hotel was sold on April 14, 2014.

Results of Operations

Our operating results for the three months ended March 31, 2014 continued to evidence solid performance against a backdrop of healthy U.S. lodging fundamentals. The industry is expected to exceed prior peak levels of occupancy during 2014, and new hotel supply is expected to remain below the historical average. Our 2014 results are expected to benefit from our strategic initiatives intended to create future stockholder value including: (1) strong growth from our 2013 capital investment program; (2) growth from the rebranding of the Lexington Hotel New York to Marriott’s Autograph Collection; (3) strong 2014 group booking pace, driven by our two hotels in Boston, Frenchman’s Reef & Morning Star Marriott Beach Resort and Renaissance Worthington; and (4) the acquisition and opening of the hotel under development in New York City, expected in mid-2014.

Comparison of the Three Months Ended March 31, 2014 to the Three Months Ended March 31, 2013

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

	Three Months Ended March 31,		
	2014	2013	% Change
Rooms	$ 129,736	$ 120,381	7.8%
Food and beverage	48,611	44,017	10.4%
Other	11,737	11,465	2.4%
Total revenues	$ 190,084	$ 175,863	8.1%

Our total revenues increased $14.2 million, or 8.1%, from $175.9 million for the three months ended March 31, 2013 to $190.1 million for the three months ended March 31, 2014.

Individual hotel revenues for the three months ended March 31, 2014 and March 31, 2013, respectively, consist of the following (in millions):

	Three Months Ended March 31, 2014	2013	% Change
Frenchman's Reef & Morning Star Marriott Beach Resort	$ 22.3	$ 20.5	8.8 %
Los Angeles Airport Marriott	16.8	14.1	19.1 %
Chicago Marriott	16.5	17.4	(5.2)%
Westin Boston Waterfront Hotel	16.4	13.9	18.0 %
Vail Marriott Mountain Resort & Spa	13.5	12.3	9.8 %
Lexington Hotel New York	10.6	6.7	58.2 %
Renaissance Worthington	9.5	8.0	18.8 %
Hilton Minneapolis	8.6	9.5	(9.5)%
Westin San Diego	7.3	7.3	— %
Salt Lake City Marriott Downtown	7.0	6.7	4.5 %
Orlando Airport Marriott	7.0	6.3	11.1 %
Courtyard Manhattan/Midtown East	5.7	4.8	18.8 %
Hilton Boston Downtown	5.5	4.6	19.6 %
Westin Washington, D.C. City Center	5.3	6.2	(14.5)%
JW Marriott Denver at Cherry Creek	5.2	4.8	8.3 %
Conrad Chicago	4.6	4.2	9.5 %
Marriott Atlanta Alpharetta	4.6	4.5	2.2 %
The Lodge at Sonoma, a Renaissance Resort & Spa	3.8	3.8	— %
Bethesda Marriott Suites	3.2	3.1	3.2 %
Courtyard Manhattan/Fifth Avenue	3.1	2.5	24.0 %
Renaissance Charleston	3.0	2.8	7.1 %
Hilton Garden Inn Chelsea	2.5	2.7	(7.4)%
Courtyard Denver Downtown	2.4	2.1	14.3 %
Hilton Burlington	2.3	2.3	— %
Oak Brook Hills Resort (1)	2.0	3.5	(42.9)%
Hotel Rex	1.4	1.3	7.7 %
Total	$ 190.1	$ 175.9	8.1 %

(1) Hotel was sold on April 14, 2014.

The following are key hotel operating statistics for the three months ended March 31, 2014 and March 31, 2013:

	Three Months Ended March 31, 2014	2013	% Change
Occupancy %	72.2%	70.3%	1.9 percentage points
ADR	$ 179.95	$ 171.62	4.9%
RevPAR	$ 129.89	$ 120.73	7.6%

Food and beverage revenues increased $4.6 million, or 10.4%, from the three months ended March 31, 2013. The increase was primarily driven by an increase in banquet revenues due to the strong group business during the three months ended March 31, 2014. Other revenues, which primarily represent spa, golf, parking and attrition and cancellation fees, remained relatively flat.

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

	Three Months Ended March 31,		
	2014	2013	% Change
Rooms departmental expenses	$ 38.1	$ 35.2	8.2%
Food and beverage departmental expenses	34.5	32.8	5.2
Other departmental expenses	5.5	5.4	1.9
General and administrative	16.3	15.2	7.2
Utilities	7.4	6.9	7.2
Repairs and maintenance	9.2	8.9	3.4
Sales and marketing	13.8	12.5	10.4
Franchise fees	3.3	2.8	17.9
Base management fees	4.7	4.2	11.9
Incentive management fees	0.6	0.5	20.0
Property taxes	10.2	9.6	6.3
Other fixed charges	3.0	2.6	15.4
Ground rent—Contractual	2.2	2.2	—
Ground rent—Non-cash	1.6	1.6	—
Total hotel operating expenses	$ 150.4	$ 140.4	7.1%

Our hotel operating expenses increased $10.0 million, or 7.1 percent, from the three months ended March 31, 2013. The increase in departmental expenses is partially due to a 4.4% increase in wages and benefits. Support costs increased 7.4%, driven primarily by higher credit card commissions in general and administrative and higher rewards program expenses in sales and marketing. Franchise fees increased 17.9%, due primarily to the branding of the Lexington Hotel New York.

Depreciation and amortization. Depreciation and amortization is recorded on our hotel buildings over 40 years for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. Our depreciation and amortization expense decreased $1.1 million from the three months ended March 31, 2013. The decrease is primarily due to an increase in fully depreciated furniture, fixtures, and equipment during the three months ended March 31, 2014, offset by new depreciable assets from our recent hotel renovations.

Corporate expenses. Corporate expenses principally consist of employee-related costs, including base payroll, bonus and restricted stock. Corporate expenses also include corporate operating costs, professional fees and directors' fees. Our corporate expenses decreased $2.7 million, from $7.8 million for the three months ended March 31, 2013 to $5.2 million for the three months ended March 31, 2014. The decrease in corporate expenses is due primarily to $3.1 million in severance costs incurred in connection with the departure of our former President and Chief Operating Officer during 2013, partially offset by increases in employee-related costs in 2014.

Interest expense. Our interest expense was $14.5 million and $13.6 million for the three months ended March 31, 2014 and March 31, 2013 , respectively, and is comprised of the following (in millions):

	Three Months Ended March 31,	
	2014	2013
Mortgage debt interest	$ 13.9	$ 12.9
Credit facility interest and unused fees	0.2	0.3
Amortization of deferred financing costs and debt premium	0.7	0.7
Capitalized interest	(0.3)	(0.4)
Interest rate cap fair value adjustment	0.0	0.1
	$ 14.5	$ 13.6

The increase in interest expense for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013 is primarily due to three new mortgage loans entered into during 2013. As of March 31, 2014, we had property-specific mortgage debt outstanding on 14 of our hotels. Most of our mortgage debt is fixed-rate secured debt, bearing interest at rates ranging from 3.94 percent to 8.81 percent per year. The mortgage loan secured by the Lexington Hotel New York bears interest at a floating rate based on one-month LIBOR plus 300 basis points. As of March 31, 2014, we had no outstanding borrowings under our credit facility. Our weighted-average interest rate on all debt as of March 31, 2014 was 5.17 percent.

Interest income. Interest income increased $0.4 million from the three months ended March 31, 2013 to the three months ended March 31, 2014. The increase is primarily due to fewer days for which we recognized interest income on the Allerton loan in 2013, which was restructured and commenced interest income accrual on January 18, 2013.

Discontinued operations. Income from discontinued operations of $0.7 million for the three months ended March 31, 2013 represents the results of operations for the the Torrance Marriott South Bay, which was sold in 2013.

Income taxes. We recorded income tax benefit on continuing operations of $6.8 million for the three months ended March 31, 2014 and income tax benefit of $6.1 million for the three months ended March 31, 2013. The income tax benefit for the three months ended March 31, 2014 includes $8.0 million of income tax benefit incurred on the $19.6 million pre-tax loss from continuing operations of our taxable REIT subsidiary, or TRS, offset by $1.1 million of foreign income tax expense incurred on the $5.6 million pre-tax income of the TRS that owns Frenchman's Reef. The income tax benefit for the three months ended March 31, 2013 includes $7.0 million of income tax benefit incurred on the $17.2 million pre-tax loss from continuing operations of our TRS for the three months ended March 31, 2013, offset by $0.8 million of foreign income tax expense incurred on the $4.2 million pre-tax income of the TRS that owns Frenchman's Reef and $0.1 million of state franchise taxes.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds necessary to fund distributions to our stockholders to maintain our REIT status as well as to pay for operating expenses and capital expenditures directly associated with our hotels, funding of share repurchases, if any, under our share repurchase program, scheduled debt payments of interest and principal, including the maturity of the mortgage debt secured by the Courtyard Manhattan/Midtown East during 2014. In addition, we are under contract to purchase a hotel under development during 2014 for approximately $128 million, of which $26.9 million we previously funded into escrow as a deposit. We currently expect that our available cash flows, which are generally provided through net cash provided by hotel operations, existing cash balances and, if necessary, short-term borrowings under our credit facility, will be sufficient to meet our short-term liquidity requirements.

Some of our mortgage debt agreements contain “cash trap” provisions that are triggered when the hotel’s operating results fall below a certain debt service coverage ratio. When these provisions are triggered, all of the excess cash flow generated by the hotel is deposited directly into cash management accounts for the benefit of our lenders until a specified debt service coverage ratio is reached and maintained for a certain period of time. Such provisions do not allow the lender the right to accelerate repayment of the underlying debt.

The Lexington Hotel New York mortgage loan contains a quarterly financial covenant requiring a minimum debt service coverage ratio ("DSCR"), as defined in the loan agreement, of 1.1 times. As a result of the ongoing renovation of the hotel during most of 2013, the DSCR fell below the minimum requirement. Under the loan agreement, we have the ability to cure the default by depositing the amount of the DSCR shortfall into a reserve with the lender. If we do not fund the DSCR shortfall and cure the default, the loan becomes due and payable. As of March 31, 2014, the lender is holding $4.2 million in a reserve to cover the DSCR shortfall. The reserve will be released back to us when the DSCR is above 1.1 times, which we expect to occur as of the second quarter of 2014. In addition, the cash trap provision was triggered on the loan during 2013.

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, debt maturities and making distributions to our stockholders. We expect to meet our long-term liquidity requirements through various sources of capital, including cash provided by operations, borrowings, issuances of additional equity and/or debt securities and proceeds from property dispositions. Our ability to incur additional debt is dependent upon a number of factors, including the state of the credit markets, our degree of leverage, the value of our unencumbered assets and borrowing restrictions imposed by existing lenders. Our ability to raise capital through the issuance of additional equity and/or debt securities is also dependent on a number of factors including the current state of the capital markets, investor sentiment and intended use of proceeds. We may need to raise additional capital if we identify acquisition opportunities that meet our investment objectives and require liquidity in excess of existing cash balances.

Our Financing Strategy

Since our formation in 2004, we have been committed to a conservative capital structure with prudent leverage. The majority of our outstanding debt is fixed interest rate mortgage debt. We currently have no outstanding borrowings under our $200 million senior unsecured credit facility. We have a preference to maintain a significant portion of our portfolio as unencumbered assets in order to provide balance sheet flexibility. In addition, to the extent that we incur additional debt, our preference is non-recourse secured mortgage debt. We expect that our strategy will enable us to maintain a balance sheet with an appropriate amount of debt throughout all phases of the lodging cycle. We believe that it is not prudent to increase the inherent risk of highly cyclical lodging fundamentals through the use of a highly leveraged capital structure.

We have mortgage debt maturities that start in late 2014, with significant maturities in 2015 (approximately $230 million) and 2016 (approximately $305 million). We have the ability to address these maturities, as well as other capital needs, with a combination of the following:

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

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

We believe that we maintain a reasonable amount of debt. As of March 31, 2014, we had $1.1 billion of debt outstanding with a weighted average interest rate of 5.17% and a weighted average maturity date of approximately 3.4 years. We maintain one of the most durable and lowest levered balance sheets among our lodging REIT peers. We maintain balance sheet flexibility with limited near term debt maturities, full capacity on our senior unsecured credit facility and 12 of our 26 hotels unencumbered by mortgage debt. We remain committed to our core strategy of maintaining a simple capital structure with conservative leverage.

Short-Term Borrowings

Other than borrowings under our senior unsecured credit facility, we do not utilize short-term borrowings to meet liquidity requirements. As of March 31, 2014, we had no outstanding borrowings under our senior unsecured credit facility.

Senior Unsecured Credit Facility

We are party to a five-year, $200 million unsecured credit facility expiring in January 2017. The maturity date of the facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain other customary conditions. We also have the right to increase the amount of the facility up to $400 million with lender approval. Interest is paid on the periodic advances under the facility at varying rates, based upon LIBOR, plus an agreed upon additional margin amount. The applicable margin is based upon the Company’s ratio of net indebtedness to EBITDA, as follows:

Ratio of Net Indebtedness to EBITDA	Applicable Margin
Less than 4.00 to 1.00	1.75%
Greater than or equal to 4.00 to 1.00 but less than 5.00 to 1.00	1.90%
Greater than or equal to 5.00 to 1.00 but less than 5.50 to 1.00	2.10%
Greater than or equal to 5.50 to 1.00 but less than 6.00 to 1.00	2.20%
Greater than or equal to 6.00 to 1.00 but less than 6.50 to 1.00	2.50%
Greater than or equal to 6.50 to 1.00	2.75%

In addition to the interest payable on amounts outstanding under the facility, we are required to pay an amount equal to 0.35% of the unused portion of the facility if the unused portion of the facility is greater than 50% or 0.25% if the unused portion of the facility is less than or equal to 50%.

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

	Covenant	Actual at March 31, 2014
Maximum leverage ratio (1)	60%	48.6%
Minimum fixed charge coverage ratio (2)	1.50x	2.43
Minimum tangible net worth (3)	$1.857 billion	$2.290 billion
Secured recourse indebtedness	Less than 45% of Total Asset Value	44.5%

(1) Leverage ratio is total indebtedness, as defined in the credit agreement and which includes our commitment on the Times Square development hotel, divided by total asset value, which is defined in the credit agreement as (a) total cash and cash equivalents plus (b) the value of our owned hotels based on hotel net operating income divided by a defined capitalization rate, and (c) the book value of the Allerton Loan.

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

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

The facility requires us to maintain a specific pool of unencumbered borrowing base properties. The unencumbered borrowing base must include a minimum of five properties with an unencumbered borrowing base value, as defined in the credit agreement, of not less than $250 million. As of March 31, 2014, the unencumbered borrowing base included five properties with a borrowing base value of over $329 million.

As of March 31, 2014, we had no borrowings outstanding under the facility and the Company's ratio of net indebtedness to EBITDA was 4.7x. Accordingly, interest on any draws under the facility will be based on LIBOR plus 190 basis points for the next quarter. We incurred interest and unused credit facility fees on the facility of $0.2 million and $0.3 million for the three months ended March 31, 2014 and March 31, 2013, respectively.

Sources and Uses of Cash

Our principal sources of cash are net cash flow from hotel operations, borrowings under mortgage debt and our credit facility, and proceeds from non-core asset sales. Our principal uses of cash are acquisitions of hotel properties, debt maturities, debt service, capital expenditures, operating costs, corporate expenses and dividends. As of March 31, 2014, we had $111.5 million of unrestricted corporate cash, $97.9 million of restricted cash, and borrowing capacity under our credit facility.

Our net cash provided by operations was $10.8 million for the three months ended March 31, 2014. Our cash from operations generally consists of the net cash flow from hotel operations offset by cash paid for corporate expenses, funding of lender escrow reserves and other working capital changes.

Our net cash used in investing activities was $21.7 million for the three months ended March 31, 2014, primarily as a result of capital expenditures at our hotels of $26.0 million, offset by $6.0 million of principal payments received on the Allerton Loan.

Our net cash used in financing activities was $22.2 million for the three months ended March 31, 2014 and consisted primarily of $16.8 million of dividend payments, $1.9 million paid to repurchase shares upon the vesting of restricted stock for the payment of tax withholding obligations, as well as $3.5 million of scheduled mortgage debt principal payments.

We currently anticipate our significant sources of cash for the remainder of the year ending December 31, 2014 will be the net cash flow from hotel operations, proceeds from the sale of the Oak Brook Hills Resort in April 2014 and proceeds from the prepayment of the Allerton Loan in May 2014. We expect our estimated uses of cash for the year ending December 31, 2014 will be comprised of the acquisition of the hotel under development in New York City, capital expenditures, as more fully described below, regularly scheduled debt service payments, dividends and corporate expenses.

Dividend Policy

We intend to distribute to our stockholders dividends at least equal to 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, or the Code. In order to qualify as a REIT under the Code, we generally must make distributions to our stockholders each year in an amount equal to at least:

- 90% of our REIT taxable income determined without regard to the dividends paid deduction and excluding net capital gains, plus
- 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Code, minus
- any excess non-cash income.

The timing and frequency of distributions will be authorized by our board of directors and declared by us based upon a variety of factors, including our financial performance, restrictions under applicable law and our current and future loan agreements, our debt service requirements, our capital expenditure requirements, the requirements for qualification as a REIT under the Code and other factors that our board of directors may deem relevant from time to time.

We have paid the following dividends to holders of our common stock during 2014 as follows:

Payment Date	Record Date	Dividend per Share
January 10, 2014	December 31, 2013	$ 0.0850
April 10, 2014	March 31, 2014	$0.1025

Capital Expenditures

The management and franchise agreements for each of our hotels provide for the establishment of separate property improvement funds to cover, among other things, the cost of replacing and repairing furniture, fixtures and equipment at our hotels and other routine capital expenditures. Contributions to the property improvement fund are calculated as a percentage of hotel revenues. In addition, we may be required to pay for the cost of certain additional improvements that are not permitted to be funded from the property improvement fund under the applicable management or franchise agreement. As of March 31, 2014, we have set aside $53.8 million for capital projects in property improvement funds and lender-held escrows, which are included in restricted cash.

As of March 31, 2014, we have spent approximately $26.0 million on capital improvements at our hotels, which primarily related to the substantial completion of our $140 million capital improvement program commenced in 2013. During the three months ended March 31, 2014, we substantially completed the comprehensive renovations of the Westin Washington D.C. City Center, Westin San Diego, Hilton Boston and Hilton Burlington and the guest room renovation at the Hilton Minneapolis.

We expect to spend approximately $95 million on capital improvements in 2014, of which approximately $45 million relates to the completion of 2013 capital projects in early 2014 and approximately $50 million relates to new 2014 capital projects.

Off-Balance Sheet Arrangements

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

Non-GAAP Financial Measures

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

EBITDA and FFO

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

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

Adjustments to EBITDA and FFO

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

- *Non-Cash Ground Rent*: We exclude the non-cash expense incurred from the straight line recognition of rent from our ground lease obligations and the non-cash amortization of our favorable lease assets.
- *Non-Cash Amortization of Favorable and Unfavorable Contracts*: We exclude the non-cash amortization of the favorable management contract assets recorded in conjunction with our acquisitions of the Westin Washington D.C. City Center, Westin San Diego, and Hilton Burlington and the non-cash amortization of the unfavorable contract liabilities recorded in conjunction with our acquisitions of the Bethesda Marriott Suites, the Chicago Marriott Downtown, the Renaissance Charleston and the Lexington Hotel New York. The amortization of the favorable and unfavorable contracts does not reflect the underlying operating performance of our hotels.
- *Cumulative Effect of a Change in Accounting Principle*: Infrequently, the Financial Accounting Standards Board (FASB) promulgates new accounting standards that require the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude the effect of these one-time adjustments because they do not reflect its actual performance for that period.
- *Gains or Losses from Early Extinguishment of Debt*: We exclude the effect of gains or losses recorded on the early extinguishment of debt because we believe they do not accurately reflect the underlying performance of the Company.
- *Acquisition Costs*: We exclude acquisition transaction costs expensed during the period because we believe they do not reflect the underlying performance of the Company.
- *Allerton Loan*: We recognize interest income, which includes the amortization of the difference between the carrying basis of the old loan and face value of the new loan. Cash payments received during 2010 and 2011 that were included in Adjusted EBITDA and Adjusted FFO and reduced the carrying basis of the loan are now deducted from Adjusted EBITDA and Adjusted FFO on a straight-line basis over the anticipated five-year term of the new loan.
- *Other Non-Cash and /or Unusual Items*: From time to time we incur costs or realize gains that we do not believe reflect the underlying performance of the Company. Such items include, but are not limited to, pre-opening costs, contract termination fees, severance costs, and gains from legal settlements or insurance proceeds.

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

In addition, to derive Adjusted FFO we exclude any fair value adjustments to debt instruments. Specifically, we exclude the impact of the non-cash amortization of the debt premium recorded in conjunction with the acquisition of the JW Marriott Denver at Cherry Creek and fair market value adjustments to the Company's interest rate cap agreement.

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

	Three Months Ended March 31,	
	2014	2013
Net income (loss)	$ 4,037	$ (4,126)
Interest expense	14,525	13,583
Income tax expense (benefit) (1)	(6,848)	(6,143)
Real estate related depreciation and amortization(2)	25,123	26,834
EBITDA	36,837	30,148
Non-cash ground rent	1,696	1,693
Non-cash amortization of favorable and unfavorable contracts, net	(353)	(354)
Gain on insurance proceeds	(663)	—
Acquisition costs	36	9
Pre-opening costs	14	—
Reversal of previously recognized Allerton income	(291)	(291)
Severance costs	—	3,065
Adjusted EBITDA	$ 37,276	$ 34,270

(1) Includes $2 of income tax expense reported in discontinued operations for the three months ended March 31, 2013.

(2) Includes $0.6 million of depreciation expense reported in discontinued operations for the three months ended March 31, 2013.

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

	Three Months Ended March 31,	
	2014	2013
Net income (loss)	$ 4,037	$ (4,126)
Real estate related depreciation and amortization(1)	25,123	26,834
FFO	29,160	22,708
Non-cash ground rent	1,696	1,693
Non-cash amortization of unfavorable contracts, net	(353)	(354)
Gain on insurance proceeds	(663)	—
Acquisition costs	36	9
Pre-opening costs	14	—
Reversal of previously recognized Allerton income	(291)	(291)
Severance costs	—	3,065
Fair value adjustments to debt instruments	(85)	(65)
Adjusted FFO	$ 29,514	$ 26,765

(1) Includes $0.6 million of depreciation expense reported in discontinued operations for the three months ended March 31, 2013.

Use and Limitations of Non-GAAP Financial Measures

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

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

Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe that the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

Inflation

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

Seasonality

The operations of hotels historically have been seasonal depending on location, and accordingly, we expect some seasonality in our business.

New Accounting Pronouncements Not Yet Implemented

There are no new unimplemented accounting pronouncements that are expected to have a material impact on our results of operations, financial position or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business strategies, the primary market risk to which we are currently exposed, and, to which we expect to be exposed in the future, is interest rate risk. The face amount of our outstanding debt as of March 31, 2014 was $1.1 billion, of which $170.4 million was variable rate. If market rates of interest on our variable rate debt fluctuate by 25 basis points, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows, by $0.4 million annually.

We use our interest rate cap to manage interest rate risk related to our variable rate debt secured by the Lexington Hotel New York. The change in fair value of our interest rate cap is a non-cash transaction and is recorded as a credit or charge to interest expense.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

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

Item 1A. *Risk Factors*

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs (in thousands) (2)
January 1 - January 31, 2014	—	$	—	$ 100,000
February 1 - February 28, 2014	147,241	$ 12.35	—	$ 100,000
March 1 - March 31, 2014	—	$	—	$ 100,000

(1) Reflects shares surrendered to the Company for payment of tax withholding obligations in connection with the vesting of restricted stock.
(2) Represents amounts available under the Company's previously announced $100 million share repurchase program. To date, no shares have been repurchased under this program.

Item 3. *Defaults Upon Senior Securities*

Not applicable.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None.

Item 6. ***Exhibits***

(a) *Exhibits*

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

Exhibit	
3.1.1	Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (*incorporated by reference to the Registrant's Registration Statement on Form S-11 filed with the Securities and Exchange Commission (File no. 333-123065)*)
3.1.2	Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (*incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2007*)
3.1.3	Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (*incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2012*)
3.2	Third Amended and Restated Bylaws of DiamondRock Hospitality Company (*incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 17, 2009*)
4.1	Form of Certificate for Common Stock for DiamondRock Hospitality Company (*incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 5, 2010*)
10.1†*	Severance Agreement between DiamondRock Hospitality Company and Troy G. Furbay, dated as of April 9, 2014
31.1*	Certification of Chief Executive Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of Chief Financial Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Attached as Exhibit 101 to this report are the following materials from DiamondRock Hospitality Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2014 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the related notes to these condensed consolidated financial statements. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

† Exhibit is a management contract or compensatory plan or arrangement

* Filed herewith

SIGNATURE

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

DiamondRock Hospitality Company

May 12, 2014

/s/ Sean M. Mahoney

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

/s/ Briony R. Quinn

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

Exhibit 10.1

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the "**Agreement**") is made this 9th day of April, 2014, by **DiamondRock Hospitality Company**, a Maryland corporation (the "**REIT**"), with its principal place of business at 3 Bethesda Metro Center, Suite 1500, Bethesda, Maryland 20814 and **Troy Furbay,** residing at 134 Manhattan Avenue, New York, NY, 10025 (the "**Executive**"). This Agreement is effective as of April 9, 2014, the first day of employment of the Executive.

1. Purpose

The REIT considers it essential to the best interests of its stockholders to promote and preserve the continuous employment of key management personnel. The Board of Directors of the REIT (the "**Board of Directors**") recognizes that, as in the case with many corporations, the possibility of a termination of employment exists and that such possibility, and the uncertainty and questions that it may raise among management, may result in the distraction of key management personnel to the detriment of the REIT and its stockholders. Therefore, the Board of Directors has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the REIT's key management. Nothing in this Agreement shall be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between the Executive and the REIT, the Executive shall not have any right to be retained in the employ of the REIT.

2. **Definitions**

(a) **Accrued Salary**. "Accrued Salary" shall mean accrued and unpaid base salary through the Date of Termination. In addition, in the event the Executive's annual bonus for the REIT's most recently completed fiscal year has not yet been paid to the Executive, then Accrued Salary also shall include such prior fiscal year's earned, accrued and unpaid bonus.

(b) **Cause**. "Cause" for termination shall mean a determination by the Board of Directors in good faith that any of the following events has occurred: (i) indictment of the Executive of, or the conviction or entry of a plea of guilty or nolo contendere by the Executive to any felony, or any misdemeanor involving moral turpitude; (ii) the Executive engaging in conduct which constitutes a material breach of a fiduciary duty or duty of loyalty, including without limitation, misappropriation of funds or property of the REIT, DiamondRock Hospitality Limited Partnership (the "**Operating Partnership**") and their subsidiaries (the REIT, the Operating Partnership and their subsidiaries are hereinafter referred to as the "**DiamondRock Group**") other than an occasional and de minimis use of Company property for personal purposes; (iii) the Executive's willful failure or gross negligence in the performance of his assigned duties for the DiamondRock Group, which failure or gross negligence continues for more than 5 days following the Executive's receipt of written or electronic notice of such willful failure or gross negligence from the Board of Directors; (iv) any act or omission of the Executive that has a demonstrated and material adverse impact on the DiamondRock Group's reputation for honesty and fair dealing or any other conduct of the Executive that would reasonably be expected to result in injury to the reputation of the DiamondRock Group; or (v) willful failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by the REIT to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the willful inducement of others to fail to cooperate, destroy or fail to produce documents or other materials.

For purposes of this Section 2(b), any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors or based upon the written advice of counsel for the DiamondRock Group shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the DiamondRock Group. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of the Board of Directors, finding that, in the good faith opinion of the Board of Directors, the Executive has engaged in the conduct described in this Section 2(b); provided, that if the Executive is a member of the Board of Directors, the Executive shall not vote on such resolution.

(c) **Change in Control**. “Change in Control” shall mean any of the following events:

(i) The conclusion of the acquisition (whether by a merger or otherwise) by any Person (other than a Qualified Affiliate), in a single transaction or a series of related transactions, of Beneficial Ownership of more than 50 % of (1) the REIT’s outstanding common stock (the “**Common Stock**”) or (2) the combined voting power of the REIT’s outstanding securities entitled to vote generally in the election of directors (the “**Outstanding Voting Securities**”);

(ii) The merger or consolidation of the REIT with or into any other Person other than a Qualified Affiliate, if the directors immediately prior to the merger or consolidation cease to be the majority of the Board of Directors at anytime within 12 months of the completion of the merger or consolidation;

(iii) Any one or a series of related sales or conveyances to any Person or Persons (including a liquidation or dissolution) other than any one or more Qualified Affiliates of all or substantially all of the assets of the REIT or the Operating Partnership; or

(iv) Incumbent Directors cease, for any reason, to be a majority of the members of the Board of Directors, where an “**Incumbent Director**” is (1) an individual who is a member of the Board of Directors on the effective date of this Agreement or (2) any new director whose appointment by the Board of Directors or whose nomination for election by the stockholders was approved by a majority of the persons who were already Incumbent Directors at the time of such appointment, election or approval, other than any individual who assumes office initially as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors or as a result of an agreement to avoid or settle such a contest or solicitation.

A Change in Control shall also be deemed to have occurred upon the completion of a tender offer for the REIT's securities representing more than 50% of the Outstanding Voting Securities, other than a tender offer by a Qualified Affiliate.

For purposes of this definition of Change in Control, the following definitions shall apply: (A) "**Beneficial Ownership**," "**Beneficially Owned**" and "**Beneficially Owns**" shall have the meanings provided in Exchange Act Rule 13d-3; (B) "**Exchange Act**" shall mean the Securities Exchange Act of 1934, as amended; (C) "**Person**" shall mean any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), including any natural person, corporation, trust, association, company, partnership, joint venture, limited liability company, legal entity of any kind, government, or political subdivision, agency or instrumentality of a government, as well as two or more Persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of the REIT's securities; and (D) "**Qualified Affiliate**" shall mean (I) any directly or indirectly wholly owned subsidiary of the REIT or the Operating Partnership; (II) any employee benefit plan (or related trust) sponsored or maintained by the REIT or the Operating Partnership or by any entity controlled by the REIT or the Operating Partnership; or (III) any Person consisting in whole or in part of the Executive or one or more individuals who are then the REIT's Chief Executive Officer or any other named executive officer (as defined in Item 402 of Regulation S-K under the Securities Act of 1933) of the REIT as indicated in its most recent securities filing made before the date of the transaction.

(d) **Date of Termination**. "Date of Termination" shall mean the actual date of the Executive's termination of employment with the REIT.

(e) **Disability**. "Disability" shall mean if the Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

(f) **Good Reason**. "Good Reason" for termination shall mean the occurrence of one of the following events, without the Executive's prior written consent, provided such event is not corrected within 15 days following the Board of Director's receipt of written or electronic notice of such event: (i) a material diminution in the Executive's duties or responsibilities or any material demotion from the Executive's current position at the REIT, including, without limitation: (A) if the Executive is the CEO, either discontinuing his direct reporting to the Board of Directors or a committee thereof or discontinuing the direct reporting to the CEO by each of the senior executives responsible for finance, legal, acquisition and operations or (B) if the Executive is not the CEO, discontinuing the Executive reporting directly to the CEO or (C) if the Executive is the Chief Accounting Officer, discontinuing the Executive's reporting directly to the Chief Financial Officer or to the Chief Executive Officer; (ii) if the Executive is a member of the Board of Directors, the failure of the REIT or its affiliates to nominate the Executive as a Director of the REIT; (iii) a requirement that the Executive work principally from a location outside the 50 mile radius from the REIT's address, except for required travel on the REIT's business to the extent substantially consistent with the Executive's business travel obligations on the date hereof; (iv) failure to pay the Executive any compensation, benefits or to honor any indemnification agreement to which the Executive is entitled within 30 days of the date due; or (v) the occurrence of any of the following events or conditions in the year immediately following a Change in Control: (A) a reduction in the Executive's annual base salary or annual bonus opportunity as in effect immediately prior to the Change in Control; (B) the failure of the REIT to obtain an agreement, reasonably satisfactory to the Executive, from any successor or assign of the REIT to assume and agree to adopt this Agreement for a period of at least two years from the Change in Control.

(g) **Restricted Period**. The "Restricted Period" shall mean, the Executive's employment with the REIT, which period may be extended for an additional period of 12 months if the Executive is entitled to, and receives, the Cash Severance specified under Section 3(b)(2) hereof.

(h) **Retirement.** As used in this Agreement, "Retirement" shall mean a retirement by the Executive if the Executive has been designated as an eligible retiree by the Board of Directors, in the Board's sole discretion.

3. **Effect of Termination**

(a) **Any Termination**. If the Executive's employment with the REIT terminates for any reason, the Executive shall be entitled to any Accrued Salary. The Executive shall have no rights or claims against the DiamondRock Group except to receive the payments and benefits described in this Section 3. The REIT shall have no further obligations to Executive except as otherwise expressly provided under this Agreement, provided any such termination shall not adversely affect or alter Executive's rights under any employee benefit plan of the REIT in which Executive, at the Date of Termination, has a vested interest, unless otherwise provided in such employee benefit plan or any agreement or other instrument attendant thereto.

None of the benefits described in this Section 3 (other than Accrued Salary) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to the REIT in the reasonable exercise of its discretion, releasing the DiamondRock Group, its affiliates including the REIT, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment. In addition, the benefits described in this Section 3 (other than Accrued Salary) are conditioned upon the Executive's ongoing compliance with his/her restrictions, covenants and promises under Sections 4, 5, 6 and 7 below (as applicable).

(b) **Termination by the REIT without Cause or by Executive for Good Reason**. If the REIT terminates the Executive's employment without Cause, or the Executive terminates his employment for Good Reason so as to constitute, in either case, a separation from service for purposes of Code Section 409A, then in addition to the benefits under Section 3(a) above, the Executive shall be entitled to receive the following:

(v) a pro-rata bonus for the fiscal year determined through the Date of Termination and calculated based on the target bonus for such fiscal year to be paid within 90 days after the Date of Termination;

(vi) an amount equal to (A) two times (B) the sum of (I) the Executive's base salary in effect immediately prior to the Date of Termination, and (II) the Executive's target annual bonus (collectively, the "**Cash Severance**") to be paid within 90 days after the date of Termination;

(vii) continued payment by the REIT for health insurance coverage for the Executive and the Executive's spouse and dependents for 18 months, consistent with COBRA following the Date of Termination to the same extent that the REIT paid for such coverage immediately prior to the termination of the Executive's employment and subject to the eligibility requirements and other terms and conditions of such insurance coverage, provided that if any such insurance coverage shall become unavailable and/or the REIT's insurer refuses to continue coverage during the 18 month period, the REIT thereafter shall be obliged only to pay monthly to the Executive an amount which, after reduction for applicable income and employment taxes, is equal to the monthly COBRA premium for such insurance for the remainder of such severance period.

(viii) vesting as of the Date of Termination of 100% of all unvested time-based restricted stock awards, to the extent permitted by law. The treatment of equity compensation awards that are not time based vesting (such as restricted stock which vests based on one or more performance metrics) granted after the effective date of this agreement will be specified in the individual grant agreements and/or the applicable plans covering such awards.

(c) **Termination In the Event of Death or Disability**. If the Executive's employment terminates because of the Executive's death or Disability, then in addition to the benefits under Section 3(a) above, the Executive (or his estate or other legal representatives, as the case may be) shall be entitled to receive:

(i) a pro-rata bonus, payable within 90 days after the Date of Termination, for the fiscal year determined through the Date of

Termination and calculated based on the target bonus for such fiscal year;

(ii) continued payment by the REIT for health insurance coverage for the Executive and the Executive's spouse and dependents for 18 months, consistent with COBRA, following the Date of Termination to the same extent that the REIT paid for such coverage immediately prior to the termination of the Executive's employment and subject to the eligibility requirements and other terms and conditions of such insurance coverage, provided that if any such insurance coverage shall become unavailable and/or the REIT's insurer refuses to continue coverage during the 18 month period, the REIT thereafter shall be obliged only to pay monthly to the Executive an amount which, after reduction for applicable income and employment taxes, is equal to the monthly COBRA premium for such insurance for the remainder of such severance period.

(iii) vesting as of the Date of Termination of 100% of all unvested time-based restricted stock awards, to the extent permitted by law. The treatment of equity compensation awards that are not time based vesting (such as restricted stock which vests based on one or more performance metrics) granted after the effective date of this agreement will be specified in the individual grant agreements and/or the applicable plans covering such awards.

(d) **Termination In the Event of Retirement**. If the Executive's employment terminates because of his Retirement, then in addition to the benefits under Section 3(a) above, the Executive shall be entitled to receive the following:

(i) a pro-rata bonus, payable within 90 days after the date of termination, for the fiscal year determined through the Date of Termination and calculated based on the target bonus for such fiscal year; and

(ii) notwithstanding the Retirement by the Executive, all unvested time-based restricted stock awards shall continue to vest at the times and on the terms as set forth in the relevant restricted stock award agreements as if the Executive remained continuously employed by the REIT from the Date of Termination through each such vesting date. The treatment of non-time-based equity compensation awards (such as restricted stock which vests based on one or more performance metrics) granted after the effective date of this agreement will be specified in individual grant agreements and/or the applicable plans covering such awards.

(e) **Termination In the Event of a Change in Control**. In the event the Executive's termination of employment occurs in connection with or following a Change in Control, and in the event that any payment made pursuant to Section 3 hereof or any insurance benefits, accelerated vesting, pro-rated bonus or other benefit payable to the Executive under this Agreement or otherwise (the "**Severance Payments**"), are subject to the excise tax imposed by Section 4999 (as it may be amended or replaced) of the Internal Revenue Code of 1986, as amended (the "**Excise Tax**"); then

(i) If the reduction of the Severance Payments to the maximum amount that could be paid to the Executive without giving rise to the Excise Tax (the "**Safe Harbor Cap**") would provide the Executive with a greater after tax benefit than if such amounts were not reduced, then the amounts payable to the Executive under this Agreement shall be reduced (but not below zero) to the Safe Harbor Cap. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing first the payments of cash orginating under Section 3 (a)-3(d) hereof, and then by reducing other payments to the extent permitted by any applicable plan and/or agreement.

(ii) If the reduction for the Severance Payments to the Safe Harbor Cap would not result in a greater after tax result to the Executive, no amounts payable under this agreement shall be reduced pursuant to this provision.

(iii) The determination of whether the Excise Tax is payable and the amount thereof shall be made in writing in good faith by a nationally recognized independent certified public accounting firm selected by the REIT and approved by the Executive, such approval not to be unreasonably withheld (the "**Accounting Firm**"). For purposes of making the calculations required by this Section 3(e), to the extent not otherwise specified herein, reasonable assumptions and approximations may be made with respect to applicable taxes and reasonable, good faith interpretations of the Code may be relied upon. The REIT and the Executive shall furnish such information and documents as may be reasonably requested in connection with the performance of the calculations under this Section 3(e). The REIT shall bear all costs incurred in connection with the performance of the calculations contemplated by this Section 3(e).

4. **Non-Disparagement**

The Executive agrees that he/she will not, whether during or after the Executive's employment with the REIT, make any statement, orally or in writing, regardless of whether such statement is truthful, nor take any action, that (a) in any way could disparage the DiamondRock Group or any officers, executives, directors, partners, managers, members, principals, employees, representatives, or agents of the DiamondRock Group, or which foreseeably could or reasonably could be expected to harm the reputation or goodwill of any of those persons or entities, or (b) in any way, directly or indirectly, could knowingly cause, encourage or condone the making of such statements or the taking of such actions by anyone else.

5. **Non-Competition**

(a) **Non-Competition**. Subject to Section 5(b) hereof, the Executive agrees that during the Restricted Period the Executive shall not, without the prior express written consent of the REIT, directly or indirectly, anywhere in the United States, own an interest in, join, operate, control or participate in, or be connected as an owner, officer, executive, employee, partner, member, manager, shareholder, or principal of or with, any lodging-oriented real estate investment company. Notwithstanding the foregoing, the Executive may own up to one percent (1%) of the outstanding stock of a real estate investment company. The restrictions of this Section 5(a) shall not apply if the Executive's employment with the REIT is terminated without cause by the Company or the Executive effective during the 12 month period immediately following a Change in Control.

(b) **Board's Discretion**. Notwithstanding anything contained herein, the Board of Directors retains the right, in its sole discretion, to shorten or eliminate the post-employment Restricted Period for any Executive.

6. **Non-Solicitation of Employees**. The Executive agrees that while he/she is employed as an employee of the REIT and for a period of 12 months after the termination of the Employee's employment with the REIT for whatever reason, the Employee shall not, without the express written consent of the REIT, hire, solicit, recruit, induce or procure (or assist or encourage any other person or entity to hire, solicit, recruit, induce or procure), directly or indirectly or on behalf of himself or any other person or entity, any officer, executive, director, partner, principal, member, or non-clerical employee of the DiamondRock Group or any person who was an officer, executive, director, partner, principal, member, or non-clerical employee of the DiamondRock Group at any time during the final year of the Executive's employment with the REIT, to work for the Executive or any person or entity with which the Executive is or intends to be affiliated or otherwise directly or indirectly encourage any such person to terminate his or her employment or other relationship with the DiamondRock Group without the prior express written consent of the REIT. Notwithstanding anything contained herein, the foregoing shall not restrain the Executive from hiring, soliciting, recruiting, inducing or procuring any person to work for the Executive or any person or entity with which the Executive is or intends to be affiliated if such person was either terminated by the REIT or such person resigned for Good Reason. In addition, the Board of Directors retains the right, in its sole discretion, to release any Executive from its obligations under this Section.

7. **Injunctive Relief**. The Executive understands that the restrictions contained in Section 4, 5 and 6 of this Agreement are intended to protect the REIT's interests in its proprietary information, goodwill, and its employee and investor relationships, and agrees that such restrictions (and the scope and duration thereof) are necessary, reasonable and appropriate for this purpose. The Executive acknowledges and agrees that it would be difficult to measure any damages caused to the REIT which might result from any breach by the Executive of his promises and obligations under Sections 4, 5 and/or 6, that the REIT would be irreparably harmed by such breach, and that, in any event, money damages would be an inadequate remedy for any such breach. Therefore, the Executive agrees and consents that the REIT shall be entitled to an injunction or other appropriate equitable relief (in addition to all other remedies it may have for damages or otherwise) to restrain any such breach or threatened breach without showing or proving any actual damage to the REIT; and the REIT shall be entitled to an award of its attorneys fees and costs incurred in enforcing the Executive's obligations under Sections 4, 5 and/or 6.

8. **Miscellaneous**

(a) **409A**. Notwithstanding anything to the contrary, if the Executive is a "key employee" (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) and any of the REIT's stock is publicly traded on an established securities market or otherwise, to the extent necessary to avoid any penalties under Section 409A of the Code, any payment hereunder may not be made before the date that is six months after the date of separation from service.

(b) **Tax Withholding**. All payments made by the REIT under this Agreement shall be net of any tax or other amounts required to be withheld by the REIT under applicable law.

(c) **No Mitigation**. The REIT agrees that, if the Executive's employment by the REIT is terminated during the term of this Agreement, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the REIT pursuant to Section 3 hereof. Further, the amount of any payment provided for in this Agreement shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the REIT or otherwise.

(d) **No Offset**. The REIT's obligation to make the payments provided for in this Agreement and otherwise perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the REIT, the Operating Partnership or any of their subsidiaries may have against the Executive or others unless such set-off, counterclaim, recoupment, defense, or other right arises from the Executive engaging in conduct which constitutes a material breach of a fiduciary duty or duty of loyalty, including without limitation, misappropriation of funds or property of the Operating Partnership and their subsidiaries.

(e) **Litigation and Regulatory Cooperation**. During and after Executive's employment, Executive shall reasonably cooperate with the REIT in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the REIT which relate to events or occurrences that transpired while Executive was employed by the REIT; provided, however, that such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the REIT at mutually convenient times. During and after Executive's employment, Executive also shall cooperate fully with the REIT in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by the REIT. The REIT shall also provide Executive with compensation on an hourly basis (to be derived from the sum of his Base Salary and average annual incentive compensation) for requested litigation and regulatory cooperation that occurs after his termination of employment, and reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 8(e), including, but not limited to, reasonable attorneys' fees and costs.

(f) **Notices**. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective (i) upon personal delivery, (ii) upon deposit with the United States Postal Service, by registered or certified mail, postage prepaid, or (iii) in the case of facsimile transmission or delivery by nationally recognized overnight delivery service, when received, addressed as follows:

If to the REIT, to:

DiamondRock Hospitality Company
3 Bethesda Metro, Suite 1500
Bethesda, MD 20814
Facsimile: (240) 744-1199
Attn: 1) Lead Director; 2) Chairman of the Board and 3) Chairman of the Compensation Committee

If to the Executive, to:

Mr. Troy Furbay
134 Manhattan Avenue
New York, NY 10025

or to such other address or addresses as either party shall designate to the other in writing from time to time by like notice.

(g) **Pronouns**. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

(h) **Entire Agreement**. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

(i) **Amendment**. This Agreement may be amended or modified only by a written instrument executed by both the REIT and the Executive.

(j) **Governing Law and Forum**. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of Maryland, without regard to its conflicts of laws principles, by a court of competent jurisdiction located within the State of Maryland.

(k) **Successors and Assigns**. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any entity with which or into which the REIT may be merged or which may succeed to its assets or business or any entity to which the REIT may assign its rights and obligations under this Agreement; provided, however, that the obligations of the Executive are personal and shall not be assigned or delegated by him.

(l) **Waiver**. No delays or omission by the REIT or the Executive in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the REIT or the Executive on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(m) **Captions**. The captions appearing in this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

(n) **Severability**. In case any provision of this Agreement shall be held by a court or arbitrator with jurisdiction over the parties to this Agreement to be invalid, illegal or otherwise unenforceable, such provision shall be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby. In the event that any portion or provision of this Agreement (including, without limitation, any portion or provision of Sections 4, 5, and/or 6) is determined by a court or arbitrator of competent jurisdiction to be invalid, illegal or otherwise unenforceable by reason of excessive scope as to geographic, temporal or functional coverage, such provision will be reformed and deemed to extend only over the maximum geographic, temporal and functional scope as to which it may be enforceable and shall be enforced by said court or arbitrator accordingly.

(o) **Counterparts**. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

DIAMONDROCK HOSPITALITY COMPANY

By:

William J. Tennis
Executive Vice President

EXECUTIVE

Troy Furbay

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, Mark W. Brugger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DiamondRock Hospitality Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2014

/s/ Mark W. Brugger

Mark W. Brugger
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, Sean M. Mahoney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DiamondRock Hospitality Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2014

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

Exhibit 32.1

Certification
Pursuant to 18 U.S.C. Section 1350

The undersigned officers, who are the Chief Executive Officer and Chief Financial Officer of DiamondRock Hospitality Company (the "Company"), each hereby certifies to the best of his knowledge, that the Company's Quarterly Report on Form 10-Q (the "Report") to which this certification is attached, as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark W. Brugger	/s/ Sean M. Mahoney
Mark W. Brugger	Sean M. Mahoney
Chief Executive Officer	Executive Vice President and Chief Financial Officer
May 12, 2014	May 12, 2014