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

FORM 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-32514

DIAMONDROCK HOSPITALITY COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**20-1180098**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

2 Bethesda Metro Center, Suite 1400,	**Bethesda,**	**Maryland**	**20814**
(Address of Principal Executive Offices)			**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Securities Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value per share	DRH	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☑ Yes ☐ No

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

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company o	☐
Emerging growth company o	☐						

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. ☐

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

The registrant had 200,196,850 shares of its $0.01 par value common stock outstanding as of November 8, 2019.

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PART I. FINANCIAL INFORMATION
Item I. Financial Statements

DIAMONDROCK HOSPITALITY COMPANY

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

	September 30, 2019	December 31, 2018
ASSETS		
Property and equipment, net	$ 3,008,023	$ 2,944,617
Right-of-use assets	98,496	—
Favorable lease assets, net	—	63,945
Restricted cash	49,579	47,735
Due from hotel managers	114,125	86,914
Prepaid and other assets	18,249	10,506
Cash and cash equivalents	26,723	43,863
Total assets	**$ 3,315,195**	**$ 3,197,580**
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage and other debt, net of unamortized debt issuance costs	$ 619,956	$ 629,747
Term loans, net of unamortized debt issuance costs	398,699	348,219
Senior unsecured credit facility	75,000	—
Total debt	1,093,655	977,966
Deferred income related to key money, net	11,441	11,739
Unfavorable contract liabilities, net	67,997	73,151
Deferred rent	51,020	93,719
Lease liabilities	102,970	—
Due to hotel managers	81,426	72,678
Distributions declared and unpaid	25,771	26,339
Accounts payable and accrued expenses	70,561	51,395
Total liabilities	1,504,841	1,306,987
Equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value; 400,000,000 shares authorized; 200,196,850 and 204,536,485 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	2,002	2,045
Additional paid-in capital	2,087,937	2,126,472
Accumulated deficit	(287,582)	(245,620)
Total stockholders’ equity	1,802,357	1,882,897
Noncontrolling interests	7,997	7,696
Total equity	1,810,354	1,890,593
Total liabilities and equity	**$ 3,315,195**	**$ 3,197,580**

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

DIAMONDROCK HOSPITALITY COMPANY

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenues:				
Rooms	$ 174,113	$ 165,750	$ 492,395	$ 469,786
Food and beverage	50,624	42,922	161,803	135,286
Other	15,542	12,146	46,374	35,225
Total revenues	240,279	220,818	700,572	640,297
Operating Expenses:				
Rooms	42,840	41,779	124,581	117,972
Food and beverage	34,262	29,047	103,868	88,202
Management fees	6,088	6,099	18,745	15,542
Franchise fees	6,894	6,507	19,961	19,285
Other hotel expenses	85,157	72,224	241,955	222,152
Depreciation and amortization	29,474	26,369	87,805	77,304
Corporate expenses	6,318	4,521	20,785	22,139
Business interruption insurance income	—	(8,227)	(8,822)	(16,254)
Gain on property insurance settlement	—	(1,730)	—	(1,730)
Total operating expenses, net	211,033	176,589	608,878	544,612
Interest and other income, net	(102)	(621)	(510)	(1,428)
Interest expense	14,184	10,233	38,264	30,384
Loss on early extinguishment of debt	2,373	—	2,373	—
Total other expenses, net	16,455	9,612	40,127	28,956
Income before income taxes	12,791	34,617	51,567	66,729
Income tax expense	(1,217)	(3,174)	(1,939)	(2,939)
Net income	11,574	31,443	49,628	63,790
Less: Net income attributable to noncontrolling interests	(45)	—	(194)	—
Net income attributable to common stockholders	$ 11,529	$ 31,443	$ 49,434	$ 63,790
Earnings per share:				
Basic earnings per share	$ 0.06	$ 0.15	$ 0.24	$ 0.31
Diluted earnings per share	$ 0.06	$ 0.15	$ 0.24	$ 0.31

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

DIAMONDROCK HOSPITALITY COMPANY

CONSOLIDATED STATEMENTS OF EQUITY
(in thousands, except share and per share amounts)
(unaudited)

	Common Stock						
	Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2018	204,536,485	$ 2,045	$ 2,126,472	$ (245,620)	$ 1,882,897	$ 7,696	$ 1,890,593
Cumulative effect of ASC 842 adoption	—	—	—	(15,286)	(15,286)	—	(15,286)
Distributions on common stock/units ($0.125 per common share/unit)	—	—	113	(25,483)	(25,370)	(134)	(25,504)
Share-based compensation	55,916	1	1,073	—	1,074	83	1,157
Common stock repurchased and retired	(3,143,922)	(31)	(29,967)	—	(29,998)	—	(29,998)
Net income	—	—	—	8,945	8,945	35	8,980
Balance at March 31, 2019	201,448,479	$ 2,015	$ 2,097,691	$ (277,444)	$ 1,822,262	$ 7,680	$ 1,829,942
Distributions on common stock/units ($0.125 per common share/unit)	—	—	120	(25,365)	(25,245)	(134)	(25,379)
Share-based compensation	33,396	1	1,955	—	1,956	249	2,205
Common stock repurchased and retired	(1,004,589)	(11)	(10,021)	—	(10,032)	—	(10,032)
Net income	—	—	—	28,960	28,960	114	29,074
Balance at June 30, 2019	200,477,286	$ 2,005	$ 2,089,745	$ (273,849)	$ 1,817,901	$ 7,909	$ 1,825,810
Distributions on common stock/units ($0.125 per common share/unit)	—	—	122	(25,321)	(25,199)	(130)	(25,329)
Share-based compensation	—	—	866	59	925	173	1,098
Common stock repurchased and retired	(280,436)	(3)	(2,796)	—	(2,799)	—	(2,799)
Net income	—	—	—	11,529	11,529	45	11,574
Balance at September 30, 2019	200,196,850	$ 2,002	$ 2,087,937	$ (287,582)	$ 1,802,357	$ 7,997	$ 1,810,354

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

DIAMONDROCK HOSPITALITY COMPANY

CONSOLIDATED STATEMENTS OF EQUITY - (CONTINUED)
(in thousands, except share and per share amounts)
(unaudited)

	Common Stock						
	Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2017	200,306,733	$2,003	$2,061,451	$ (229,809)	$ 1,833,645	$ —	$1,833,645
Distributions on common stock ($0.125 per share)	—	—	111	(25,370)	(25,259)	—	(25,259)
Share-based compensation	25,309	—	2,279	—	2,279	—	2,279
Sale of common stock, net	230,719	3	2,743	—	2,746	—	2,746
Net income	—	—	—	4,338	4,338	—	4,338
Balance at March 31, 2018	200,562,761	$2,006	$2,066,584	$ (250,841)	$ 1,817,749	$ —	$1,817,749
Distributions on common stock ($0.125 per share)	—	—	118	(26,283)	(26,165)	—	(26,165)
Share-based compensation	35,955	—	1,984	—	1,984	—	1,984
Sale of common stock, net	7,242,227	72	89,650	—	89,722	—	89,722
Net income	—	—	—	28,009	28,009	—	28,009
Balance at June 30, 2018	207,840,943	$2,078	$2,158,336	$ (249,115)	$ 1,911,299	$ —	$1,911,299
Distributions on common stock ($0.125 per share)	—	—	124	(26,271)	(26,147)	—	(26,147)
Share-based compensation	—	—	(308)	110	(198)	—	(198)
Sale of common stock, net	—	—	(184)	—	(184)	—	(184)
Net income	—	—	—	31,443	31,443	—	31,443
Balance at September 30, 2018	207,840,943	$2,078	$2,157,968	$ (243,833)	$ 1,916,213	$ —	$1,916,213

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

DIAMONDROCK HOSPITALITY COMPANY

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

	Nine Months Ended September 30,	
	2019	**2018**
Cash flows from operating activities:		
Net income	$ 49,628	$ 63,790
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	87,805	77,304
Corporate asset depreciation as corporate expenses	170	161
Loss on early extinguishment of debt	2,373	—
Non-cash lease expense and other amortization	5,247	3,842
Non-cash interest rate swap fair value adjustment	4,790	—
Amortization of debt issuance costs	1,432	1,384
Amortization of deferred income related to key money	(297)	(2,469)
Stock-based compensation	4,882	4,104
Changes in assets and liabilities:		
Prepaid expenses and other assets	(5,623)	25,489
Due to/from hotel managers	(18,119)	(21,436)
Accounts payable and accrued expenses	3,420	(2,215)
Net cash provided by operating activities	135,708	149,954
Cash flows from investing activities:		
Capital expenditures for operating hotels	(75,595)	(76,753)
Capital expenditures for Frenchman's Reef	(65,208)	—
Hotel acquisitions	—	(119,537)
Purchase deposits	—	(2,000)
Proceeds from property insurance	—	30,742
Net cash used in investing activities	(140,803)	(167,548)
Cash flows from financing activities:		
Scheduled mortgage debt principal payments	(10,374)	(9,947)
Proceeds from sale of common stock, net	—	92,715
Proceeds from senior unsecured term loan	350,000	—
Repayments of senior unsecured term loans	(300,000)	—
Draws on senior unsecured credit facility	125,000	85,000
Repayments of senior unsecured credit facility	(50,000)	(85,000)
Payment of financing costs	(4,796)	—
Distributions on common stock and units	(76,751)	(76,520)
Repurchase of common stock	(42,828)	—
Shares redeemed to satisfy tax withholdings on vested share based compensation	(452)	(149)
Net cash (used in) provided by financing activities	(10,201)	6,099
Net decrease in cash, cash equivalents, and restricted cash	(15,296)	(11,495)
Cash, cash equivalents, and restricted cash at beginning of period	91,598	223,773
Cash, cash equivalents, and restricted cash at end of period	$ 76,302	$ 212,278

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

DIAMONDROCK HOSPITALITY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS - (CONTINUED)
(in thousands)
(unaudited)

Supplemental Disclosure of Cash Flow Information:

	Nine Months Ended September 30,	
	2019	2018
Cash paid for interest	$ 32,604	$ 28,462
Cash paid for income taxes	$ 1,310	$ 2,198
Capitalized interest	$ 1,119	$ —
Non-cash cumulative effect of ASC 842 accounting standard adoption	$ 15,286	$ —
Non-cash Investing and Financing Activities:		
Distributions declared and unpaid	$ 25,771	$ 26,648
Loan assumed in hotel acquisition	$ —	$ 2,943

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets to the amount shown within the consolidated statements of cash flows:

	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 26,723	$ 43,863
Restricted cash (1)	49,579	47,735
Total cash, cash equivalents, and restricted cash	$ 76,302	$ 91,598

(1) Restricted cash primarily consists of reserves for replacement of furniture and fixtures held by our hotel managers and cash held in escrow pursuant to lender requirements.

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

DIAMONDROCK HOSPITALITY COMPANY

Notes to the Consolidated Financial Statements
(Unaudited)

1. Organization

DiamondRock Hospitality Company (the “Company” or “we”) is a lodging-focused real estate company that owns a portfolio of premium hotels and resorts. Our hotels are concentrated in key gateway cities and in destination resort locations, and the majority of our hotels are operated under a brand owned by one of the leading global lodging brand companies (Marriott International, Inc. (“Marriott”) 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 September 30, 2019, we owned 31 hotels with 10,102 guest rooms, located in the following markets: Atlanta, Georgia; Boston, Massachusetts (2); Burlington, Vermont; Charleston, South Carolina; Chicago, Illinois (2); Denver, Colorado (2); Fort Lauderdale, Florida; Fort Worth, Texas; Huntington Beach, California; Key West, Florida (2); New York, New York (4); Phoenix, Arizona; Salt Lake City, Utah; San Diego, California; San Francisco, California (2); Sedona, Arizona (2); Sonoma, California; South Lake Tahoe, California; Washington D.C. (2); St. Thomas, U.S. Virgin Islands; and Vail, Colorado. As of September 30, 2019, the Frenchman's Reef & Morning Star Beach Resort (“Frenchman's Reef”) is closed as a result of damage incurred from Hurricanes Irma and Maria in September 2017.

We conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT, in which our hotel properties are owned by our operating partnership, DiamondRock Hospitality Limited Partnership, or subsidiaries of our operating partnership. The Company is the sole general partner of our operating partnership and owns 99.6% of the limited partnership units (“common OP units”) of our operating partnership. The remaining 0.4% of the common OP units are held by third parties. See Note 5 for additional disclosures related to common OP units.

2. Summary of Significant Accounting Policies

Basis of Presentation

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 Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, *Consolidation*, the Company will consolidate the entity when it is determined to be the primary beneficiary of the entity. Our operating partnership meets the criteria of a variable interest entity. The Company is the primary beneficiary and, accordingly, we consolidate our operating partnership.

In our opinion, the accompanying unaudited consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of September 30, 2019, the results of our operations for the three and nine months ended September 30, 2019 and 2018, the statements of equity for the three and nine months ended September 30, 2019 and 2018, and the cash flows for the nine months ended September 30, 2019 and 2018. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations. We believe the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited 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, 2018, included in our Annual Report on Form 10-K filed on February 26, 2019.

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.

Property and Equipment

Investment purchases of hotel properties, land, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets that are not businesses are accounted for as asset acquisitions and recorded at relative fair value based upon total accumulated cost of the acquisition. Direct acquisition-related costs are capitalized as a component of the acquired assets. 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 are 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 5 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, current or projected losses from operations, and an expectation that the property is more likely than not to be sold significantly before the end of its useful life. 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.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

Revenues from operations of the hotels are recognized when the goods or services are provided. Revenues consist of room sales, food and beverage sales, and other hotel department revenues, such as telephone, parking, gift shop sales and resort fees. Rooms revenue is recognized over the length of stay that the hotel room is occupied by the customer. Food and beverage revenue is recognized at the point in time in which the goods and/or services are rendered to the customer, such as for restaurant dining services or banquet services. Other revenues are recognized at the point in time or over the time period that goods or services are provided to the customer. Certain ancillary services are provided by third parties and we assess whether we are the principal or agent in these arrangements. If we are the principal, we recognize revenue based upon the gross sales price.

Advance deposits are recorded as liabilities when a customer or group of customers provides a deposit for a future stay or banquet event at our hotels. Advance deposits are converted to revenue when the services are provided to the customer or when a customer with a noncancelable reservation fails to arrive for part or all of the reservation. Conversely, advance deposits are generally refundable upon guest cancellation of the related reservation within an established period of time prior to the reservation.

Earnings Per Share

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

Stock-based Compensation

We account for stock-based employee compensation using the fair value based method of accounting. We record the cost of awards with service or market conditions based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings during the period in which the new rate is enacted. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of all available evidence, including the future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We have elected to be treated as a real estate investment trust ("REIT") under the provisions of the Internal Revenue Code of 1986, as amended, 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 ("TRS") except for Frenchman's Reef, which is owned by a Virgin Islands corporation that we have elected to be treated as a TRS, and Cavallo Point, The Lodge at the Golden Gate ("Cavallo Point"), which is leased to a wholly owned subsidiary of the Company that we have elected to be treated as a TRS.

We had no accruals for tax uncertainties as of September 30, 2019 and December 31, 2018.

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 observability 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. 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.

Comprehensive Income

We do not have any comprehensive income other than net income. If we have any comprehensive income in future periods, such that a statement of comprehensive income would be necessary, such statement will be reported as one statement with the consolidated statement of operations.

Derivative Instruments

In the normal course of business, we are exposed to the effects of interest rate changes. We may enter into derivative instruments, including interest rate swaps and caps, to manage or hedge interest rate risk. Derivative instruments are recorded at fair value on the balance sheet date. We have not elected hedge accounting treatment for the changes in the fair value of derivatives.

Changes in the fair value of derivatives are recorded each period and are included in interest expense in the consolidated statements of operations.

Noncontrolling Interests

The noncontrolling interest is the portion of equity in our operating partnership not attributable, directly or indirectly, to the Company. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. On the consolidated statements of operations, revenues, expenses and net income or loss from our less-than-wholly-owned operating partnership are reported within the consolidated amounts, including both the amounts attributable to the Company and noncontrolling interests. Income or loss is allocated to noncontrolling interests based on their weighted average ownership percentage for the applicable period. Consolidated statements of equity include beginning balances, activity for the period and ending balances for stockholders' equity, noncontrolling interests and total equity.

Restricted Cash

Restricted cash primarily consists of reserves for replacement of furniture and fixtures generally held by our hotel managers and cash held in escrow pursuant to lender requirements.

Debt Issuance Costs

Financing costs are recorded at cost as a component of the debt carrying amount and consist of loan fees and other costs incurred in connection with the issuance of debt. Amortization of debt issuance costs is computed using a method that approximates the effective interest method over the remaining life of the debt and is included in interest expense in the accompanying consolidated statements of operations.

Due to/from Hotel Managers

The due from hotel managers consists of hotel level accounts receivable, periodic hotel operating distributions receivable from managers and prepaid and other assets held by the hotel managers on our behalf. The due to hotel managers represents liabilities incurred by the hotel on behalf of us in conjunction with the operation of our hotels which are legal obligations of the Company.

Key Money

Key money received in conjunction with entering into hotel management or franchise agreements or completing specific capital projects is deferred and amortized over the term of the hotel management agreement, the term of the franchise agreement, or other systematic and rational period, if appropriate. Deferred key money is classified as deferred income in the accompanying consolidated balance sheets and amortized as an offset to management fees or franchise fees.

Leases

We determine if an arrangement is a lease or contains an embedded lease at inception. For agreements with both lease and nonlease components (e.g., common-area maintenance costs), we do not separate the nonlease components from the lease components, but account for these components as one. We determine the lease classification (operating or finance) at lease inception.

Right-of-use assets and lease liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. The discount rate used to determine the present value of the lease payments is our incremental borrowing rate as of the lease commencement date, as the implicit rate is not readily determinable. The right-of-use assets also include any initial direct costs and any lease payments made at or before the commencement date, and is reduced for any unrestricted incentives received at or before the commencement date.

Options to extend or terminate the lease are included in the recognition of our right-of-use assets and lease liabilities when it is reasonably certain that we will exercise the option. Variable payments that are based on an index or a rate are included in the recognition of our right-of-use assets and lease liabilities using the index or rate at lease commencement; however, changes to these lease payments due to rate or index updates are recorded as rent expense in the period incurred. Contingent rentals based on a percentage of sales in excess of stipulated amounts are not included in the measurement of the lease liability and right-of-use asset but will be recognized as variable lease expense when they are incurred. Leases that contain provisions that increase the fixed minimum lease payments based on previously incurred variable lease payments related to performance will be remeasured, as these payments now represent an increase in the fixed minimum payments for the remainder of the lease term. However, leases with provisions that increase minimum lease payments based on changes in a reference index or rate (e.g. Consumer Price Index) will not be remeasured as such changes do not constitute a resolution of a contingency.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of our cash and cash equivalents. 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.

Segment Reporting

Each one of our hotels is an operating segment. We evaluate each of our properties on an individual basis to assess performance, the level of capital expenditures, and acquisition or disposition transactions. Our evaluation of individual properties is not focused on property type (e.g. urban, suburban, or resort), brand, geographic location, or industry classification.

We aggregate our operating segments using the criteria established by U.S. GAAP, including the similarities of our product offering, types of customers and method of providing service. All of our properties react similarly to economic stimulus, such as business investment, changes in Gross Domestic Product, and changes in travel patterns. As such, all our operating segments meet the aggregation criteria, resulting in a single reportable segment represented by our consolidated financial results.

Accounting for Impact of Natural Disasters

Assets destroyed or damaged as a result of natural disasters or other involuntary events are written off or reduced in carrying value to their salvage value. When recovery of all or a portion of the amount of property damage loss or other covered expenses through insurance proceeds is demonstrated to be probable, a receivable is recorded and offsets the loss or expense up to the amount of the total loss or expense. No gain is recorded until all contingencies related to the insurance claim have been resolved. Income resulting from business interruption insurance is not recognized until all contingencies related to the insurance recoveries are resolved.

In September 2017, Hurricane Irma caused significant damage to Frenchman's Reef and Havana Cabana Key West. Frenchman's Reef was further impacted by Hurricane Maria. The Company filed insurance claims for the remediation and repair of property damage and business interruption resulting from the hurricanes, as well as from the 2017 wildfires in Northern California that impacted the Lodge at Sonoma. In July 2018, the Company settled the insurance claims for Havana Cabana Key West and The Lodge at Sonoma. The Frenchman's Reef insurance claim is ongoing. During the three months ended September 30, 2018, we received $32.5 million of insurance proceeds. We received $6.4 million and $85.0 million of insurance proceeds during the nine months ended September 30, 2019 and 2018, respectively. Subsequent to September 30, 2019, we received a commitment from our insurers to receive an additional $40.1 million in insurance proceeds related to the Frenchman's Reef insurance claim. As of November 8, 2019, we have received $35.5 million of the committed amount.

The following table summarizes the business interruption insurance income by impacted hotel (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Frenchman's Reef	$ —	$ 5,680	$ 8,822	$ 12,965
Havana Cabana Key West	—	1,925	—	2,137
The Lodge at Sonoma	—	622	—	1,152
Total	$ —	$ 8,227	$ 8,822	$ 16,254

Recent Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which primarily changes the lessee's accounting for operating leases by requiring recognition of right-of-use assets and lease liabilities. This standard is effective for annual reporting periods beginning after December 15, 2018. We adopted ASU No. 2016-02, along with its related clarifications and amendments (collectively, “ASC 842”), on January 1, 2019. Our consolidated financial statements as of September 30, 2019, and for the three and nine months then ended, are presented in accordance with ASC 842. The primary impact of the new standard is to the treatment of our ground leases, which represent the majority of all of our operating lease payments. Upon adoption, our right-of-use assets were adjusted for deferred rent and favorable and unfavorable lease intangible amounts included on our balance sheet as of

December 31, 2018. On January 1, 2019, we recognized lease liabilities totaling $101.2 million and right-of-use assets totaling $99.6 million.

We adopted ASC 842 using the modified retrospective approach whereby the cumulative effect of adoption was recognized in accumulated deficit on the adoption date and prior periods were not restated. The adoption of the standard did not have a material impact to our results of operations, cash flows, or liquidity. On adoption of the standard, we elected all available practical expedients provided for in ASC 842, including: (i) no reassessment of whether any expired or existing contracts were or contained leases; (ii) no reassessment of the lease classification for any expired or existing leases; (iii) no reassessment of initial direct costs for any existing leases; and (iv) use of hindsight in determining the lease term and in assessing the likelihood that a purchase option will be exercised. The practical expedients were consistently applied to all existing leases as of January 1, 2019. We also elected an accounting policy to account for leases with an initial term of 12 months or less using existing guidance for operating leases. For lease agreements in which we are the lessor, we have analyzed the standard and determined that there was no material impact to the recognition, measurement, or presentation of these revenues. Room revenues, which constitute the majority of our revenues, are considered short-term leases. We also earn revenues from retail leases at our hotel properties, which are included in other revenue.

3. **Property and Equipment**

Property and equipment as of September 30, 2019 and December 31, 2018 consists of the following (in thousands):

	September 30, 2019	December 31, 2018
Land	$ 617,695	$ 617,695
Land improvements	7,994	7,994
Buildings and site improvements	2,723,453	2,682,320
Furniture, fixtures and equipment	517,007	491,421
Construction in progress	123,286	38,623
	3,989,435	3,838,053
Less: accumulated depreciation	(981,412)	(893,436)
	$ 3,008,023	$ 2,944,617

As of September 30, 2019 and December 31, 2018, we had accrued capital expenditures of $23.3 million and $12.4 million, respectively.

4. Leases

We are subject to operating leases, the most significant of which are ground leases. We are the lessee to ground leases under nine of our hotels and one parking garage. The lease liabilities for our operating leases assume the exercise of all available extension options, as we believe they are reasonably certain to be exercised. As of September 30, 2019, our operating leases have a weighted-average remaining lease term of 66 years and a weighted-average discount rate of 5.77%.

The components of operating lease expense, which is included in other hotel expenses in our consolidated statements of operations, and cash paid for amounts included in the measurement of lease liabilities, are as follows (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	$ 2,834	$ 8,417
Variable lease payments	$ 311	$ 1,137
Cash paid for amounts included in the measurement of operating lease liabilities	$ 835	$ 2,421

Maturities of lease liabilities are as follows (in thousands):

Year Ending December 31,	As of September 30, 2019	
2019 (excluding the nine months ended September 30, 2019)	$	818
2020		3,315
2021		4,805
2022		3,940
2023		3,997
Thereafter		763,100
Total lease payments		779,975
Less imputed interest		(677,005)
Total lease liabilities	$	102,970

The future minimum annual rental commitments under all noncancelable operating leases in effect as of December 31, 2018, as determined prior to the adoption of ASC 842 and its related practical expedients, are as follows (in thousands):

Year Ending December 31,	As of December 31, 2018	
2019	$	5,232
2020		4,866
2021		6,132
2022		5,122
2023		5,096
Thereafter		636,770
	$	663,218

5. Equity

Common Shares

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

We have an “at-the-market” equity offering program (the “ATM Program”), pursuant to which we may issue and sell shares of our common stock from time to time, having an aggregate offering price of up to $200 million. We did not sell any shares of common stock during the nine months ended September 30, 2019, and the full amount remains available under the ATM Program.

Our board of directors has approved a $250.0 million share repurchase program authorizing us to repurchase shares of our common stock. Repurchases under this program are made in open market or privately negotiated transactions as permitted by federal securities laws and other legal requirements. This authority may be exercised from time to time and in such amounts as market conditions warrant, and subject to regulatory considerations. The timing, manner, price and actual number of shares repurchased will depend on a variety of factors including stock price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The share repurchase program may be suspended or terminated at any time without prior notice. During the the three months ended September 30, 2019, we repurchased 280,436 shares of our common stock at an average price of $9.96 per share for a total purchase price of $2.8 million. During the nine months ended September 30, 2019, we repurchased 4,428,947 shares of our common stock at an average price of $9.65 per share for a total purchase price of $42.8 million. We retired all repurchased shares on their respective settlement dates. As of November 8, 2019, we have $175.2 million of authorized capacity remaining under our share repurchase program.

Preferred Shares

We are authorized to issue up to 10 million shares of preferred stock, $0.01 par value per share. Our board of directors is required to set for each class or series of preferred stock the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption. As of September 30, 2019 and December 31, 2018, there were no shares of preferred stock outstanding.

Operating Partnership Units

In connection with our acquisition of Cavallo Point in December 2018, we issued 796,684 common OP units to third parties, otherwise unaffiliated with the Company, at $11.76 per unit. Each common OP unit is redeemable at the option of the holder beginning December 12, 2019. Holders of common OP units have certain redemption rights, which 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, subject to adjustment upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions. As of September 30, 2019, there were 796,684 common OP units held by unaffiliated third parties.

Long-Term Incentive Partnership units ("LTIP units"), which are also referred to as profits interest units, may be issued to eligible participants under the 2016 Plan (as defined in Note 6 below) for the performance of services to or for the benefit of our operating partnership. LTIP units are a class of partnership unit in our operating partnership and will receive, whether vested or not, the same per-unit distributions as the outstanding common OP units, which equal per-share dividends on shares of our common stock. Initially, LTIP units have a capital account balance of zero, do not receive an allocation of operating income (loss), and do not have full parity with common OP units with respect to liquidating distributions. If such parity is reached, vested LTIP units may be converted, at any time, into an equal number of common OP units, and thereafter will possess all of the rights and interests of common OP units, including the right to exchange the common OP units 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, subject to adjustment upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions. See Note 6 for additional disclosures related to LTIP units.

Dividends and Distributions

We have paid the following dividends to holders of our common stock and distributions to holders of operating partnership units during 2019 as follows:

Payment Date	Record Date	Dividend per Share
January 14, 2019	January 4, 2019	$ 0.125
April 12, 2019	March 29, 2019	$ 0.125
July 12, 2019	June 28, 2019	$ 0.125
October 11, 2019	September 30, 2019	$ 0.125

6. Stock Incentive Plans

We are authorized to issue up to 6,082,664 shares of our common stock under our 2016 Equity Incentive Plan (the "2016 Plan"), of which we have issued or committed to issue 1,262,120 shares as of September 30, 2019. In addition to these shares, additional shares of common stock could be issued in connection with the performance stock unit awards, as further described below.

Restricted Stock Awards

Restricted stock awards issued to our officers and employees generally vest over a three-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 consolidated statements of operations. A summary of our restricted stock awards from January 1, 2019 to September 30, 2019 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2019	641,844	$ 10.25
Granted	73,240	10.65
Vested	(300,575)	10.07
Forfeited	(21,534)	10.37
Unvested balance at September 30, 2019	392,975	$ 10.46

The remaining share awards are expected to vest as follows: 9,542 shares during 2019, 229,336 shares during 2020, 130,622 shares during 2021, and 23,475 during 2022. As of September 30, 2019, the unrecognized compensation cost related to restricted stock awards was $2.6 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 18 months. We recorded $0.6 million and $0.2 million of compensation expense related to restricted stock awards for the three months ended September 30, 2019 and 2018, respectively. We recorded $1.9 million and $2.3 million of compensation expense related to restricted stock awards for the nine months ended September 30, 2019 and 2018, respectively. The compensation expense for the nine months ended September 30, 2018 includes $0.6 million related to the accelerated vesting of awards in connection with the departure of our former Chief Financial Officer. In the third quarter of 2018, we entered into a settlement agreement with our former Chief Financial Officer, in which he forfeited certain of his equity awards. As a result, the compensation expense previously recorded related to the forfeited awards was reversed during the third quarter of 2018.

Performance Stock Units

Performance stock units (“PSUs”) are restricted stock units that vest three years from the date of grant. When granted, each executive officer is granted a target number of PSUs (the “PSU Target Award”). For 75% of the PSUs issued in 2016 and vesting in 2019, the actual number of shares of common stock issued to each executive officer is subject to the achievement of certain levels of total stockholder return relative to the total stockholder return of a peer group of publicly traded lodging REITs over a three-year performance period. There will be no payout of shares of our common stock if our total stockholder return falls below the 30th percentile of the total stockholder returns of the peer group. The maximum number of shares of common stock issued to an executive officer is equal to 150% of the PSU Target Award and is earned if our total stockholder return is equal to or greater than the 75th percentile of the total stockholder returns of the peer group. For the remaining 25% of PSUs issued in 2016 and vesting in 2019, the number of shares of common stock to be issued to each executive officer is determined based on achieving improvement in market share for each of our hotels over the three-year performance period based on a report prepared for each hotel by STR Global, a well-recognized and universally accepted benchmarking service for the hospitality industry. For the PSUs issued in 2017, 2018, and 2019, and vesting in 2020, 2021, and 2022, respectively, the calculation of total stockholder return relative to the total stockholder return of a peer group over a three-year performance period determines the number of shares of common stock to be issued to each executive officer for 50% of the PSUs to be earned in the performance period. The number of shares of common stock to be issued to each executive officer for the remaining 50% of the PSUs is determined based on the achievement of improvement in market share for each of our hotels over the three-year performance period. For the PSUs tied to relative stockholder return issued in 2018 and 2019, the number of PSUs to be earned is limited to target if the Company's total stockholder return is negative for the performance period.

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

On March 1, 2019, our board of directors granted 296,050 PSUs to our executive officers. The grant date fair value of the portion of the PSUs based on our relative total stockholder return was $9.68 using the assumptions of volatility of 24.3% and a risk-free rate of 2.54%. The grant date fair value of the portion of the PSUs based on hotel market share was $10.65, the closing stock price of our common stock on such date.

A summary of our PSUs from January 1, 2019 to September 30, 2019 is as follows:

	Number of Target Units	Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2019	781,923	$ 11.19
Granted	296,050	10.14
Additional units from dividends	30,778	10.02
Vested (1)	(251,375)	8.80
Forfeited	(70,728)	9.93
Unvested balance at September 30, 2019	786,648	$ 11.18

(1) The number of shares of common stock earned for the PSUs vested in 2019 was equal to 74.33% of the PSU Target Award.

The remaining unvested PSUs are expected to vest as follows: 240,006 units during 2020, 283,910 units during 2021 and 262,732 units during 2022. The number of shares earned upon vesting is subject to the attainment of the performance goals described above. As of September 30, 2019, the unrecognized compensation cost related to the PSUs was $3.7 million and is expected to be recognized on a straight-line basis over a weighted average period of 23 months. We recorded $1.1 million and a net reversal of $0.4 million of compensation expense related to the PSUs for the three months ended September 30, 2019 and 2018, respectively. We recorded $2.5 million and $1.3 million of compensation expense related to the PSUs for the nine months ended September 30, 2019 and 2018, respectively. The compensation expense for the nine months ended September 30, 2018 includes a net reversal of $0.4 million related to the accelerated vesting of awards in connection with the departure of our former Chief Financial Officer. In the third quarter of 2018, we entered into a settlement agreement with our former Chief Financial Officer, in which he forfeited certain of his equity awards. As a result, the compensation expense previously recorded related to the forfeited awards was reversed during the third quarter of 2018.

LTIP Units

During the first quarter of 2019, instead of granting restricted stock for the time-based portion of the annual long-term incentive award, we granted LTIP units to our executive officers. LTIP units are designed to offer executives a long-term incentive comparable to restricted stock, while allowing them to enjoy a more favorable income tax treatment. Each LTIP unit awarded is deemed equivalent to an award of one share of common stock reserved under the 2016 Plan. At the time of award, LTIP units do not have full economic parity with common OP units, but can achieve such parity over time upon the occurrence of specified events in accordance with partnership tax rules.

A summary of our LTIP units from January 1, 2019 to September 30, 2019 is as follows:

	Number of Units	Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2019	—	$ —
Granted	281,925	10.65
Forfeited	(37,559)	10.65
Unvested balance at September 30, 2019	244,366	$ 10.65

During the nine months ended September 30, 2019, we granted 281,925 LTIP units to executive officers. These granted LTIP units had a weighted-average grant date fair value of $10.65 per unit. There are currently no vested LTIP units outstanding. The LTIP units are expected to vest ratably in 2020, 2021, and 2022. As of September 30, 2019, the unrecognized compensation cost related to LTIP unit awards was $2.1 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 29 months. We recorded $0.2 million of compensation expense related to LTIP unit awards for the three months ended September 30, 2019 and we recorded $0.5 million of compensation expense related to LTIP unit awards for the nine months ended September 30, 2019. We did not record any compensation expense related to LTIP unit awards during 2018.

7. Earnings Per Share

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

Unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. Accordingly, distributed and undistributed earnings attributable to unvested share-based compensation (participating securities) have been excluded, as applicable, from net income or loss available to common stockholders used in the basic and diluted earnings per share calculations.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net income attributable to common stockholders	$ 11,529	$ 31,443	$ 49,434	$ 63,790
Dividends declared on unvested share-based compensation	(31)	—	(101)	—
Net income available to common stockholders	$ 11,498	$ 31,443	$ 49,333	$ 63,790
Denominator:				
Weighted-average number of common shares outstanding—basic	201,448,348	208,758,945	202,218,646	204,520,637

Effect of dilutive securities:				
Unvested restricted common stock	102,309	221,018	59,793	212,051
Shares related to unvested PSUs	441,632	617,074	404,149	617,074
Weighted-average number of common shares outstanding—diluted	201,992,289	209,597,037	202,682,588	205,349,762
Earnings per share:				
Net income per share available to common stockholders—basic	$ 0.06	$ 0.15	$ 0.24	$ 0.31
Diluted earnings per share available to common stockholders—diluted	$ 0.06	$ 0.15	$ 0.24	$ 0.31

The common OP units held by the noncontrolling interest holders have been excluded from the denominator of the diluted earnings per share calculation as there would be no effect on the amounts since the common OP units' share of income or loss would also be added or subtracted to derive net income (loss) available to common stockholders.

8. Debt

The following table sets forth information regarding the Company’s debt as of September 30, 2019 and December 31, 2018 (dollars in thousands):

Loan	Interest Rate	Maturity Date	Principal Balance as of September 30, 2019	Principal Balance as of December 31, 2018
Salt Lake City Marriott Downtown mortgage loan	4.25%	November 2020	$ 53,866	$ 55,032
Westin Washington D.C. City Center mortgage loan	3.99%	January 2023	61,106	62,734
The Lodge at Sonoma, a Renaissance Resort & Spa mortgage loan	3.96%	April 2023	27,188	27,633
Westin San Diego mortgage loan	3.94%	April 2023	62,241	63,385
Courtyard Manhattan / Midtown East mortgage loan	4.40%	August 2024	81,494	82,620
Renaissance Worthington mortgage loan	3.66%	May 2025	81,321	82,540
JW Marriott Denver at Cherry Creek mortgage loan	4.33%	July 2025	61,549	62,411
Boston Westin mortgage loan	4.36%	November 2025	191,682	194,466
New Market Tax Credit loan (1)	5.17%	December 2020	2,943	2,943
Unamortized debt issuance costs			(3,434)	(4,017)
Total mortgage and other debt, net of unamortized debt issuance costs			619,956	629,747
Unsecured term loan	LIBOR + 1.45% (2)	May 2021	—	100,000
Unsecured term loan	LIBOR + 1.45% (2)	April 2022	—	200,000
Unsecured term loan	LIBOR + 1.40% (3)	October 2023	50,000	50,000
Unsecured term loan	LIBOR + 1.40% (4)	July 2024	350,000	—
Unamortized debt issuance costs			(1,301)	(1,781)
Unsecured term loans, net of unamortized debt issuance costs			398,699	348,219
Senior unsecured credit facility	LIBOR + 1.45% (5)	July 2023	75,000	—
Total debt, net of unamortized debt issuance costs			$ 1,093,655	$ 977,966
Weighted-Average Interest Rate	3.87%			

(1) Assumed in connection with the acquisition of the Hotel Palomar Phoenix in March 2018.
(2) The loan was prepaid on July 25, 2019 in connection with the refinancing described below under the heading "Unsecured Term Loans."
(3) We entered into an interest rate swap agreement in January 2019 to fix LIBOR at 2.41% through October 2023.
(4) We entered into an interest rate swap agreement on July 25, 2019 to fix LIBOR at 1.70% through July 2024 for $175 million of the loan.
(5) The credit facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions. On July 25, 2019, the credit facility was amended to increase capacity to $400 million and extend maturity to July 2023.

Mortgage and Other Debt

We have incurred limited recourse, property specific mortgage debt secured by certain of our hotels. In the event of default, the lender may only foreclose on the secured assets; however, in the event of fraud, misapplication of funds or other customary recourse provisions, the lender may seek payment from us. As of September 30, 2019, eight of our 31 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. As of September 30, 2019, we were in compliance with the financial covenants of our mortgage debt.

Senior Unsecured Credit Facility

Prior to July 25, 2019, we were party to a senior unsecured credit facility with a capacity up to $300 million with an accordion feature to expand up to $600 million, subject to lender consent. The maturity date was May 2020 and the interest rate on the facility was based on a pricing grid ranging from 150 to 225 basis points over LIBOR, based on the Company's leverage ratio.

On July 25, 2019, we entered into a Fifth Amended and Restated Credit Agreement (the "Credit Agreement"). The Credit Agreement amended and restated the senior unsecured credit facility (the "Revolving Credit Facility") to increase the capacity from $300 million to $400 million, decrease the pricing and extend the maturity date to July 2023. The maturity date may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions. The interest rate on the Revolving Credit Facility is based upon LIBOR, plus an applicable margin based upon the Company’s leverage ratio, as follows:

Leverage Ratio	Applicable Margin
Less than 30%	1.40%
Greater than or equal to 30% but less than 35%	1.45%
Greater than or equal to 35% but less than 40%	1.50%
Greater than or equal to 40% but less than 45%	1.55%
Greater than or equal to 45% but less than 50%	1.70%
Greater than or equal to 50% but less than 55%	1.90%
Greater than or equal to 55%	2.05%

In addition to the interest payable on amounts outstanding under the Revolving Credit Facility, we are required to pay an amount equal to 0.20% of the unused portion of the Revolving Credit Facility if the average usage is greater than 50% or 0.30% of the unused portion of the Revolving Credit Facility if the average usage is less than or equal to 50%.

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

	Covenant	Actual at September 30, 2019
Maximum leverage ratio (1)	60%	31.4%
Minimum fixed charge coverage ratio (2)	1.50x	3.74x
Secured recourse indebtedness	Less than 45% of Total Asset Value	18.7%
Unencumbered leverage ratio	60.0%	26.1%
Unencumbered implied debt service coverage ratio	1.2x	2.79x

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

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

As of September 30, 2019, we had $75.0 million in borrowings outstanding under the Revolving Credit Facility and the Company's leverage ratio was 31.4%. Accordingly, interest on our borrowings under the Revolving Credit Facility will be based on LIBOR plus 145 basis points for the following quarter. We incurred interest and unused fees on the applicable facility of $1.1 million and $0.3 million for the three months ended September 30, 2019 and 2018, respectively. We incurred interest and unused fees on the applicable facility of $2.8 million and $1.0 million for the nine months ended September 30, 2019 and 2018, respectively.

Unsecured Term Loans

As of September 30, 2019, we are party to two five-year unsecured term loans. The Credit Agreement described above provided a new five-year, $350 million unsecured term loan (the "Term Loan Facility"). In connection with the Term Loan Facility, we repaid the existing $100 million and $200 million unsecured term loans. In connection with the repayment of these term loans, we recorded a $2.4 million loss on early extinguishment of debt during the three and nine months ended September 30, 2019, which relates to the write-off of unamortized debt issuance costs. The Credit Agreement includes the right to increase the Revolving Credit Facility and Term Loan Facility in aggregate up to $1.2 billion, subject to lender approval.

The financial covenants of the two term loans are consistent with the covenants on our Revolving Credit Facility, which are described above. In connection with the transaction in July 2019, we also amended our $50 million term loan to align the pricing grid and certain other terms with the Credit Agreement. The interest rate on each of the term loans is based LIBOR, plus an applicable margin based upon the Company's leverage ratio, as follows:

Leverage Ratio	Applicable Margin
Less than 30%	1.35%
Greater than or equal to 30% but less than 35%	1.40%
Greater than or equal to 35% but less than 40%	1.45%
Greater than or equal to 40% but less than 45%	1.50%
Greater than or equal to 45% but less than 50%	1.65%
Greater than or equal to 50% but less than 55%	1.85%
Greater than or equal to 55%	2.00%

As of September 30, 2019, the Company's leverage ratio was 31.4%. Accordingly, interest on our borrowings under the term loans will be based on LIBOR plus 140 basis points for the following quarter. In January 2019, we entered into an interest rate swap agreement to fix LIBOR at 2.41% through October 2023 for the $50 million unsecured term loan. We entered into an interest rate swap agreement on July 25, 2019 to fix LIBOR at 1.70% through July 2024 for $175 million of the Term Loan Facility. We incurred interest on the term loans of $3.5 million and $2.6 million for the three months ended September 30, 2019 and 2018, respectively. We incurred interest on the term loans of $10.4 million and $7.6 million for the nine months ended September 30, 2019 and 2018, respectively.

9. Fair Value Measurements and Interest Rate Swaps

The fair value of certain financial assets and liabilities and other financial instruments as of September 30, 2019 and December 31, 2018, in thousands, is as follows:

	September 30, 2019		December 31, 2018	
	Carrying Amount (1)	Fair Value	Carrying Amount (1)	Fair Value
Debt	$ 1,093,655	$ 1,113,951	$ 977,966	$ 960,447
Interest rate swap liabilities	$ 4,790	$ 4,790	$ —	$ —

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

The fair value of our debt is a Level 2 measurement under the fair value hierarchy (see Note 2). We estimate the fair value of our debt by discounting the future cash flows of each instrument at estimated market rates. The fair value of our interest rate swaps is a Level 2 measurement under the fair value hierarchy. We estimate the fair value of the interest rate swap based on the interest rate yield curve and implied market volatility as inputs and adjusted for the counterparty's credit risk. We concluded the inputs for the credit risk valuation adjustment are Level 3 inputs, however these inputs are not significant to the fair value measurement in its entirety. The carrying value of our other financial instruments approximate fair value due to the short-term nature of these financial instruments.

Interest Rate Swaps

The Company's interest rate derivatives, which are not designated or accounted for as cash flow hedges, consisted of the following as of September 30, 2019 and December 31, 2018, in thousands:

Hedged Debt	Type	Rate Fixed	Index	Effective Date	Maturity Date	Notional Amount	Fair Value of Assets (Liabilities) September 30, 2019	Fair Value of Assets (Liabilities) December 31, 2018
$50 million term loan	Swap	2.41%	1-Month LIBOR	January 7, 2019	October 18, 2023	$ 50,000	$ (2,038)	$ —
$350 million term loan	Swap	1.70%	1-Month LIBOR	July 25, 2019	July 25, 2024	$ 175,000	(2,752)	—
							$ (4,790)	$ —

The fair values of the interest rate swap agreements are included in accounts payable and accrued expenses on the accompanying consolidated balance sheet as of September 30, 2019.

10. 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.

On August 13, 2018, the Company brought suit against certain of its property insurers in St. Thomas, U.S. Virgin Islands, over the amount of the coverage the insurers owe as a result of the damage caused to Frenchman's Reef by Hurricane Irma. The insurers that remain party to this lawsuit are XL Insurance America, Inc., United Stated Fire Insurance Company, Lloyd's Underwriters Syndicate 1886 d/b/a QBE and MAPFRE Global Risks. On September 28, 2018, certain of the Company's property insurers brought a similar suit against the Company in New York seeking a declaration that the insurers do not owe the full amount of the Company's claim. The insurers' New York suit has been stayed pending a final resolution of the Company's suit in St. Thomas. Notwithstanding the litigation, the Company and its insurers continue to engage in discussions and negotiation regarding the Company's claim. If the claim cannot be settled, the parties are scheduled to go to trial in the U.S. Virgin Islands in January 2020.

Other Matters

In February 2016, the Company was notified by the franchisor of one of its hotels that as a result of low guest satisfaction scores, the Company was in default under the franchise agreement for that hotel. The Company proactively worked with the franchisor and the manager of the hotel and developed and executed a plan aimed to improve guest satisfaction scores. Recently, through negotiation and agreement with the franchisor, the Company received a “clean slate” letter for this hotel and is no longer in default under the franchise agreement.

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, 2018 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.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- *negative changes in the economy, including, but not limited to, a reversal of current job growth trends, an increase in unemployment or a decrease in corporate earnings and investment;*
- *increased competition in the lodging industry and from alternative lodging channels or third party internet intermediaries in the markets in which we own properties;*
- *failure to effectively execute our long-term business strategy and successfully identify and complete acquisitions;*
- *risks and uncertainties affecting hotel renovations and management (including, without limitation, construction delays, increased construction costs, disruption in hotel operations and the risks associated with our franchise agreements);*
- *risks associated with the availability and terms of financing and the use of debt to fund acquisitions and renovations or refinance existing indebtedness, including the impact of higher interest rates on the cost and/or availability of financing;*
- *risks associated with the lodging industry overall, including, without limitation, an increase in alternative lodging channels, decreases in the frequency of business travel and increases in operating costs;*
- *risks associated with natural disasters;*
- *estimated costs and duration of renovation or restoration projects and estimated insurance recoveries;*
- *costs of compliance with government regulations, including, without limitation, the Americans with Disabilities Act;*
- *potential liability for uninsured losses and environmental contamination;*
- *risks associated with security breaches through cyber-attacks or otherwise, as well as other significant disruptions of our information technologies and systems, which support our operations and our hotel managers;*
- *risks associated with our potential failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended;*
- *possible adverse changes in tax and environmental laws; and*
- *risks associated with our dependence on key personnel whose continued service is not guaranteed.*

Overview

DiamondRock Hospitality Company is a lodging-focused Maryland corporation operating as a real estate investment trust ("REIT"). As of September 30, 2019, we owned a portfolio of 31 premium hotels and resorts that contain 10,102 guest rooms located in 21 different markets in North America and the U.S. Virgin Islands. Our hotel in the U.S. Virgin Islands, Frenchman's Reef & Morning Star Beach Resort ("Frenchman's Reef"), is currently closed due to damage incurred from Hurricanes Irma and Maria in September 2017.

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

Our goal is to deliver long-term stockholder returns that exceed those generated by our peers, through a combination of dividends and enduring capital appreciation. Our strategy is to utilize disciplined capital allocation, focus on high quality lodging properties in North American urban and resort markets with superior growth prospects and high barriers-to-entry, aggressively asset manage those hotels, and employ conservative amounts of leverage.

Our primary business is to acquire, own, asset manage and renovate premium hotel properties in the United States. Our portfolio is concentrated in key gateway cities and destination resort locations. Each of our hotels is managed by a third party—either an independent operator or a brand operator, such as Marriott International, Inc.

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

Key Indicators of Financial Condition and Operating Performance

We use a variety of operating and other information to evaluate the financial condition and operating performance of our business. These key indicators include financial information that is prepared in accordance with U.S. Generally Accepted Accounting Principles ("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), Earnings Before Interest, Income Taxes, Depreciation and Amortization for real estate (or EBITDA*re*), 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 70% of our total revenues for the nine months ended September 30, 2019 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, increased use of lodging alternatives, new hotel construction and the pricing strategies of our 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, EBITDA*re*, Adjusted EBITDA, FFO and Adjusted FFO as measures of the financial performance of our business. See "Non-GAAP Financial Measures."

Our Hotels

The following table sets forth certain operating information for the nine months ended September 30, 2019 for each of our hotels.

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Property (1)	Location	Number of Rooms	Occupancy (%)	ADR($)	RevPAR($)	% Change from 2018 RevPAR (2)
Chicago Marriott Downtown	Chicago, Illinois	1,200	72.7%	$ 225.86	$ 164.20	(2.4)%
Westin Boston Waterfront Hotel	Boston, Massachusetts	793	78.4%	251.43	197.05	2.9 %
Lexington Hotel New York	New York, New York	725	89.4%	243.87	218.10	2.7 %
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	69.4%	173.43	120.42	(5.7)%
Renaissance Worthington	Fort Worth, Texas	504	75.4%	186.24	140.50	(0.4)%
Westin San Diego	San Diego, California	436	82.0%	194.30	159.39	(2.2)%
Westin Fort Lauderdale Beach Resort	Fort Lauderdale, Florida	433	81.8%	204.38	167.26	1.5 %
Westin Washington, D.C. City Center	Washington, D.C.	410	86.9%	206.84	179.77	(0.9)%
Hilton Boston Downtown	Boston, Massachusetts	403	88.9%	308.79	274.58	4.4 %
Vail Marriott Mountain Resort & Spa	Vail, Colorado	344	65.6%	298.07	195.66	9.2 %
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	72.7%	166.97	121.42	0.6 %
Courtyard Manhattan/Midtown East	New York, New York	321	95.6%	244.82	234.03	1.2 %
The Gwen Chicago	Chicago, Illinois	311	83.3%	256.86	213.95	2.0 %
Hilton Garden Inn Times Square Central	New York, New York	282	98.5%	235.87	232.29	(0.6)%
Bethesda Marriott Suites	Bethesda, Maryland	272	73.0%	176.98	129.23	9.8 %
Hilton Burlington	Burlington, Vermont	258	81.7%	193.56	158.11	1.2 %
Hotel Palomar Phoenix	Phoenix, Arizona	242	82.7%	185.74	153.51	6.3 %
JW Marriott Denver at Cherry Creek	Denver, Colorado	199	70.8%	258.63	183.12	(12.1)%
Courtyard Manhattan/Fifth Avenue	New York, New York	189	86.7%	248.54	215.49	(7.6)%
Sheraton Suites Key West	Key West, Florida	184	80.5%	259.71	209.08	(5.7)%
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	74.3%	310.27	230.57	3.3 %
Courtyard Denver Downtown	Denver, Colorado	177	81.1%	200.80	162.75	(2.3)%
Renaissance Charleston	Charleston, South Carolina	166	84.0%	260.92	219.09	1.0 %
Shorebreak Hotel	Huntington Beach, California	157	78.7%	268.57	211.27	2.3 %
Cavallo Point, The Lodge at the Golden Gate	Sausalito, California	142	65.2%	458.60	298.90	(3.3)%
Havana Cabana Key West (3)	Key West, Florida	106	88.1%	186.82	164.61	26.0 %
Hotel Emblem (4)	San Francisco, California	96	77.5%	233.85	181.20	8.1 %
L'Auberge de Sedona	Sedona, Arizona	88	78.6%	596.05	468.42	6.6 %
The Landing Resort & Spa	South Lake Tahoe, California	82	65.4%	321.13	210.11	8.1 %
Orchards Inn Sedona	Sedona, Arizona	70	77.7%	244.33	189.96	0.7 %
TOTAL/WEIGHTED AVERAGE		9,600	79.7%	$ 235.89	$ 187.96	0.7 %

(1) Frenchman's Reef closed on September 6, 2017 due to Hurricane Irma and remains closed. Accordingly, there is no operating information for the nine months ended September 30, 2019.
(2) The percentage change from 2018 RevPAR reflects the comparable period in 2018 to our 2019 ownership period for all our hotels.
(3) Havana Cabana Key West closed on September 6, 2017 due to Hurricane Irma and reopened in April 2018. Accordingly, there is no operating information for the period from January 1, 2018 to March 31, 2018. The RevPAR change from 2018 compares the period from April 1 to September 30, 2019 to the comparable period of 2018.
(4) Hotel Emblem closed on September 4, 2018 for a comprehensive renovation. Accordingly, there is no operating information for the period from September 4, 2018 to September 30, 2018. The RevPAR change from 2018 compares the period from January 1 to September 4, 2019 to the comparable period of 2018.

Results of Operations

Comparison of the Three Months Ended September 30, 2019 to the Three Months Ended September 30, 2018

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

	Three Months Ended September 30,		
	2019	2018	% Change
Rooms	$ 174.1	$ 165.8	5.0%
Food and beverage	50.6	42.9	17.9%
Other	15.6	12.1	28.9%
Total revenues	$ 240.3	$ 220.8	8.8%

Our total revenues increased $19.5 million from $220.8 million for the three months ended September 30, 2018 to $240.3 million for the three months ended September 30, 2019. This increase includes amounts that are not comparable quarter-over-quarter as follows:

- $10.6 million increase from Cavallo Point, The Lodge at the Golden Gate ("Cavallo Point"), which was acquired on December 12, 2018.
- $0.8 million increase from Hotel Emblem, which was closed beginning September 4, 2018 for renovations and remained closed through the end of 2018.

Excluding these non-comparable amounts, our total revenues increased $8.1 million, or 3.7%.

The following are key hotel operating statistics for the three months ended September 30, 2019 and 2018. The 2018 amounts reflect the period in 2018 comparable to our ownership period in 2019 for Cavallo Point. The amounts presented also exclude the results from Frenchman's Reef for all periods presented and Hotel Emblem for the period from September 4, 2019 to September 30, 2019 and the comparable period of 2018 due to the closure of these hotels for all or a portion of the periods presented.

	Three Months Ended September 30,		
	2019	2018	% Change
Occupancy %	82.6%	82.2%	0.4%
ADR	$ 238.35	$ 235.89	1.0%
RevPAR	$ 196.95	$ 193.90	1.6%

Food and beverage revenues increased $7.7 million from the three months ended September 30, 2018, which includes a $4.3 million increase from Cavallo Point, which is not comparable as the hotel was acquired on December 12, 2018. Excluding this non-comparable amount, food and beverage revenues increased $3.4 million, or 7.9%, primarily due to an increase in banquet and audio visual revenues.

Excluding non-comparable amounts, other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by $1.2 million, primarily due to an increase in resort fees, parking and rents and commissions.

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

	Three Months Ended September 30,		
	2019	2018	% Change
Rooms departmental expenses	$ 42.8	$ 41.8	2.4 %
Food and beverage departmental expenses	34.3	29.0	18.3
Other departmental expenses	4.0	2.6	53.8
General and administrative	20.8	18.2	14.3
Utilities	5.6	5.6	0.0
Repairs and maintenance	8.8	8.0	10.0
Sales and marketing	17.0	15.7	8.3
Franchise fees	6.9	6.5	6.2
Base management fees	4.9	4.7	4.3
Incentive management fees	1.2	1.4	(14.3)
Property taxes	14.8	14.2	4.2
Other fixed charges	4.6	3.5	31.4
Uninsured costs related to natural disasters	6.4	1.5	326.7
Lease expense	3.1	3.0	3.3
Total hotel operating expenses	$ 175.2	$ 155.7	12.5 %

Our hotel operating expenses increased $19.5 million from $155.7 million for the three months ended September 30, 2018 to $175.2 million for the three months ended September 30, 2019. The increase in hotel operating expenses includes amounts that are not comparable quarter-over-quarter as follows:

- $4.9 million increase from Frenchman's Reef, which was closed on September 6, 2017 due to Hurricane Irma and remains closed. The increase is primarily due to an increase in legal and professional fees incurred in connection with the ongoing insurance claim.
- $7.4 million increase from Cavallo Point, which was acquired on December 12, 2018.
- $0.3 million increase from Hotel Emblem, which was closed beginning September 4, 2018 for renovations and remained closed through the end of 2018.

Excluding the non-comparable amounts detailed above, hotel operating expenses increased $6.9 million, or 4.4%, from the three months ended September 30, 2018.

Depreciation and amortization. Depreciation and amortization is recorded on our hotel buildings over 40 years for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. Our depreciation and amortization expense increased $3.1 million, or 11.8%, from the three months ended September 30, 2018. This is primarily due to depreciation from our 2018 acquisition of Cavallo Point and capital expenditures from our recent hotel renovations.

Corporate expenses. Corporate expenses principally consist of employee-related costs, including base payroll, bonus, restricted stock and severance. Corporate expenses also include corporate operating costs, professional fees and directors' fees. Our corporate expenses increased $1.8 million, or 39.7%, from $4.5 million for the three months ended September 30, 2018 to $6.3 million for the three months ended September 30, 2019 primarily due to the reversal of $2.4 million of severance costs previously recorded in the first quarter of 2018 related to a settlement agreement in the third quarter of 2018 with our former Chief Financial Officer, partially offset by various decreases, including professional fees, consulting fees, and employee compensation.

Business interruption insurance income. In September 2017, Hurricane Irma caused significant damage to Frenchman's Reef and the Havana Cabana Key West. In October 2017, The Lodge at Sonoma was impacted by smoke infiltration due to the wildfires. These natural disasters resulted in lost revenue and additional expenses covered under our insurance policy. In July 2018, we settled the insurance claims for Havana Cabana Key West and The Lodge at Sonoma. The Frenchman's Reef insurance claim is ongoing. For the three months ended September 30, 2018, we recognized $8.2 million related to the claims for Frenchman's Reef, Havana Cabana Key West and The Lodge at Sonoma. We did not recognize any business interruption insurance income for the three months ended September 30, 2019.

Interest expense. Our interest expense was $14.2 million and $10.2 million for the three months ended September 30, 2019 and 2018, respectively, and was comprised of the following (in millions):

	Three Months Ended September 30,	
	2019	2018
Mortgage debt interest	$ 6.7	$ 6.7
Term loan interest	3.5	2.7
Credit facility interest and unused fees	1.1	0.3
Amortization of debt issuance costs and debt premium	0.4	0.5
Capitalized interest	(0.6)	—
Interest rate swap mark-to-market and net settlements	3.1	—
	$ 14.2	$ 10.2

The increase in interest expense is primarily related to the $50 million unsecured term loan, which was funded in December 2018, the increased borrowing on the credit facility, the increased term loan funding in July 2019 and the mark-to-market of the interest rate swaps entered into in January 2019 and July 2019. The increase is partially offset by capitalized interest recognized related to Frenchman's Reef.

Loss on early extinguishment of debt. On July 25, 2019, we repaid the existing $100 million and $200 million term loans and recognized a $2.4 million loss on early extinguishment of debt related to the write-off of unamortized debt issuance costs.

Income taxes. We recorded an income tax expense of $1.2 million for the three months ended September 30, 2019 and an income tax expense of $3.2 million for the three months ended September 30, 2018. The income tax expense for the three months ended September 30, 2019 includes $1.5 million of income tax expense on the $5.4 million pre-tax income of our domestic TRSs and foreign income tax benefit of $0.3 million incurred on the $6.2 million pre-tax loss of the TRS that owns Frenchman's Reef. The income tax expense for the three months ended September 30, 2018 includes $2.4 million of income tax expense on the $8.7 million pre-tax income of our domestic TRSs and $0.8 million of income tax expense on the $5.9 million pre-tax income of the TRS that owns Frenchman's Reef.

Comparison of the Nine Months Ended September 30, 2019 to the Nine Months Ended September 30, 2018

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

	Nine Months Ended September 30,		
	2019	2018	% Change
Rooms	$ 492.4	$ 469.8	4.8%
Food and beverage	161.8	135.3	19.6%
Other	46.4	35.2	31.8%
Total revenues	$ 700.6	$ 640.3	9.4%

Our total revenues increased $60.3 million from $640.3 million for the nine months ended September 30, 2018 to $700.6 million for the nine months ended September 30, 2019. This increase includes amounts that are not comparable period-over-period as follows:

- $2.9 million increase from the Havana Cabana Key West, which was closed on September 6, 2017 due to Hurricane Irma and re-opened in April 2018.
- $1.2 million increase from The Landing Resort & Spa, which was acquired on March 1, 2018.
- $4.5 million increase from the Hotel Palomar Phoenix, which was acquired on March 1, 2018.
- $30.6 million increase from Cavallo Point, which was acquired on December 12, 2018.
- $0.8 million increase from Hotel Emblem, which was closed beginning September 4, 2018 for renovations and remained closed through the end of 2018.

Excluding these non-comparable amounts, our total revenues increased $20.3 million, or 3.2%.

The following are key hotel operating statistics for the nine months ended September 30, 2019 and 2018. The 2018 amounts reflect the period in 2018 comparable to our ownership period in 2019 for the Hotel Palomar Phoenix, The Landing Resort & Spa and Cavallo Point. The amounts presented also exclude the results from Frenchman's Reef for all periods presented, the Havana

Cabana Key West for the period from January 1 to March 31, 2019 and the comparable period of 2018, and Hotel Emblem for the period from September 4, 2019 to September 30, 2019 and the comparable period of 2018 due to the closure of these hotels for all or a portion of the periods presented.

	Nine Months Ended September 30,		
	2019	2018	% Change
Occupancy %	79.6%	79.5%	0.1%
ADR	$ 235.75	$ 234.20	0.7%
RevPAR	$ 187.70	$ 186.30	0.8%

Food and beverage revenues increased $26.5 million from the nine months ended September 30, 2018, which includes amounts that are not comparable period-over-period as follows:

- $0.3 million increase from the Havana Cabana Key West, which was closed on September 6, 2017 due to Hurricane Irma and re-opened in April 2018.
- $0.3 million increase from The Landing Resort & Spa, which was acquired on March 1, 2018.
- $1.7 million increase from the Hotel Palomar Phoenix, which was acquired on March 1, 2018.
- $12.9 million increase from Cavallo Point, which was acquired on December 12, 2018.

Excluding these non-comparable amounts, food and beverage revenues increased $11.3 million, or 8.4%, primarily due to an increase in banquet and audio visual revenues.

Excluding non-comparable amounts, other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by $4.4 million, primarily due to an increase in resort fees, attrition and cancellation revenue and rents and commissions.

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

	Nine Months Ended September 30,		
	2019	2018	% Change
Rooms departmental expenses	$ 124.6	$ 118.0	5.6 %
Food and beverage departmental expenses	103.9	88.2	17.8
Other departmental expenses	11.6	7.6	52.6
General and administrative	61.9	54.5	13.6
Utilities	15.6	15.6	0.0
Repairs and maintenance	26.1	23.9	9.2
Sales and marketing	49.6	45.9	8.1
Franchise fees	20.0	19.3	3.6
Base management fees	14.8	11.4	29.8
Incentive management fees	3.9	4.1	(4.9)
Property taxes	43.2	42.0	2.9
Other fixed charges	12.9	11.9	8.4
Severance costs	—	10.9	(100.0)
Uninsured costs related to natural disasters	11.4	1.3	776.9
Lease expense	9.6	8.6	11.6
Total hotel operating expenses	$ 509.1	$ 463.2	9.9 %

Our hotel operating expenses increased $45.9 million from $463.2 million for the nine months ended September 30, 2018 to $509.1 million for the nine months ended September 30, 2019. The increase in hotel operating expenses includes amounts that are not comparable period-over-period as follows:

- $10.8 million increase from Frenchman's Reef, which was closed on September 6, 2017 due to Hurricane Irma and remains closed. In connection with the termination of the hotel manager of Frenchman's Reef in February 2018, we recognized $2.2 million of accelerated amortization of key money during the nine months ended September 30, 2018. This amortization reduced base management fees during the nine months ended September 30, 2018. The remaining increase period-over-period is primarily due to an increase in legal and professional fees incurred in connection with the ongoing insurance claim.

- $1.4 million increase from the Havana Cabana Key West, which was closed on September 6, 2017 due to Hurricane Irma and re-opened in April 2018.
- $1.2 million increase from The Landing Resort & Spa, which was acquired on March 1, 2018.
- $2.8 million increase from the Hotel Palomar Phoenix, which was acquired on March 1, 2018.
- $22.4 million increase from Cavallo Point, which was acquired on December 12, 2018.
- $0.3 million increase from Hotel Emblem, which was closed beginning September 4, 2018 for renovations and remained closed through the end of 2018.

We incurred $10.9 million of severance costs for the nine months ended September 30, 2018 related to payments made to unionized employees under a voluntary buyout program that commenced during the first quarter of 2018 at the Lexington Hotel New York.

Excluding the non-comparable amounts and the severance costs detailed above, hotel operating expenses increased $17.9 million, or 3.9%, from the nine months ended September 30, 2018.

Depreciation and amortization. Depreciation and amortization is recorded on our hotel buildings over 40 years for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. Our depreciation and amortization expense increased $10.5 million, or 13.6%, from the nine months ended September 30, 2018. This is primarily due to depreciation from our 2018 hotel acquisitions and capital expenditures from our recent hotel renovations.

Corporate expenses. Corporate expenses principally consist of employee-related costs, including base payroll, bonus, restricted stock and severance. Corporate expenses also include corporate operating costs, professional fees and directors' fees. Our corporate expenses decreased $1.4 million, or 6.1%, from $22.1 million for the nine months ended September 30, 2018 to $20.8 million for the nine months ended September 30, 2019 primarily due to $0.8 million of severance costs recognized in 2018 related to the departure of our former Chief Financial Officer, as well as various decreases, including professional fees, consulting fees, and employee compensation.

Business interruption insurance income. In September 2017, Hurricane Irma caused significant damage to Frenchman's Reef and the Havana Cabana Key West. In October 2017, The Lodge at Sonoma was impacted by smoke infiltration due to the wildfires. These natural disasters resulted in lost revenue and additional expenses covered under our insurance policy. In July 2018, we settled the insurance claims for Havana Cabana Key West and The Lodge at Sonoma. The Frenchman's Reef insurance claim is ongoing. For the nine months ended September 30, 2019, we recognized $8.8 million of business interruption insurance income related to the Frenchman's Reef insurance claim. For the nine months ended September 30, 2018, we recognized $16.3 million related to the claims for Frenchman's Reef, Havana Cabana Key West and The Lodge at Sonoma.

Interest expense. Our interest expense was $38.3 million and $30.4 million for the nine months ended September 30, 2019 and 2018, respectively, and was comprised of the following (in millions):

	Nine Months Ended September 30,	
	2019	**2018**
Mortgage debt interest	$ 19.9	$ 20.3
Term loan interest	10.4	7.6
Credit facility interest and unused fees	2.8	1.0
Amortization of debt issuance costs and debt premium	1.5	1.5
Capitalized interest	(1.1)	—
Interest rate swap mark-to-market and net settlements	4.8	—
	$ 38.3	$ 30.4

The increase in interest expense is primarily related to the $50 million unsecured term loan, which was funded in December 2018, the increased borrowing on the credit facility, the increased term loan funding in July 2019 and the mark-to-market of the interest rate swaps entered into in January 2019 and July 2019. The increase is partially offset by capitalized interest recognized related to Frenchman's Reef.

Loss on early extinguishment of debt. On July 25, 2019, we repaid the existing $100 million and $200 million term loans and recognized a $2.4 million loss on early extinguishment of debt related to the write-off of unamortized debt issuance costs.

Income taxes. We recorded an income tax expense of $1.9 million for the nine months ended September 30, 2019 and an income tax expense of $2.9 million for the nine months ended September 30, 2018. The income tax expense for the nine months ended September 30, 2019 includes $2.0 million of income tax expense on the $7.4 million pre-tax income of our domestic TRSs and foreign income tax benefit of $0.1 million incurred on the $2.4 million pre-tax loss of the TRS that owns Frenchman's Reef. The income tax expense for the nine months ended September 30, 2018 includes $1.0 million of income tax expense on the $3.9 million pre-tax income of our TRSs and $1.9 million of income tax expense incurred on the $14.3 million pre-tax income of the TRS that owns Frenchman's Reef.

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

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

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

Our Financing Strategy

Since our formation in 2004, we have been committed to a conservative capital structure with prudent leverage. The majority of our outstanding debt is fixed interest rate mortgage debt. We have a preference to maintain a significant portion of our portfolio as unencumbered assets in order to provide balance sheet flexibility. We expect that our strategy will enable us to maintain a balance sheet with an appropriate amount of debt throughout all phases of the lodging cycle. We believe that it is prudent to reduce the inherent risk of highly cyclical lodging fundamentals through a low leveraged capital structure.

We prefer a relatively simple but efficient capital structure. We have not invested in joint ventures and have not issued any preferred stock. We generally structure our hotel acquisitions to be straightforward and to fit within our capital structure; however, we will consider a more complex transaction, such as the issuance of common OP units in connection with the acquisition of Cavallo Point, if we believe that the projected returns to our stockholders will significantly exceed the returns that would otherwise be available.

We believe that we maintain a reasonable amount of debt. As of September 30, 2019, we had $1.1 billion of debt outstanding with a weighted average interest rate of 3.87% and a weighted average maturity date of approximately 4.6 years. We maintain balance sheet flexibility with no near-term debt maturities, capacity under our senior unsecured credit facility and 23 of our 31 hotels unencumbered by mortgage debt. We remain committed to our core strategy of prudent leverage.

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

ATM Program

We have equity distribution agreements, dated August 8, 2018, with a number of sales agents (the " ATM Program") to issue and sell, from time to time, shares of our common stock, par value $0.01 per share, having an aggregate offering price of up to $200 million (the "ATM Shares"). Sales of the ATM Shares can be made in privately negotiated transactions and/or any other method permitted by law, including sales deemed to be an "at the market" offering, which includes sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange. We have not sold any shares under the ATM Program. Actual future sales of the ATM Shares will depend upon a variety of factors, including but not limited to market conditions, the trading price of the Company's common stock and the Company's capital needs. We have no obligation to sell the ATM Shares under the ATM Program.

Share Repurchase Program

Our board of directors has approved a $250.0 million share repurchase program authorizing us to repurchase shares of our common stock. Information about our share repurchase program is found in Note 5 to the accompanying consolidated financial statements. During the nine months ended September 30, 2019, we repurchased 4,428,947 shares of our common stock at an average price of $9.65 per share for a total purchase price of $42.8 million. We retired all repurchased shares on their respective settlement dates. As of November 8, 2019, we have $175.2 million of authorized capacity remaining under our share repurchase program.

Short-Term Borrowings

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

Senior Unsecured Credit Facility

On July 25, 2019, we entered into a Fifth Amended and Restated Credit Agreement. The credit agreement increased the capacity of our senior unsecured credit facility from $300 million to $400 million, decreased the pricing and extended the maturity date to July 2023. The maturity date may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions. In connection with amending our credit agreement, we repaid the existing $100 million and $200 million term loans on July 25, 2019.

Information about our senior unsecured credit facility is found in Note 8 to the accompanying consolidated financial statements. As of September 30, 2019, we had $75.0 million of borrowings outstanding under our senior unsecured credit facility.

Unsecured Term Loans

As of September 30, 2019, we are party to a $50 million unsecured term loan expiring in October 2023 and a $350 million unsecured term loan expiring in July 2024. Information about our senior unsecured term loans is found in Note 8 to the accompanying consolidated financial statements.

Sources and Uses of Cash

Our principal sources of cash are net cash flow from hotel operations, sales of common stock, borrowings under mortgage debt, term loans, our senior unsecured credit facility, and proceeds from hotel dispositions. Our principal uses of cash are acquisitions of hotel properties, debt service and maturities, repayments of borrowings under our senior unsecured credit facility, repayments of unsecured term loans, share repurchases, capital expenditures, operating costs, corporate expenses, natural disaster remediation and repair costs, and distributions to holders of common stock and units. As of September 30, 2019, we had $26.7 million of unrestricted corporate cash and $49.6 million of restricted cash, as well as $325 million borrowing capacity under our senior unsecured credit facility.

Our net cash provided by operations was $135.7 million for the nine months ended September 30, 2019. Our cash from operations generally consists of the net cash flow from hotel operations and insurance proceeds related to our hotels impacted by natural disasters, offset by cash paid for corporate expenses and other working capital changes.

Our net cash used in investing activities was $140.8 million for the nine months ended September 30, 2019, which is composed of capital expenditures at our operating hotels of $75.6 million and capital expenditures at Frenchman's Reef of $65.2 million.

Our net cash used in financing activities was $10.2 million for the nine months ended September 30, 2019, which consisted of $125.0 million draws on our senior unsecured credit facility and $350.0 million proceeds from our senior unsecured term loan, offset by $50.0 million repayments on our senior unsecured credit facility, $300.0 million repayments of senior unsecured term loans, $76.8 million of distribution payments to holders of common stock and units, $10.4 million of scheduled mortgage debt principal payments, $4.8 million of financing costs related to the amendment and restatement of our senior unsecured credit facility, $0.5 million paid to repurchase shares upon the vesting of restricted stock for the payment of tax withholding obligations, and $42.8 million to repurchase shares under our share repurchase program.

We currently anticipate our significant sources of cash for the remainder of the year ending December 31, 2019 will be the net cash flow from hotel operations, insurance proceeds, and draws on the line of credit. We expect our uses of cash for the remainder of the year ending December 31, 2019 will be regularly scheduled debt service payments, capital expenditures, distributions to holders of common stock and common OP units, corporate expenses, and potential share repurchases.

Dividend Policy

We intend to distribute to our stockholders dividends at least equal to our REIT taxable income to avoid paying corporate income tax and excise tax on our earnings (other than the earnings of our TRS, which are all subject to tax at regular corporate rates) and to qualify for the tax benefits afforded to REITs under the Code. In order to qualify as a REIT under the Code, we generally must make distributions to our stockholders each year in an amount equal to at least:

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

The timing and frequency of distributions will be authorized by our board of directors and declared by us based upon a variety of factors, including our financial performance, restrictions under applicable law and our current and future loan agreements, 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 and distributions to holders of operating partnership units during 2019 as follows:

Payment Date	Record Date	Dividend per Share
January 14, 2019	January 4, 2019	$ 0.125
April 12, 2019	March 29, 2019	$ 0.125
July 12, 2019	June 28, 2019	$ 0.125
October 11, 2019	September 30, 2019	$ 0.125

Capital Expenditures

The management and franchise agreements for each of our hotels provide for the establishment of separate property improvement funds to cover, among other things, the cost of replacing and repairing furniture, fixtures and equipment at our hotels and other routine capital expenditures. Contributions to the property improvement fund are calculated as a percentage of hotel revenues. In addition, we may be required to pay for the cost of certain additional improvements that are not permitted to be funded from the property improvement fund under the applicable management or franchise agreement. As of September 30, 2019, we have set aside $44.5 million for capital projects in property improvement funds, which are included in restricted cash.

We spent approximately $75.6 million on capital improvements at our operating hotels during the nine months ended September 30, 2019. We expect to spend approximately $125 million on capital improvements at our operating hotels in 2019, which includes carryover from certain projects that commenced in 2018. Significant projects in 2019 include the following:

- ***Hotel Emblem San Francisco:*** In January 2019, we completed the repositioning and rebranding of Hotel Emblem, which is now part of Viceroy's Urban Collection. As part of the renovation, we created two additional rooms at the hotel.
- ***JW Marriott Denver Cherry Creek:*** We completed the renovation of the hotel's guestrooms and meeting space during the first quarter of 2019 and expect to renovate the public space later this year. As part of the guestrooms renovation, we created three additional rooms at the hotel.
- ***Sheraton Suites Key West:*** We are completing a comprehensive repositioning renovation of the hotel, which includes upgrades to the resort's entrance, lobby, restaurant, outdoor lounge, pool area and guestrooms. The renovation is expected to be substantially complete during the fourth quarter of 2019.
- ***Vail Marriott:*** We substantially completed the second phase of the hotel renovation in the third quarter of 2019, which included the upgrade of the spa and fitness center. The scope of this project is consistent with the Company's multi-phased strategy to renovate the hotel to a luxury standard in order to position it for an upbranding in 2021 to close the rate gap with the luxury competitive set.
- ***Worthington Renaissance:*** We completed the renovation of the hotel's lobby in September 2019 and expect to complete a repositioning of the restaurant outlets during the fourth quarter of 2019.
- ***The Landing Resort & Spa Lake Tahoe:*** In third quarter of 2019, we completed the addition of five new guestrooms at the hotel.
- ***The Lodge at Sonoma:*** We expect to enhance the overall resort to close the rate gap with the luxury competition in the market. Enhancements include adding a restaurant by Michael Mina and upgrading the spa to a luxury level.

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, EBITDA*re*, Adjusted EBITDA, FFO and Adjusted FFO. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with U.S. GAAP. EBITDA, EBITDA*re*, Adjusted EBITDA, FFO and Adjusted FFO, as calculated by us, may not be comparable to other companies that do not define such terms exactly as the Company.

Use and Limitations of Non-GAAP Financial Measures

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

EBITDA, EBITDA*re *and FFO

EBITDA represents net income (calculated in accordance with U.S. GAAP) excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; and (3) depreciation and amortization. The Company computes EBITDA*re* in accordance with the National Association of Real Estate Investment Trusts ("Nareit") guidelines, as defined in its

September 2017 white paper "Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate." EBITDA*re* represents net income (calculated in accordance with U.S. GAAP) adjusted for: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; (3) depreciation and amortization; (4) gains or losses on the disposition of depreciated property, including gains or losses on change of control; (5) impairment write-downs of depreciated property and of investments in unconsolidated affiliates caused by a decrease in value of depreciated property in the affiliate; and (6) adjustments to reflect the entity's share of EBITDA*re* of unconsolidated affiliates.

We believe EBITDA and EBITDA*re* are useful to an investor in evaluating our operating performance because they help 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, and in the case of EBITDA*re*, impairment and gains or losses on dispositions of depreciated property) from our operating results. In addition, covenants included in our debt agreements use EBITDA as a measure of financial compliance. We also use EBITDA and EBITDA*re* as measures in determining the value of hotel acquisitions and dispositions.

The Company computes FFO in accordance with standards established by the Nareit, which defines FFO as net income determined in accordance with U.S. GAAP, excluding gains or losses from sales of properties and impairment losses, plus real estate related 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 related depreciation and amortization and gains or losses on the sale of assets. The Company also uses FFO as one measure in assessing its operating results.

Adjustments to EBITDAre and FFO

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

- *Non-Cash Lease Expense and Other Amortization*: We exclude the non-cash expense incurred from the straight line recognition of expense from our ground leases and other contractual obligations and the non-cash amortization of our favorable and unfavorable contracts, originally recorded in conjunction with certain hotel acquisitions. We exclude these non-cash items because they do not reflect the actual cash amounts due to the respective lessors in the current period and they are of lesser significance in evaluating our actual performance for that period.
- *Cumulative Effect of a Change in Accounting Principle*: The Financial Accounting Standards Board promulgates new accounting standards that require or permit the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude the effect of these adjustments, which include the accounting impact from prior periods, because they do not reflect the Company's actual underlying performance for the current period.
- *Gains or Losses from Early Extinguishment of Debt*: We exclude the effect of gains or losses recorded on the early extinguishment of debt because these gains or losses result from transaction activity related to the Company's capital structure that we believe are not indicative of the ongoing operating performance of the Company or our hotels.
- *Hotel Acquisition Costs*: We exclude hotel acquisition costs expensed during the period because we believe these transaction costs are not reflective of the ongoing performance of the Company or our hotels.
- *Severance Costs*: We exclude corporate severance costs, or reversals thereof, incurred with the termination of corporate-level employees and severance costs incurred at our hotels related to lease terminations or structured severance programs because we believe these costs do not reflect the ongoing performance of the Company or our hotels.
- *Hotel Manager Transition Items*: We exclude the transition items associated with a change in hotel manager because we believe these items do not reflect the ongoing performance of the Company or our hotels.
- *Other Items*: From time to time we incur costs or realize gains that we consider outside the ordinary course of business and that we do not believe reflect the ongoing performance of the Company or our hotels. Such items may include, but are not limited to the following: pre-opening costs incurred with newly developed hotels; lease preparation costs incurred to prepare vacant space for marketing; management or franchise contract termination fees; gains or losses from legal settlements (including adjustments related to property insurance settlements); costs incurred related to natural disasters; and gains from insurance proceeds, other than income related to business interruption insurance.

In addition, to derive Adjusted FFO we exclude any unrealized fair value adjustments to derivative instruments. We exclude these non-cash amounts because they do not reflect the underlying performance of the Company.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 11,574	$ 31,443	$ 49,628	$ 63,790
Interest expense	14,184	10,233	38,264	30,384
Income tax expense	1,217	3,174	1,939	2,939
Real estate related depreciation and amortization	29,474	26,369	87,805	77,304
EBITDA / EBITDA*re*	56,449	71,219	177,636	174,417
Non-cash lease expense and other amortization	1,750	1,343	5,249	3,842
Uninsured costs related to natural disasters (1)	6,378	1,690	11,445	3,005
Hotel manager transition and pre-opening items (2)	582	100	1,050	(1,699)
Loss on early extinguishment of debt	2,373	—	2,373	—
Severance costs (3)	—	(2,351)	—	11,691
Gain on property insurance settlement	—	(1,730)	—	(1,730)
Adjusted EBITDA	$ 67,532	$ 70,271	$ 197,753	$ 189,526

(1) Represents professional fees and other costs incurred at our hotels impacted by Hurricanes Irma or Maria that have not been or are not expected to be recovered by insurance.

(2) Three months ended September 30, 2019 consist of (a) less than $0.1 million of pre-opening costs related to the reopening of the Hotel Emblem and manager transition costs related to the Westin Washington, D.C. City Center and (b) $0.6 million of manager termination fees for L'Auberge de Sedona and Orchards Inn Sedona. Nine months ended September 30, 2019 consists of (a) $0.4 million of pre-opening costs related to the reopening of the Hotel Emblem, (b) $0.1 million of manager transition costs related to the Westin Washington, D.C. City Center and (c) $0.6 million of manager termination fees for L'Auberge de Sedona and Orchards Inn Sedona. Three months ended September 30, 2018 consists of $0.1 million related to manager transition costs at L'Auberge de Sedona and Orchards Inn Sedona and pre-opening costs related to the reopening of the Havana Cabana Key West and Hotel Emblem. Nine months ended September 30, 2018 consists of (a) manager transition costs of $0.1 million related to the Hotel Emblem, L'Auberge de Sedona and Orchards Inn Sedona and (b) pre-opening costs of $0.4 million related to the reopening of the Havana Cabana Key West and Hotel Emblem, offset by $2.2 million of accelerated amortization of key money in connection with the termination of the Frenchman's Reef management agreement.

(3) Three months ended September 30, 2018 consists of the reversal of expenses related to the departure of our former Chief Financial Officer, which is classified within corporate expenses on the consolidated statement of operations. Nine months ended September 30, 2018 consists of (a) $10.9 million related to payments made to unionized employees under a voluntary buyout program at the Lexington Hotel New York, which are classified within other hotel expenses on the consolidated statement of operations and (b) $0.8 million related to the departure of our former Chief Financial Officer, which is classified within corporate expenses on the consolidated statement of operations.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 11,574	$ 31,443	$ 49,628	$ 63,790
Real estate related depreciation and amortization	29,474	26,369	87,805	77,304
FFO	41,048	57,812	137,433	141,094
Non-cash lease expense and other amortization	1,750	1,343	5,249	3,842
Uninsured costs related to natural disasters (1)	6,378	1,690	11,445	3,005
Hotel manager transition and pre-opening items (2)	582	100	1,050	(1,699)
Gain on property insurance settlement	—	(1,730)	—	(1,730)
Loss on early extinguishment of debt	2,373	—	2,373	—
Severance costs (3)	—	(2,351)	—	11,691
Fair value adjustments to derivative instruments	3,143	—	4,790	—
Adjusted FFO	$ 55,274	$ 56,864	$ 162,340	$ 156,203

(1) Represents professional fees and other costs incurred at our hotels impacted by Hurricanes Irma or Maria that have not been or are not expected to be recovered by insurance.

(2) Three months ended September 30, 2019 consist of (a) less than $0.1 million of pre-opening costs related to the reopening of the Hotel Emblem and manager transition costs related to the Westin Washington, D.C. City Center and (b) $0.6 million of manager termination fees for L'Auberge de Sedona and Orchards Inn Sedona. Nine months ended September 30, 2019 consists of (a) $0.4 million of pre-opening costs related to the reopening of the Hotel Emblem, (b) $0.1 million of manager transition costs related to the Westin Washington, D.C. City Center and (c) $0.6 million of manager termination fees for L'Auberge de Sedona and Orchards Inn Sedona. Three months ended September 30, 2018 consists of $0.1 million related to manager transition costs at L'Auberge de Sedona and Orchards Inn Sedona and pre-opening costs related to the reopening of the Havana Cabana Key West and Hotel Emblem. Nine months ended September 30, 2018 consists of (a) manager transition costs of $0.1 million related to the Hotel Emblem, L'Auberge de Sedona and Orchards Inn Sedona and (b) pre-opening costs of $0.4 million related to the reopening of the Havana Cabana Key West and Hotel Emblem, offset by $2.2 million of accelerated amortization of key money in connection with the termination of the Frenchman's Reef management agreement.

(3) Three months ended September 30, 2018 consists of the reversal of expenses related to the departure of our former Chief Financial Officer, which is classified within corporate expenses on the consolidated statement of operations. Nine months ended September 30, 2018 consists of (a) $10.9 million related to payments made to unionized employees under a voluntary buyout program at the Lexington Hotel New York, which are classified within other hotel expenses on the consolidated statement of operations and (b) $0.8 million related to the departure of our former Chief Financial Officer, which is classified within corporate expenses on the consolidated statement of operations.

Critical Accounting Policies

Our unaudited consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe that the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Investment in Hotels

Acquired hotels, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets that are generally accounted for as asset acquisitions are recorded at total cost and allocated based on relative fair value. Direct acquisition-related costs are capitalized as a component of the acquired assets. Additions to property and equipment, including current buildings, improvements, furniture, fixtures and equipment are recorded at cost. Property and equipment are depreciated using the straight-line method over an estimated useful life of 5 to 40 years for buildings, land improvements, and building improvements and 1 to 10 years for furniture and equipment. Identifiable intangible assets are typically related to contracts, including ground lease agreements and hotel management agreements, which are recorded at fair value. Above-market and below-market contract values are based on the present value of the difference between contractual amounts to be paid pursuant to the contracts acquired and our estimate of the fair market contract rates for corresponding contracts. Contracts acquired that are at market do not have significant value. We enter into a hotel management agreement at the time of acquisition and such agreements are generally based on market terms. Intangible assets are amortized using the straight-line method over the remaining non-cancelable term of the related agreements. In making estimates of fair values for purposes of allocating purchase price, we may utilize a number of sources that may be obtained in connection with the acquisition or financing of a property and other market data. Management also considers information obtained about each property as a result of its pre-acquisition due diligence in estimating the fair value of the tangible and intangible assets acquired.

We review our investments in hotels for impairment whenever events or changes in circumstances indicate that the carrying value of our investments in hotels may not be recoverable. Events or circumstances that may cause us to perform a review include, but are not limited to, adverse changes in the demand for lodging at our properties due to declining national or local economic conditions and/or new hotel construction in markets where our 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 an investment in a hotel exceed the hotel's carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying value to the estimated fair market value is recorded and an impairment loss is recognized. Fair market value is estimated based on market data, estimated cash flows discounted at an appropriate rate, comparable sales information and other considerations requiring management to use its judgment in determining the assumptions used.

While our hotels have experienced improvement in certain key operating measures as the general economic conditions improve, the operating performance at certain of our hotels has not achieved our expected levels. As part of our overall capital allocation strategy, we assess underperforming hotels for possible disposition, which could result in a reduction in the carrying values of these properties.

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.

New Accounting Pronouncements Not Yet Implemented

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business strategies, the primary market risk to which we are currently exposed, and, to which we expect to be exposed in the future, is interest rate risk. The face amount of our outstanding debt as of September 30, 2019 was $1.1 billion, of which $250 million was variable rate. If market rates of interest on our variable rate debt fluctuate by 100 basis points, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows, by $2.5 million annually.

In July 2017, the Financial Conduct Authority ("FCA") announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. As a result, the Federal Reserve Board and the Federal Reserve Bank of New York organized the Alternative Reference Rates Committee which identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative to USD-LIBOR. The Company is not able to predict when LIBOR will cease to be published or precisely how SOFR will be calculated and published. Any changes adopted by FCA or other governing bodies in the method used for determining LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR. If that were to occur, our interest payments could change. In addition, uncertainty about the extent and manner of future changes may result in interest rates and/or payments that are higher or lower than if LIBOR were to remain available in its current form.

The Company has contracts that are indexed to LIBOR and is monitoring and evaluating the related risks, which include interest amounts on our variable rate debt and the swap rate for our interest rate swaps as discussed in Note 8 - Debt. In the event that LIBOR is discontinued, the interest rates will be based on a fallback reference rate specified in the applicable documentation governing such debt or swaps or as otherwise agreed upon. Such an event would not affect the Company's ability to borrow or maintain already outstanding borrowings or swaps, but the alternative reference rate could be higher and more volatile than LIBOR.

Certain risks arise in connection with transitioning contracts to an alternative reference rate, including any resulting value transfer that may occur. The value of loans, securities, or derivative instruments tied to LIBOR could also be impacted if LIBOR is limited or discontinued. For some instruments, the method of transitioning to an alternative rate may be challenging, as they may require substantial negotiation with each respective counterparty.

If a contract is not transitioned to an alternative reference rate and LIBOR is discontinued, the impact is likely to vary by contract. If LIBOR is discontinued or if the method of calculating LIBOR changes from its current form, interest rates on our current or future indebtedness may be adversely affected.

While we expect LIBOR to be available in substantially its current form until the end of 2021, it is possible that LIBOR will become unavailable prior to that point. This could result, for example, if sufficient banks decline to make submissions to the LIBOR administrator. In that case, the risks associated with the transition to an alternative reference rate will be accelerated and magnified.

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.

On August 13, 2018, the Company brought suit against certain of its property insurers in St. Thomas, U.S. Virgin Islands, over the amount of the coverage the insurers owe as a result of the damage caused to Frenchman's Reef by Hurricane Irma. The insurers that remain party to this lawsuit are XL Insurance America, Inc., United Stated Fire Insurance Company, Lloyd's Underwriters Syndicate 1886 d/b/a QBE and MAPFRE Global Risks. On September 28, 2018, certain of the Company's property insurers brought a similar suit against the Company in New York seeking a declaration that the insurers do not owe the full amount of the Company's claim. The insurers' New York suit has been stayed pending a final resolution of the Company's suit in St. Thomas. Notwithstanding the litigation, the Company and its insurers continue to engage in discussions and negotiation regarding the Company's claim. If the claim cannot be settled, the parties are scheduled to go to trial in the U.S. Virgin Islands in January 2020.

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, 2018.

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands) [(1)]
July 1 - July 31, 2019	280,436	$ 9.96	280,436	$ 175,156
August 1 - August 31, 2019	—	$ —	—	$ 175,156
September 1 - September 30, 2019	—	$ —	—	$ 175,156

(1) Represents amounts available under the Company's $250 million share repurchase program. To facilitate repurchases, we make purchases pursuant to a trading plan under Rule 10b5-1 of the Exchange Act, which allows us to repurchase shares during periods when we otherwise may be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. The share repurchase program may be suspended or terminated at any time without prior notice. Our share repurchase program will be effective until November 6, 2020.

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 on March 1, 2005 (File no. 333-123065))*
3.1.2	Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company *(incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2007)*
3.1.3	Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company *(incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2012)*
3.1.4	Articles Supplementary Prohibiting DiamondRock Hospitality Company From Electing to be Subject to Section 3-803 of the Maryland General Corporation Law Absent Stockholder Approval *(incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 26, 2014)*
3.1.5	Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company *(incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 5, 2016)*
3.1.6	Articles of Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company *(incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2019)*
10.1	Fifth Amended and Restated Credit Agreement, dated as of July 25, 2019 *(incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 29, 2019)*
10.2*†	Severance Agreement between DiamondRock Hospitality Company and Jeffrey Donnelly, dated as of August 8, 2019
31.1*	Certification of Chief Executive Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
31.2*	Certification of Chief Financial Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
32.1**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)

† Exhibit is a management contract or compensatory plan or arrangement
* Filed herewith
** Furnished herewith

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SIGNATURES

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

DiamondRock Hospitality Company

November 8, 2019

/s/ Jeffrey J. Donnelly

Jeffrey J. Donnelly
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Briony R. Quinn

Briony R. Quinn
Senior Vice President and Treasurer
(Principal Accounting Officer)

Exhibit 10.2

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the "**Agreement**") is made this 8th day of August, 2019, by **DiamondRock Hospitality Company**, a Maryland corporation (the "**REIT**"), with its principal place of business at 2 Bethesda Metro Center, Suite 1400, Bethesda, Maryland 20814 and **Jeffrey Donnelly**, residing at ____(the "**Executive**"). This Agreement is effective as of August 8, 2019, 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:

(i) 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;

(ii) 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;

(iii) 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.

(iv) 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 originating 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
2 Bethesda Metro, Suite 1400
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. Jeffrey Donnelly
____
____

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: /s/ William J. Tennis
William J. Tennis
Executive Vice President, General Counsel and Corporate Secretary

EXECUTIVE

/s/ Jeffrey Donnelly
Jeffrey Donnelly
Executive Vice President and Chief Financial Officer

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: November 8, 2019

/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, Jeffrey J. Donnelly, 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: November 8, 2019

/s/ Jeffrey J. Donnelly
Jeffrey J. Donnelly
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/ Jeffrey J. Donnelly
Mark W. Brugger	Jeffrey J. Donnelly
Chief Executive Officer	Executive Vice President and Chief Financial Officer
November 8, 2019	November 8, 2019