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

FORM 10-Q

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

For the quarterly period ended March 31, 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
(State of Incorporation)

20-1180098
(I.R.S. Employer Identification No.)

2 Bethesda Metro Center, Suite 1400, Bethesda, Maryland
(Address of Principal Executive Offices)

20814
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically 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
Emerging growth company

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

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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

The registrant had 201,448,479 shares of its \$0.01 par value common stock outstanding as of May 9, 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)

	March 31, 2019	December 31, 2018
ASSETS		
Property and equipment, net	\$ 2,942,350	\$ 2,944,617
Right-of-use assets	99,316	—
Favorable lease assets, net	—	63,945
Restricted cash	46,855	47,735
Due from hotel managers	99,959	86,914
Prepaid and other assets	15,880	10,506
Cash and cash equivalents	36,523	43,863
Total assets	\$ 3,240,883	\$ 3,197,580
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage and other debt, net of unamortized debt issuance costs	\$ 626,553	\$ 629,747
Term loans, net of unamortized debt issuance costs	348,354	348,219
Senior unsecured credit facility	60,000	—
Total debt	1,034,907	977,966
Deferred income related to key money, net	11,640	11,739
Unfavorable contract liabilities, net	69,231	73,151
Deferred rent	48,539	93,719
Due to hotel managers	78,373	72,678
Distributions declared and unpaid	25,734	26,339
Lease liabilities	101,801	—
Accounts payable and accrued expenses	40,716	51,395
Total liabilities	1,410,941	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; 201,448,479 and 204,536,485 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	2,015	2,045
Additional paid-in capital	2,097,691	2,126,472
Accumulated deficit	(277,444)	(245,620)
Total stockholders' equity	1,822,262	1,882,897
Noncontrolling interests	7,680	7,696
Total equity	1,829,942	1,890,593
Total liabilities and equity	\$ 3,240,883	\$ 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 March 31,	
	2019	2018
Revenues:		
Rooms	\$ 136,653	\$ 128,978
Food and beverage	50,465	40,792
Other	15,257	11,760
Total revenues	202,375	181,530
Operating Expenses:		
Rooms	38,819	35,600
Food and beverage	33,150	27,454
Management fees	5,340	2,833
Franchise fees	5,859	5,903
Other hotel expenses	75,479	67,560
Depreciation and amortization	28,996	24,902
Corporate expenses	7,064	9,786
Business interruption insurance income	(8,822)	(6,027)
Total operating expenses, net	185,885	168,011
Interest and other income, net	(303)	(511)
Interest expense	11,662	9,877
Total other expenses, net	11,359	9,366
Income before income taxes	5,131	4,153
Income tax benefit	3,849	185
Net income	8,980	4,338
Less: Net income attributable to noncontrolling interests	(35)	—
Net income attributable to common stockholders	\$ 8,945	\$ 4,338
Earnings per share:		
Basic earnings per share	\$ 0.04	\$ 0.02
Diluted earnings per share	\$ 0.04	\$ 0.02

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)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>	<u>Noncontrolling Interests</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Par Value</u>					
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)
Dividends and distributions (\$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	<u>201,448,479</u>	<u>\$2,015</u>	<u>\$2,097,691</u>	<u>\$ (277,444)</u>	<u>\$ 1,822,262</u>	<u>\$ 7,680</u>	<u>\$ 1,829,942</u>
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/units (\$0.125 per share/unit)	—	—	111	(25,370)	(25,259)	—	(25,259)
Share-based compensation	25,309	—	2,279	—	2,279	—	2,279
Sale of common stock	230,719	3	2,743	—	2,746	—	2,746
Net income	—	—	—	4,338	4,338	—	4,338
Balance at March 31, 2018	<u>200,562,761</u>	<u>\$2,006</u>	<u>\$2,066,584</u>	<u>\$ (250,841)</u>	<u>\$ 1,817,749</u>	<u>\$ —</u>	<u>\$ 1,817,749</u>

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

DIAMONDROCK HOSPITALITY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 8,980	\$ 4,338
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,996	24,902
Corporate asset depreciation as corporate expenses	55	52
Non-cash lease expense and other amortization	1,715	1,057
Non-cash interest rate swap fair value adjustment	572	—
Amortization of debt issuance costs	482	461
Amortization of deferred income related to key money	(99)	(2,271)
Stock-based compensation	1,454	2,458
Changes in assets and liabilities:		
Prepaid expenses and other assets	(5,445)	13,937
Due to/from hotel managers	(6,850)	(5,888)
Accounts payable and accrued expenses	(7,998)	(5,441)
Net cash provided by operating activities	21,862	33,605
Cash flows from investing activities:		
Capital expenditures for operating hotels	(21,081)	(25,823)
Capital expenditures for Frenchman's Reef	(9,208)	—
Hotel acquisitions	—	(119,049)
Proceeds from property insurance	—	21,219
Net used in investing activities	(30,289)	(123,653)
Cash flows from financing activities:		
Scheduled mortgage debt principal payments	(3,389)	(3,442)
Proceeds from sale of common stock, net	—	2,746
Draws on senior unsecured credit facility	60,000	65,000
Repayments of senior unsecured credit facility	—	(65,000)
Distributions to common stock and units	(26,110)	(25,362)
Repurchase of common stock	(29,998)	—
Shares redeemed to satisfy tax withholdings on vested share based compensation	(296)	(180)
Net cash provided by (used in) financing activities	207	(26,238)
Net decrease in cash, cash equivalents, and restricted cash	(8,220)	(116,286)
Cash, cash equivalents, and restricted cash at beginning of period	91,598	223,773
Cash, cash equivalents, and restricted cash at end of period	\$ 83,378	\$ 107,487

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:

	Three Months Ended March 31,	
	2019	2018
Cash paid for interest	\$ 10,122	\$ 9,158
Cash paid for income taxes	\$ 20	\$ 86
Capitalized interest	\$ 152	\$ —
Non-cash cumulative effect of ASC 842 accounting standard adoption	\$ 15,286	\$ —
Non-cash Investing and Financing Activities:		
Unpaid dividends and distributions	\$ 25,734	\$ 25,605
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:

	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 36,523	\$ 43,863
Restricted cash (1)	46,855	47,735
Total cash, cash equivalents, and restricted cash	\$ 83,378	\$ 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 March 31, 2019, we owned 31 hotels with 10,093 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 March 31, 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 March 31, 2019, the results of our operations for the three months ended March 31, 2019 and 2018, the statements of equity for the three months ended March 31, 2019 and 2018, and the cash flows for the three months ended March 31, 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 are generally accounted for as asset acquisitions and recorded at relative fair value based upon total

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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 due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel, less costs to sell, exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel's estimated fair market value is recorded and an impairment loss is recognized.

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

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

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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 March 31, 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 in the consolidated statements of operations.

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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.

Deferred Financing 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 deferred financing 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.

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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. We received \$5.0 million and \$40.0 million of insurance proceeds during the three months ended March 31, 2019 and 2018, respectively.

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

	Three Months Ended March 31,	
	2019	2018
Frenchman's Reef	\$ 8,822	\$ 5,285
Havana Cabana Key West	—	212
The Lodge at Sonoma	—	530
Total	\$ 8,822	\$ 6,027

Recently Issued Accounting Pronouncements

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 March 31, 2019, and for the three 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

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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 March 31, 2019 and December 31, 2018 consists of the following (in thousands):

	March 31, 2019	December 31, 2018
Land	\$ 617,695	\$ 617,695
Land improvements	7,994	7,994
Buildings and site improvements	2,698,771	2,682,320
Furniture, fixtures and equipment	502,265	491,421
Construction in progress	38,112	38,623
	3,864,837	3,838,053
Less: accumulated depreciation	(922,487)	(893,436)
	\$ 2,942,350	\$ 2,944,617

As of March 31, 2019 and December 31, 2018, we had accrued capital expenditures of \$9.4 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 March 31, 2019, our operating leases have a weighted-average remaining lease term of 67 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 statement of operations, and cash paid for amounts included in the measurement of lease liabilities, are as follows (in thousands):

	Three Months Ended March 31, 2019	
Operating lease cost	\$	2,751
Variable lease payments	\$	337
Cash paid for amounts included in the measurement of operating lease liabilities	\$	788

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

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Year Ending December 31,	As of March 31, 2019	
2019 (excluding the three months ended March 31, 2019)	\$	2,455
2020		3,320
2021		4,805
2022		3,940
2023		3,997
Thereafter		763,074
Total lease payments		781,591
Less imputed interest		(679,790)
Total lease liabilities	\$	101,801

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 “Current 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 three months ended March 31, 2019, and the full amount remains available under the Current ATM Program.

Our board of directors has approved a \$250 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 three months ended March 31, 2019, we repurchased 3,143,922 shares of our common stock at an average price of \$9.52 per share for a total purchase price of \$30.0 million. We retired all repurchased shares on their respective settlement dates. As of May 9, 2019, we have \$187.8 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 March 31, 2019 and December 31, 2018, there were no shares of preferred stock outstanding.

Operating Partnership Units

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In connection with the 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 March 31, 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 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

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 1,203,677 shares as of March 31, 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 March 31, 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
Unvested balance at March 31, 2019	414,509	\$ 10.41

The remaining share awards are expected to vest as follows: 9,542 shares during 2019, 239,781 shares during 2020, 140,772 shares during 2021, and 24,414 during 2022. As of March 31, 2019, the unrecognized compensation cost related to restricted stock awards was \$4.1 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 22 months. We recorded \$0.7 million and \$1.3 million of compensation expense related to restricted stock awards for the three months ended March 31, 2019 and 2018, respectively. The compensation expense for the three months ended March 31,

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2018 includes \$0.6 million related to the accelerated vesting of awards in connection with the departure of our former Chief Financial Officer.

Performance Stock Units

Performance stock units (“PSUs”) are restricted stock units that vest three years from the date of grant. Each executive officer is granted a target number of PSUs (the “PSU Target Award”). For 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. The remaining 25% of PSUs issued in 2016 and vesting in 2019 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 applies to 50% of the number of PSUs to be earned in the performance period. The remaining 50% 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 March 31, 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	10,801	9.05
Vested (1)	(251,375)	8.80
Unvested balance at March 31, 2019	837,399	\$ 10.28

(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: 234,414 units during 2020, 306,935 units during 2021 and 296,050 units during 2022. The number of shares earned upon vesting is subject to the attainment of the performance goals described above. As of March 31, 2019, the unrecognized compensation cost related to the PSUs was \$6.7 million and is expected to be recognized on a straight-line basis over a weighted average period of 23 months. We recorded \$0.6 million and \$1.1 million, respectively, of compensation expense related to the PSUs for the three months ended March 31, 2019, and 2018. The compensation expense for the three months ended March 31, 2018 includes \$0.6 million related to the accelerated vesting of awards in connection with the departure of our former Chief Financial Officer.

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LTIP Units

During the three months ended March 31, 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.

During the three months ended March 31, 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 March 31, 2019, the unrecognized compensation cost related to LTIP unit awards was \$2.9 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 35 months. We recorded \$0.1 million of compensation expense related to LTIP unit awards for the three months ended March 31, 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 March 31,	
	2019	2018
Numerator:		
Net income attributable to common stockholders	\$ 8,945	\$ 4,338
Dividends declared on unvested share-based compensation	(35)	—
Net income available to common stockholders	<u>\$ 8,910</u>	<u>\$ 4,338</u>
Denominator:		
Weighted-average number of common shares outstanding—basic	202,817,124	201,145,014
Effect of dilutive securities:		
Unvested restricted common stock	49,761	294,613
Shares related to unvested PSUs	670,944	336,205
Weighted-average number of common shares outstanding—diluted	<u>203,537,829</u>	<u>201,775,832</u>
Earnings per share:		
Net income per share available to common stockholders—basic	<u>\$ 0.04</u>	<u>\$ 0.02</u>
Diluted earnings per share available to common stockholders—diluted	<u>\$ 0.04</u>	<u>\$ 0.02</u>

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 March 31, 2019 and December 31, 2018 (dollars in thousands):

Loan	Interest Rate	Maturity Date	Principal Balance as of	
			March 31, 2019	December 31, 2018
Salt Lake City Marriott Downtown mortgage loan	4.25%	November 2020	\$ 54,733	\$ 55,032
Westin Washington D.C. City Center mortgage loan	3.99%	January 2023	62,188	62,734
The Lodge at Sonoma, a Renaissance Resort & Spa mortgage loan	3.96%	April 2023	27,517	27,633
Westin San Diego mortgage loan	3.94%	April 2023	62,999	63,385
Courtyard Manhattan / Midtown East mortgage loan	4.40%	August 2024	82,236	82,620
Renaissance Worthington mortgage loan	3.66%	May 2025	82,126	82,540
JW Marriott Denver at Cherry Creek mortgage loan	4.33%	July 2025	62,117	62,411
Boston Westin mortgage loan	4.36%	November 2025	193,517	194,466
New Market Tax Credit loan (1)	5.17%	December 2020	2,943	2,943
Unamortized debt issuance costs			<u>(3,823)</u>	<u>(4,017)</u>

Total mortgage and other debt, net of unamortized debt issuance costs			626,553	629,747
Unsecured term loan	LIBOR + 1.45% (2)	May 2021	100,000	100,000
Unsecured term loan	LIBOR + 1.45% (2)	April 2022	200,000	200,000
Unsecured term loan	LIBOR + 1.45% (3)	October 2023	50,000	50,000
Unamortized debt issuance costs			(1,646)	(1,781)
Unsecured term loans, net of unamortized debt issuance costs			348,354	348,219
Senior unsecured credit facility	LIBOR + 1.50% (4)	May 2020 (5)	60,000	—
Total debt, net of unamortized debt issuance costs			\$ 1,034,907	\$ 977,966
Weighted-Average Interest Rate	4.13%			

(1) Assumed in connection with the acquisition of the Hotel Palomar Phoenix in March 2018.

(2) The interest rate at March 31, 2019 was 3.94%.

(3) The interest rate at March 31, 2019 was 3.86%. We entered into an interest rate swap agreement in January 2019 to fix LIBOR at 2.41% through October 2023.

(4) The interest rate at March 31, 2019 was 3.99%.

(5) The credit facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions.

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 March 31, 2019, eight of our 31 hotels were secured by mortgage debt.

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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 March 31, 2019, we were in compliance with the financial covenants of our mortgage debt.

Senior Unsecured Credit Facility

We are party to a senior unsecured credit facility with a capacity up to \$300 million. The maturity date is May 2020 and may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions. The facility also includes an accordion feature to expand up to \$600 million, subject to lender consent. The interest rate on the facility is based upon LIBOR, plus an applicable margin based upon the Company’s leverage ratio, as follows:

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

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

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

	Covenant	Actual at March 31, 2019
Maximum leverage ratio (1)	60%	29.1%
Minimum fixed charge coverage ratio (2)	1.50x	4.13x
Minimum tangible net worth (3)	\$1.98 billion	\$2.75 billion
Secured recourse indebtedness	Less than 45% of Total Asset Value	18.6%

(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.

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

As of March 31, 2019, we had \$60.0 million in borrowings outstanding under the facility and the Company’s leverage ratio was 29.1%. Accordingly, interest on our borrowings under the facility will be based on LIBOR plus 150 basis points for the following quarter. We incurred interest and unused credit facility fees on the facility of \$0.7 million and \$0.4 million for the three months ended March 31, 2019 and 2018, respectively. Subsequent to March 31, 2019, we borrowed \$30.0 million under the facility.

Unsecured Term Loans

We are party to three five-year unsecured term loans. The financial covenants of the three term loans are consistent with the covenants on our senior unsecured credit facility, which are described above. The interest rate on each of the term loans is based on a pricing grid ranging from 140 to 220 basis points over LIBOR, based on the Company’s leverage ratio, as follows:

Leverage Ratio	Applicable Margins	
	\$100 Million and \$200 Million Term Loans	\$50 Million Term Loan
Less than or equal to 25%	1.45%	1.40%
Greater than 25% but less than or equal to 35%	1.45%	1.45%
Greater than 35% but less than or equal to 45%	1.60%	1.55%
Greater than 45% but less than or equal to 50%	1.75%	1.75%
Greater than 50% but less than or equal to 55%	1.95%	1.95%
Greater than 55%	2.20%	2.20%

As of March 31, 2019, the Company's leverage ratio was 29.1%. Accordingly, interest on our borrowings under the term loans will be based on LIBOR plus 145 basis points for the following quarter. We incurred interest on the term loans of \$3.4 million and \$2.3 million for the three months ended March 31, 2019 and 2018, respectively.

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.

9. Fair Value of Financial Instruments

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

	March 31, 2019		December 31, 2018	
	Carrying Amount (1)	Fair Value	Carrying Amount (1)	Fair Value
Debt	\$ 1,034,907	\$ 1,027,913	\$ 977,966	\$ 960,447
Interest rate swap agreements	\$ 572	\$ 572	\$ —	\$ —

(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.

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. 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. Notwithstanding the litigation, the Company and its insurers continue to engage in discussions and negotiation regarding the Company's claim.

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 continues to proactively work with the franchisor and the manager of the hotel and has developed and executed a plan aimed to improve guest satisfaction scores.

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Though the guest satisfaction scores have improved, the Company remains in default under the franchise agreement. While the franchisor has reserved all of its rights under the franchise agreement, no action to terminate the franchise agreement has been taken by the franchisor and no accrual was recorded as of March 31, 2019 or 2018.

If the Company is not successful in resolving the matter, the franchisor may seek to terminate the franchise agreement and assert a claim it is owed a termination fee, including a payment for liquidated damages, which could result in a material adverse effect on the Company's business, financial condition or results of operation.

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 March 31, 2019, we owned a portfolio of 31 premium hotels and resorts that contain 10,093 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.

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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 68% of our total revenues for the three months ended March 31, 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 three months ended March 31, 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	51.7%	\$ 158.35	\$ 81.79	0.9 %
Westin Boston Waterfront Hotel	Boston, Massachusetts	793	65.5%	202.24	132.39	(0.4)%
Lexington Hotel New York	New York, New York	725	80.1%	192.38	154.04	(0.5)%
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	59.2%	173.62	102.73	(20.6)%
Renaissance Worthington	Fort Worth, Texas	504	79.4%	188.12	149.42	(0.2)%
Westin San Diego	San Diego, California	436	77.5%	189.85	147.20	(2.2)%
Westin Fort Lauderdale Beach Resort	Fort Lauderdale, Florida	432	95.5%	254.27	242.76	0.3 %
Westin Washington, D.C. City Center	Washington, D.C.	410	77.5%	201.14	155.88	(4.9)%
Hilton Boston Downtown	Boston, Massachusetts	403	83.5%	197.84	165.25	3.9 %
Vail Marriott Mountain Resort & Spa	Vail, Colorado	344	82.4%	440.49	362.79	1.2 %
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	70.5%	177.33	124.93	2.4 %
Courtyard Manhattan/Midtown East	New York, New York	321	92.0%	190.02	174.85	3.9 %
The Gwen Chicago	Chicago, Illinois	311	70.4%	188.98	133.05	(0.1)%
Hilton Garden Inn Times Square Central	New York, New York	282	98.0%	181.10	177.48	0.7 %
Bethesda Marriott Suites	Bethesda, Maryland	272	65.3%	172.21	112.46	22.0 %
Hilton Burlington	Burlington, Vermont	258	70.7%	130.74	92.39	(2.6)%
Hotel Palomar Phoenix	Phoenix, Arizona	242	88.2%	233.06	205.66	7.2 %
JW Marriott Denver at Cherry Creek	Denver, Colorado	196	46.5%	240.96	112.09	(36.4)%
Courtyard Manhattan/Fifth Avenue	New York, New York	189	77.4%	212.18	164.30	(7.0)%
Sheraton Suites Key West	Key West, Florida	184	94.1%	310.04	291.63	5.3 %
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	61.5%	233.68	143.63	1.5 %
Courtyard Denver Downtown	Denver, Colorado	177	73.3%	171.92	126.00	(10.2)%
Renaissance Charleston	Charleston, South Carolina	166	83.8%	236.72	198.44	1.6 %
Shorebreak Hotel	Huntington Beach, California	157	75.3%	236.80	178.23	2.1 %
Cavallo Point, The Lodge at the Golden Gate	Sausalito, California	142	63.4%	437.76	277.38	5.7 %
Havana Cabana Key West ⁽³⁾	Key West, Florida	106	94.7%	254.41	240.94	100.0 %
Hotel Emblem	San Francisco, California	96	57.5%	247.10	142.06	(10.3)%
L'Auberge de Sedona	Sedona, Arizona	88	80.4%	575.73	462.91	3.8 %
The Landing Resort & Spa	South Lake Tahoe, California	77	53.0%	275.79	146.21	11.9 %
Orchards Inn Sedona	Sedona, Arizona	70	73.9%	255.22	188.58	(1.7)%
TOTAL/WEIGHTED AVERAGE		9,591	73.1%	\$ 216.45	\$ 158.30	(0.2)%

(1) Frenchman's Reef closed on September 6, 2017 due to Hurricane Irma and remains closed. Accordingly, there is no operating information for the three months ended March 31, 2019.

(2) The percentage change from 2018 RevPAR reflects the comparable period in 2018 to our 2019 ownership period for all our hotels.

(3) The hotel closed on September 6, 2017 due to Hurricane Irma and reopened in April 2018. Accordingly, there is no operating information for the three months ended March 31, 2018.

Results of Operations

Comparison of the Three Months Ended March 31, 2019 to the Three Months Ended March 31, 2018

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

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	Three Months Ended March 31,		% Change
	2019	2018	
Rooms	\$ 136.7	\$ 129.0	6.0%
Food and beverage	50.5	40.8	23.8%
Other	15.2	11.7	29.9%
Total revenues	\$ 202.4	\$ 181.5	11.5%

Our total revenues increased \$20.9 million from \$181.5 million for the three months ended March 31, 2018 to \$202.4 million for the three months ended March 31, 2019. This increase includes amounts that are not comparable quarter-over-quarter 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.
- \$9.3 million increase from Cavallo Point, The Lodge at the Golden Gate (“Cavallo Point”), which was acquired on December 12, 2018.

Excluding these non-comparable amounts, our total revenues increased \$3.0 million, or 1.6%.

The following are key hotel operating statistics for the three months ended March 31, 2019 and 2018. The amounts presented exclude the results from Frenchman’s Reef and the Havana Cabana Key West, due to the closure of these hotels for all or a portion of the periods presented.

	Three Months Ended March 31,		% Change
	2019	2018	
Occupancy %	72.9%	73.6%	(0.7)%
ADR	\$ 215.83	\$ 215.62	0.1 %
RevPAR	\$ 157.38	\$ 158.72	(0.8)%

Food and beverage revenues increased \$9.7 million from the three months ended March 31, 2018, which includes amounts that are not comparable quarter-over-quarter 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.
- \$1.6 million increase from the Hotel Palomar Phoenix, which was acquired on March 1, 2018.
- \$3.9 million increase from Cavallo Point, which was acquired on December 12, 2018.

Excluding these non-comparable amounts, food and beverage revenues increased \$3.6 million, or 8.8%, 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 \$1.0 million, primarily due to an increase in resort fees and attrition and cancellation revenue.

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

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	Three Months Ended March 31,		% Change
	2019	2018	
Rooms departmental expenses	\$ 38.8	\$ 35.6	9.0 %
Food and beverage departmental expenses	33.1	27.5	20.4
Other departmental expenses	3.8	2.5	52.0
General and administrative	19.5	17.0	14.7
Utilities	5.1	5.0	2.0
Repairs and maintenance	8.5	7.8	9.0
Sales and marketing	15.5	13.9	11.5
Franchise fees	5.9	5.9	—
Base management fees	4.4	1.6	175.0
Incentive management fees	0.9	1.2	(25.0)
Property taxes	14.5	13.7	5.8
Other fixed charges	4.1	2.6	57.7
Severance costs	—	2.8	(100.0)
Uninsured costs related to natural disasters	1.4	(0.2)	800.0
Lease expense	3.1	2.5	24.0
Total hotel operating expenses	\$ 158.6	\$ 139.4	13.8 %

Our hotel operating expenses increased \$19.2 million from \$139.4 million for the three months ended March 31, 2018 to \$158.6 million for the three months ended March 31, 2019. The increase in hotel operating expenses includes amounts that are not comparable quarter-over-quarter as follows:

- \$3.7 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 three months ended March 31, 2018. This amortization reduced base management fees during the three months ended March 31, 2018. The remaining increase quarter-over-quarter 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.
- \$7.4 million increase from Cavallo Point, which was acquired on December 12, 2018.

We incurred \$2.8 million of severance costs for the three months ended March 31, 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 \$2.7 million, or 1.9%, from the three months ended March 31, 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 \$4.1 million, or 16.4%, from the three months ended March 31, 2018. This is primarily due to depreciation from our 2018 hotel acquisitions and on 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 \$2.7 million, or 27.8%, from \$9.8 million for the three months ended March 31, 2018 to \$7.1 million for the three months ended March 31, 2019 primarily due to the \$3.0 million of severance costs recognized in the first quarter of 2018 related to the departure of our former Chief Financial Officer, partially offset by an increase in employee compensation.

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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. For the three months ended March 31, 2019, we recognized \$8.8 million of business interruption insurance income related to the Frenchman's Reef insurance claim. For the three months ended March 31, 2018, we recognized \$6.0 million related to the claims for Frenchman's Reef, Havana Cabana Key West and The Lodge at Sonoma.

Interest expense. Our interest expense was \$11.7 million and \$9.9 million for the three months ended March 31, 2019 and 2018, respectively, and comprises the following (in millions):

	Three Months Ended March 31,	
	2019	2018
Mortgage debt interest	\$ 6.6	\$ 6.7
Term loan interest	3.4	2.3
Credit facility interest and unused fees	0.7	0.4
Amortization of deferred financing costs and debt premium	0.6	0.5
Capitalized interest	(0.2)	—
Interest rate swap mark-to-market adjustment	0.6	—
	<u>\$ 11.7</u>	<u>\$ 9.9</u>

The increase in interest expense is primarily related to the \$50 million unsecured term loan, which funded in December 2018, higher interest rates on our terms loans compared with 2018, and the mark-to-market adjustment of the interest rate swap entered into in January 2019. The increase is partially offset by capitalized interest recognized related to Frenchman's Reef.

Income taxes. We recorded an income tax benefit of \$3.8 million for the three months ended March 31, 2019 and an income tax benefit of \$0.2 million for the three months ended March 31, 2018. The income tax benefit for the three months ended March 31, 2019 includes \$4.1 million of income tax benefit on the \$15.1 million pre-tax loss of our domestic TRSs and foreign income tax expense of \$0.3 million incurred on the \$7.4 million pre-tax income of the TRS that owns Frenchman's Reef. The income tax expense for the three months ended March 31, 2018 includes \$1.2 million of income tax benefit incurred on the \$4.4 million pre-tax loss of our TRSs offset by \$1.0 million of income tax expense incurred on the \$7.9 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

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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 March 31, 2019, we had \$1.0 billion of debt outstanding with a weighted average interest rate of 4.13% and a weighted average maturity date of approximately 4.2 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 “Current 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 Current 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 Current ATM Program.

Share Repurchase Program

Our board of directors has approved a \$250 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 three months ended March 31, 2019, we repurchased 3,143,922 shares of our common stock at an average price of \$9.52 per share for a total purchase price of \$30.0 million. We retired all repurchased shares on their respective settlement dates. As of May 9, 2019, we have \$187.8 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

We are party to a \$300 million senior unsecured credit facility expiring in May 2020. The credit facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain customary conditions. Information about our senior unsecured credit facility is found in Note 8 to the accompanying consolidated financial statements. As of March 31, 2019, we had \$60.0 million of borrowings outstanding under our senior unsecured credit facility. Subsequent to March 31, 2019, we borrowed \$30.0 million under the facility.

Unsecured Term Loans

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We are party to a \$100 million unsecured term loan expiring in May 2021, a \$200 million unsecured term loan expiring in April 2022 and a \$50 million unsecured term loan expiring in October 2023. 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, 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 March 31, 2019, we had \$36.5 million of unrestricted corporate cash and \$46.9 million of restricted cash, as well as \$240 million borrowing capacity under our senior unsecured credit facility.

Our net cash provided by operations was \$21.9 million for the three months ended March 31, 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 \$30.3 million for the three months ended March 31, 2019, which is composed of capital expenditures at our operating hotels of \$21.1 million and capital expenditures at Frenchman's Reef of \$9.2 million.

Our net cash provided by financing activities was \$0.2 million for the three months ended March 31, 2019, which consisted of a \$60.0 million draw on our senior unsecured credit facility, offset by \$26.1 million of distribution payments to holders of common stock and units, \$3.4 million of scheduled mortgage debt principal payments, \$0.3 million paid to repurchase shares upon the vesting of restricted stock for the payment of tax withholding obligations, and \$30.0 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

Capital Expenditures

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The management and franchise agreements for each of our hotels provide for the establishment of separate property improvement funds to cover, among other things, the cost of replacing and repairing furniture, fixtures and equipment at our hotels and other routine capital expenditures. Contributions to the property improvement fund are calculated as a percentage of hotel revenues. In addition, we may be required to pay for the cost of certain additional improvements that are not permitted to be funded from the property improvement fund under the applicable management or franchise agreement. As of March 31, 2019, we have set aside \$42.6 million for capital projects in property improvement funds, which are included in restricted cash.

We spent approximately \$21.1 million on capital improvements during the three months ended March 31, 2019. We expect to spend approximately \$125 million on capital improvements at our hotels in 2019, which includes carryover from certain projects that commenced in 2018. Significant projects in 2019 include the following:

- **Hotel Emblem San Francisco:** We completed the repositioning and rebranding of Hotel Emblem in January 2019, which is now part of Viceroy's Urban Collection.
- **JW Marriott Denver Cherry Creek:** We completed the renovation of the hotel's guest rooms and meeting space during the first quarter and expect to renovate the public space later this year.
- **Sheraton Suites Key West:** We expect to complete a comprehensive repositioning renovation of the hotel, which will include upgrades to the resort's entrance, lobby, restaurant, outdoor lounge, pool area and guestrooms. In order to minimize disruption, the renovation is expected to occur from August to November, the hotel's slowest period of the year.
- **The Lodge at Sonoma:** We expect to enhance the overall resort to close the rate gap with the luxury competition in the market, including adding a restaurant by Michael Mina and enhancing the spa to a luxury level.
- **Vail Marriott:** We expect to complete the second phase of the hotel renovation, which includes the upgrade renovation 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 and close the rate gap with the luxury competitive set.
- **Worthington Renaissance:** We expect to renovate the lobby and complete a return-on-investment repositioning of the restaurant outlets during the third quarter of 2019.

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, EBITDAre, 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, EBITDAre, 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, EBITDAre, 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

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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, EBITDAre 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 EBITDAre 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.” EBITDAre 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 EBITDAre of unconsolidated affiliates.

We believe EBITDA and EBITDAre 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 EBITDAre, 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 EBITDAre 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 EBITDAre 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.

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- *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; 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, EBITDAre and Adjusted EBITDA (in thousands):

	Three Months Ended March 31,	
	2019	2018
Net income	\$ 8,980	\$ 4,338
Interest expense	11,662	9,877
Income tax benefit	(3,849)	(185)
Real estate related depreciation and amortization	28,996	24,902
EBITDA / EBITDAre	45,789	38,932
Non-cash lease expense and other amortization	1,715	1,057
Uninsured costs related to natural disasters (1)	1,367	(214)
Hotel manager transition and pre-opening items (2)	297	(2,183)
Severance costs (3)	—	5,847
Adjusted EBITDA	\$ 49,168	\$ 43,439

- (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 March 31, 2019 consists of \$0.3 million of pre-opening costs related to the reopening of the Hotel Emblem. Three months ended March 31, 2018 consists of accelerated amortization of key money received from Marriott International, Inc. in connection with the termination of the management agreement for Frenchman's Reef.
- (3) Three months ended March 31, 2018 consists of (a) \$3.0 million related to the departure of our former Chief Financial Officer, which is classified within corporate expenses on the consolidated statement of operations, and (b) \$2.8 million related to payments made to unionized employees under a voluntary buyout at the Lexington Hotel New York, which are classified within other hotel 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 March 31,	
	2019	2018
Net income	\$ 8,980	\$ 4,338
Real estate related depreciation and amortization	28,996	24,902
Impairment losses	—	—
FFO	37,976	29,240
Non-cash lease expense and other amortization	1,715	1,057
Uninsured costs related to natural disasters (1)	1,367	(214)
Hotel manager transition and pre-opening items (2)	297	(2,183)
Severance costs (3)	—	5,847
Fair value adjustments to derivative instruments	572	—
Adjusted FFO	\$ 41,927	\$ 33,747

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- (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 March 31, 2019 consists of \$0.3 million of pre-opening costs related to the reopening of the Hotel Emblem. Three months ended March 31, 2018 consists of accelerated amortization of key money received from Marriott International, Inc. in connection with the termination of the management agreement for Frenchman's Reef.
- (3) Three months ended March 31, 2018 consists of (a) \$3.0 million related to the departure of our former Chief Financial Officer, which is classified within corporate expenses on the consolidated statement of operations, and (b) \$2.8 million related to payments made to unionized employees under a voluntary buyout at the Lexington Hotel New York, which are classified within other hotel 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 March 31, 2019 was \$1.0 billion, of which \$300 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 \$3.0 million annually.

Item 4. Controls and Procedures

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

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

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 Hurricanes Irma and Maria. 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. Notwithstanding the litigation, the Company and its insurers continue to engage in discussions and negotiation regarding the Company's claim.

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) ^{(3) (4)}
January 1 - January 31, 2019	3,143,922	\$ 9.52	3,143,922	\$ 187,820
February 1 - February 28, 2019	39,716	\$ 10.66	—	\$ 187,820
March 1 - March 31, 2019	—	\$ —	—	\$ 187,820

(1) Reflects shares purchased under the Company's \$250 million share repurchase program.

(2) Reflects shares surrendered to the Company by employees for payment of tax withholding obligations in connection with the vesting of restricted stock.

(3) 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.

(4) Since March 31, 2019, we have not repurchased any additional shares of our common stock. As of May 9, 2019, we have \$187.8 million of authorized capacity remaining under our share repurchase program.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) Exhibits

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

Exhibit

10.1 *†	Form of LTIP Units Award Agreement under the 2016 Equity Incentive Plan
31.1 *	Certification of Chief Executive Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
31.2 *	Certification of Chief Financial Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
32.1 **	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Attached as Exhibit 101 to this report are the following materials from DiamondRock Hospitality Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the related notes to these consolidated financial statements.

† Exhibit is a management contract or compensatory plan or arrangement

* Filed herewith

** Furnished herewith

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

May 9, 2019

/s/ Jay L. Johnson

Jay L. Johnson
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)

DiamondRock Hospitality Company

LTIP Unit Award Agreement

Name of Grantee: [_] (the "Grantee")

No. of LTIP Units: [_]

Grant Date: [_] (the "Grant Date")

Vesting Schedule:

Vesting Date	Incremental Percentage Becoming Vested	Cumulative Percentage Vested
<u>February 27, 20[]</u>	33.3%	33.3%
<u>February 27, 20[]</u>	33.3%	66.6%
<u>February 27, 20[]</u>	33.4%	100%

Pursuant to the DiamondRock Hospitality Company 2016 Equity Incentive Plan (as amended from time to time the "**Plan**"), and the Amended and Restated Agreement of Limited Partnership of DiamondRock Hospitality Limited Partnership, dated as of August 28, 2018 (as amended from time to time, the "**LP Agreement**"), DiamondRock Hospitality Company (the "**Company**") hereby grants an award (the "**Award**") to the Grantee and hereby causes the Operating Partnership to issue to the Grantee the number of LTIP Units (as defined in the LP Agreement) set forth above (the "**Award LTIP Units**") having the rights, voting powers, restrictions, limitations as to distributions, qualifications and terms and conditions of redemption and conversion set forth herein and in the LP Agreement. Upon the close of business on the Grant Date pursuant to this LTIP Unit Award Agreement (this "**Agreement**"), the Grantee shall receive the number of Award LTIP Units, subject to the restrictions and conditions set forth herein, in the Plan and in the LP Agreement. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

1. Acceptance of Award; Rights as Partner.

(a) The Grantee shall have no rights with respect to the Award unless he or she shall have accepted the Award by signing and delivering to the DiamondRock Hospitality Limited Partnership (the "**Operating Partnership**") a copy of this Agreement.

(b) Upon acceptance of the Award by the Grantee and subject to the restrictions and conditions herein, in the Plan and in the LP Agreement, the books and records of the Operating Partnership shall reflect the issuance of the Award LTIP Units. Thereupon, the Grantee shall have all the rights of a Limited Partner of the Operating Partnership with respect to the number of Award LTIP Units, as set forth in the LP Agreement, subject to the restrictions and conditions set forth herein and the Grantee signing, as a Limited Partner, and delivering to the Operating Partnership, a counterpart signature page to the LP Agreement (attached hereto as Exhibit A).

(c) For purposes of the application of the proviso in Section 6.1I of the LP Agreement (including, without limitation, the proviso in Section 6.1I(1)), Liquidating Losses shall include the aggregate amount of depreciation, depletion and amortization deductions, as computed for book purposes, realized since the issuance of such Award LTIP Units.

2. 83(b) Election. The Grantee shall be required to make an election under Section 83(b) of the Code (the "**83(b) Election**") with respect to the Award LTIP Units. The Grantee may use the form of election attached as Exhibit B hereto but shall be solely responsible for preparing and timely filing such election with the IRS. The Grantee shall provide an executed copy of such election to the Company promptly after the Grantee's filing of such election.

3. Distributions. Distributions on the Award LTIP Units shall be paid to the Grantee to the extent provided for in the LP Agreement.

4. Vesting.

(a) The Award LTIP Units shall become vested as of the close of business on the Vesting Date or Dates specified in the schedule set forth above, subject to the terms and conditions of this Agreement and the LP Agreement and subject to the Grantee's continuous employment with the Company through each applicable Vesting Date.

(b) Subject to the terms and conditions of this Agreement and the LP Agreement, upon termination of the Grantee's employment, any Award LTIP Units which have not yet then vested (after giving effect to any acceleration of vesting upon such termination of the Grantee's employment) shall automatically and without notice or payment of any consideration by the Company or the Operating Partnership, terminate, be forfeited and be and become null and void and

neither the Grantee nor any of his or her successors, heirs, assigns, or personal representatives will thereafter have any further rights or interests in the Award LTIP Units.

(c) The Administrator may, in its sole discretion, at any time accelerate the vesting of Award LTIP Units.

(d) Notwithstanding anything contained herein or in the LP Agreement, the terms of any severance or employment agreement between the Company and the Grantee shall determine whether, and to what extent, any unvested Award LTIP Units held by the Grantee shall accelerate in connection with the occurrence of certain termination of employment events including, without limitation, in the event of a termination of employment in connection with a Change in Control (as such term is defined in any such severance or employment agreement). In addition, upon a Change in Control, if the Award is not assumed, converted or replaced by the continuing entity, all Award LTIP Units which are not vested shall be deemed to have vested immediately prior to the such Change in Control.

5. Changes in Capitalization. Without duplication with the provisions of Section 3(c) of the Plan, if (a) the Company shall at any time be involved in a merger, consolidation, dissolution, liquidation, reorganization, exchange of shares, sale of all or substantially all of the assets or stock of the Company or other transaction similar thereto, (b) any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, significant repurchases of stock, or other similar change in the capital stock of the Company shall occur, (c) any cash dividend or other distribution to holders of shares of stock or Partnership Units (as defined in the LP Agreement) shall be declared and paid other than in the ordinary course, or (d) any other extraordinary corporate event shall occur that in each case in the good faith judgment of the Administrator necessitates action by way of equitable or proportionate adjustment in the terms of this Agreement or the Award LTIP Units to avoid distortion in the value of this Award, then the Administrator shall make equitable or proportionate adjustment and take such other action as it deems necessary to maintain the Grantee's rights hereunder so that they are substantially proportionate to the rights existing under this Award and the terms of the Award LTIP Units prior to such event, including, without limitation: (i) interpretations of or modifications to any defined term in this Agreement; (ii) adjustments in any calculations provided for in this Agreement, and (iii) substitution of other awards under the Plan or otherwise. All adjustments made by the Administrator shall be final, binding and conclusive.

6. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Agreement shall be subject to, and governed by, all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. In the event of any discrepancies between the Plan and this Agreement, the Plan shall control.

7. Transferability; Redemption.

(a) Prior to the later of (x) the date that the Award LTIP Units vest and (y) the date that is two (2) years after the Grant Date (the "Transfer Date"), none of the Award LTIP Units nor any of the Common Units (as defined in the LP Agreement) into which such Award LTIP Units may be converted shall be sold, assigned, transferred, pledged or otherwise encumbered or disposed of by the Grantee (each such action, a "**Transfer**"). At any time after the Transfer Date, Award LTIP Units or Common Units may be Transferred to the Grantee's Family Members (as defined below) by gift or domestic relations order, provided that the transferee agrees in writing with the Company and the Operating Partnership to be bound by all the terms and conditions of this Agreement and that subsequent Transfers shall be prohibited except those in accordance with this Section 7.

(b) Prior to the Transfer Date, the Redemption Right (as defined in the LP Agreement) may not be exercised with respect to the Common Units. At any time after the Transfer Date, the Redemption Right may be exercised with respect to Common Units, and Common Units may be Transferred to the Operating Partnership or the Company in connection with the exercise of the Redemption Right, in accordance with and to the extent otherwise permitted by the terms of the LP Agreement.

(c) All Transfers of Award LTIP Units or Common Units must be in compliance with all applicable securities laws (including, without limitation, the Securities Act of 1933, as amended, the ("**Securities Act**") and the applicable terms and conditions of the LP Agreement. In connection with any Transfer of Award LTIP Units or Common Units, the Operating Partnership may require the Grantee to provide an opinion of counsel, satisfactory to the Operating Partnership, that such Transfer is in compliance with all federal and state securities laws (including, without limitation, the Securities Act). Any attempted Transfer of Award LTIP Units or Common Units not in accordance with the terms and conditions of this Section 7 shall be null and void, and the Operating Partnership shall not reflect on its records any change in record ownership of any Award LTIP Units or Common Units as a result of any such Transfer, shall otherwise refuse to recognize any such Transfer and shall not in any way give effect to any such Transfer of any Award LTIP Units or Common Units.

(d) Except as otherwise provided herein, this Agreement is personal to the Grantee, is non-assignable and is not transferable in any manner, by operation of law or otherwise, other than by will or the laws of descent and distribution.

(e) For purposes of this Agreement, "**Family Member**" of a Grantee, means the Grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Grantee's household (other than a tenant of the Grantee), a trust in which these persons (or the Grantee) own more than 50 percent of the beneficial interest, a foundation in which these persons (or the Grantee) control the management of assets, and any other entity in which these persons (or the Grantee) own more than 50 percent of the voting interests.

8. Legend. The records of the Operating Partnership and any other documentation evidencing the Award LTIP Units shall bear an appropriate legend, as determined by the Operating Partnership in its sole discretion, to the effect that such LTIP Units are subject to restrictions as set forth herein, in the Plan and in the LP Agreement.

9. Tax Withholding. If and to the extent the Award becomes a taxable event for Federal income tax purposes, the Grantee will pay the Company or make arrangements satisfactory to the Company regarding the payment of, any withholding amount due. The obligations of the Company under this Agreement will be conditional on such payment or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Grantee.

10. Data Privacy Consent. In order to administer the Plan and this Agreement and to implement or structure future equity grants, the Company, the Operating Partnership and any of their Subsidiaries (the “**Relevant Companies**”) may process any and all personal or professional data, including but not limited to Social Security or other identification number, home address and telephone number, date of birth and other information that is necessary or desirable for the administration of the Plan and/or this Agreement (the “**Relevant Information**”). By entering into this Agreement, the Grantee (a) authorizes the Company to collect, process, register and transfer to the Relevant Companies all Relevant Information; (b) waives any privacy rights the Grantee may have with respect to the Relevant Information; (c) authorizes the Relevant Companies to store and transmit such information in electronic form; and (d) authorizes the transfer of the Relevant Information to any jurisdiction in which the Relevant Companies consider appropriate. The Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

11. Investment Representation; Registration. The Grantee hereby makes the covenants, representations and warranties set forth on Exhibit C attached hereto as of the Grant Date and as of each Vesting Date. All of such covenants, warranties and representations shall survive the execution and delivery of this Agreement by the Grantee. The Grantee shall immediately notify the Operating Partnership upon discovering that any of the representations or warranties set forth on Exhibit C was false when made or have, as a result of changes in circumstances, become false. The Operating Partnership will have no obligation to register under the Securities Act any of the LTIP Units or any other securities issued pursuant to this Agreement or upon conversion or exchange of the Award LTIP Units into other limited partnership interests of the Operating Partnership or shares of capital stock of the Company.

12. Miscellaneous.

(a) Notice hereunder shall be given to the Company at its principal place of business, and shall be given to the Grantee at the most recent address on file with the Company, or in either case at such other address as one party may subsequently furnish to the other party in writing.

(b) This Agreement does not confer upon the Grantee any rights with respect to continuation of employment by the Relevant Companies, and neither the Plan nor this Agreement shall interfere in any way with the right of the Relevant Companies to terminate the employment of the Grantee at any time.

(c) This Agreement may only be modified or amended in a writing signed by the parties hereto, provided that the Grantee acknowledges that the Plan may be amended or discontinued in accordance with Section 18 thereof and that this Agreement may be amended or canceled by the Administrator, on behalf of the Company and the Operating Partnership, in each case for the purpose of satisfying changes in law or for any other lawful purpose, so long as no such action shall adversely affect the Grantee’s rights under this Agreement without the Grantee’s written consent. No promises, assurances, commitments, agreements, undertakings or representations, whether oral, written, electronic or otherwise, and whether express or implied, with respect to the subject matter hereof, have been made by the parties which are not set forth expressly in this Agreement. The failure of the Grantee or the Company or the Operating Partnership to insist upon strict compliance with any provision of this Agreement, or to assert any right the Grantee or the Company or the Operating Partnership, respectively, may have under this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(d) Other than as specifically stated herein or as otherwise set forth in any employment, change in control or other agreement or arrangement to which the Grantee is a party which specifically refers to the Award LTIP Units or to the treatment of compensatory equity held by the Grantee generally, this Agreement (together with those agreements and documents expressly referred to herein, for the purposes referred to herein) embody the complete and entire agreement and understanding between the parties with respect to the subject matter hereof, and supersede any and all prior promises, assurances, commitments, agreements, undertakings or representations, whether oral, written, electronic or otherwise, and whether express or implied, which may relate to the subject matter hereof in any way.

(e) Nothing contained in this Agreement shall preclude the Company from adopting or continuing in effect other or additional compensation plans, agreements or arrangements, and any such plans, agreements and arrangements may be either generally applicable or applicable only in specific cases or to specific persons.

(f) The Award LTIP Units are both issued as equity securities of the Operating Partnership and granted as “Units” under the Plan.

(g) If any term or provision of this Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or under any applicable law, rule or regulation, then such provision shall be construed or deemed amended to conform to applicable law (or if such provision cannot be so construed or deemed amended without materially altering

the purpose or intent of this Agreement and the grant of Award LTIP Units hereunder, such provision shall be stricken as to such jurisdiction and the remainder of this Agreement and the award hereunder shall remain in full force and effect).

(h) Section, paragraph and other headings and captions are provided solely as a convenience to facilitate reference. Such headings and captions shall not be deemed in any way material or relevant to the construction, meaning or interpretation of this Agreement or any term or provision hereof.

(i) This Agreement may be executed in two or more separate counterparts, each of which shall be an original, and all of which together shall constitute one and the same agreement.

(j) The rights and obligations created hereunder shall be binding on the Grantee and his or her heirs and legal representatives and on the successors and assigns of the Operating Partnership.

(k) By accepting this Agreement, the Grantee (i) consents to the electronic delivery of this Agreement, all information with respect to the Plan and any reports of the Company provided generally to the Company's stockholders; (ii) acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Grantee by contacting the Company by telephone or in writing; (iii) further acknowledges that he or she may revoke his or her consent to electronic delivery of documents at any time by notifying the Company of such revoked consent by telephone, postal service or electronic mail; and (iv) further acknowledges that he or she is not required to consent to electronic delivery of documents.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Maryland, without regard to any principles of conflicts of law which could cause the application of the laws of any jurisdiction other than the State of Maryland.

[Signature Page Follows]IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

DiamondRock Hospitality Company

By:
Name: [__]
Title: [__]

DiamondRock Hospitality Limited Partnership
By DiamondRock Hospitality Company, its General Partner

By:
Name: [__]
Title: [__]

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned.

Dated:

Grantee's Signature

EXHIBIT A

FORM OF LIMITED PARTNER SIGNATURE PAGE

The Grantee, desiring to become one of the within named Limited Partners of DiamondRock Hospitality Limited Partnership, hereby becomes a party to the Amended and Restated Agreement of Limited Partnership of DiamondRock Hospitality Limited Partnership, dated as of August 28, 2018, as amended through the date hereof (the “**LP Agreement**”). The Grantee agrees that this signature page may be attached to any counterpart of the LP Agreement.

Signature Line for Limited Partner:

By:

Name: [__]

Date: [__]

Address of Limited Partner:

EXHIBIT B

**ELECTION TO INCLUDE IN GROSS INCOME IN YEAR OF
TRANSFER OF PROPERTY PURSUANT TO SECTION 83(B)**

OF THE INTERNAL REVENUE CODE The 83(b) Election must be filed no later than 30 days after the date on which the property is transferred with the IRS office with which the taxpayer files his or her tax return. In other contexts, the IRS has indicated that this should be the address listed for the taxpayer's state under "Are you not including a check or money order . . ." given in *Where Do You File* in the Instructions for Form 1040 and the Instructions for Form 1040A (this information can also be found by clicking on your state at <http://www.irs.gov/file/content/0,,id=105690,00.html>)

The undersigned hereby makes an election pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, Treasury Regulations Section 1.83-2 promulgated thereunder, and Rev. Proc. 2012-29, 2012-28 IRB, 06/26/2012, to include in gross income as compensation for services the excess (if any) of the fair market value of the property described below over the amount paid for such property:

1. The name, address and taxpayer identification number of the undersigned and the taxable year for which this election is being made are:

Name: (the "**Taxpayer**")

Address:

Taxpayer's Social Security No.:

Taxable Year: Calendar Year 201_

2. Description of property with respect to which the election is being made:

The election is being made with respect to [] LTIP Units in DiamondRock Hospitality Limited Partnership (the "**Operating Partnership**"), the terms of which are set forth in that certain Amended and Restated Agreement of Limited Partnership of DiamondRock Hospitality Limited Partnership, dated as of August 28, 2018.

3. The date on which the LTIP Units were transferred is [], 201_.

4. Nature of restrictions to which the LTIP Units are subject:

- (a) With limited exceptions, until the LTIP Units vest, the Taxpayer may not transfer in any manner any portion of the LTIP Units.
- (b) The Taxpayer's LTIP Units vest in accordance with the vesting provisions described in the Schedule attached hereto. Unvested LTIP Units are forfeited in accordance with the vesting provisions described in the Schedule attached hereto.

5. The fair market value at time of transfer (determined without regard to any restrictions other than nonlapse restrictions as defined in §1.83-3(h) of the Income Tax Regulations) of the LTIP Units with respect to which this election is being made is \$0 per LTIP Unit.

6. The amount paid by the Taxpayer for the LTIP Units was \$0 per LTIP Unit.

7. The amount to include in gross income is \$0.

A copy of this statement has been furnished to the Operating Partnership or other person for whom the services were performed. The undersigned taxpayer will file this election with the Internal Revenue Service office with which the taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the LTIP Units. The undersigned is the person performing services in connection with which the LTIP Units were transferred.

Dated: []

Name: []

Schedule to Section 83(b) Election - Vesting Provisions of LTIP Units

EXHIBIT C

GRANTEE'S COVENANTS, REPRESENTATIONS AND WARRANTIES

The Grantee hereby represents, warrants and covenants as follows:

(a) The Grantee has received and had an opportunity to review the following documents (the "**Background Documents**"):

- (i) The latest Annual Report to Stockholders that has been provided to stockholders;
- (ii) The Company's Proxy Statement for its most recent Annual Meeting of Stockholders;
- (iii) The Company's Report on Form 10-K for the fiscal year most recently ended;
- (iv) The Company's Form 10-Q for the most recently ended quarter if one has been filed by the Company with the Securities and Exchange Commission since the filing of the Form 10-K described in clause (iv) above;
- (v) Each of the Company's Current Report(s) on Form 8-K, if any, filed since the later of the end of the fiscal year most recently ended for which a Form 10-K has been filed by the Company;
- (vi) The Amended and Restated Agreement of Limited Partnership of DiamondRock Hospitality Limited Partnership, dated as of August 28, 2018;
- (vii) The Company's 2016 Equity Incentive Plan, as then amended; and
- (viii) The Company's Articles of Incorporation, as then amended.

The Grantee also acknowledges that any delivery of the Background Documents and other information relating to the Company and the Operating Partnership prior to the determination by the Operating Partnership of the suitability of the Grantee as a holder of LTIP Units shall not constitute an offer of LTIP Units until such determination of suitability shall be made.

(b) The Grantee hereby represents and warrants that

- (i) The Grantee either (A) is an "accredited investor" as defined in Rule 501(a) under the Securities Act, or (B) by reason of the business and financial experience of the Grantee, together with the business and financial experience of those persons, if any, retained by the Grantee to represent or advise him or her with respect to the grant to him or her of LTIP Units, the potential conversion of LTIP Units into common units of the Operating Partnership ("**Common Units**") and the potential redemption of such Common Units for shares of Common Stock ("**Shares**"), has such knowledge, sophistication and experience in financial and business matters and in making investment decisions of this type that the Grantee (I) is capable of evaluating the merits and risks of an investment in the Operating Partnership and potential investment in the Company and of making an informed investment decision, (II) is capable of protecting his or her own interest or has engaged representatives or advisors to assist him or her in protecting his or her interests, and (III) is capable of bearing the economic risk of such investment.

(ii) The Grantee understands that (A) the Grantee is responsible for consulting his or her own tax advisors with respect to the application of the U.S. federal income tax laws, and the tax laws of any state, local or other taxing jurisdiction to which the Grantee is or by reason of the award of LTIP Units may become subject, to his or her particular situation; (B) the Grantee has not received or relied upon business or tax advice from the Company, the Operating Partnership or any of their respective employees, agents, consultants or advisors, in their capacity as such; (C) the Grantee provides or will provide services to the Operating Partnership on a regular basis and in such capacity has access to such information, and has such experience of and involvement in the business and operations of the Operating Partnership, as the Grantee believes to be necessary and appropriate to make an informed decision to accept this Award of LTIP Units; and (D) an investment in the Operating Partnership and/or the Company involves substantial risks. The Grantee has been given the opportunity to make a thorough investigation of matters relevant to the LTIP Units and has been furnished with, and has reviewed and understands, materials relating to the Operating Partnership and the Company and their respective activities (including, but not limited to, the Background Documents). The Grantee has been afforded the opportunity to obtain any additional information (including any exhibits to the Background Documents) deemed necessary by the Grantee to verify the accuracy of information conveyed to the Grantee. The Grantee confirms that all documents, records, and books pertaining to his or her receipt of LTIP Units which were requested by the Grantee have been made available or delivered to the Grantee. The Grantee has had an opportunity to ask questions of and receive answers from the Operating Partnership and the Company, or from a person or persons acting on their behalf, concerning the terms and conditions of the LTIP Units. **The Grantee has relied upon, and is making its decision solely upon, the Background Documents and other written information provided to the Grantee by the Operating Partnership or the Company.** The Grantee did not receive any tax, legal or financial advice from the Operating Partnership or the Company and, to the extent it deemed necessary, has consulted with its own advisors in connection with its evaluation of the Background Documents and this Agreement and the Grantee's receipt of Units.

(iii) The LTIP Units to be issued, the Common Units issuable upon conversion of the LTIP Units and any Shares issued in connection with the redemption of any such Common Units will be acquired for the account of the Grantee for investment only and not with a current view to, or with any intention of, a distribution or resale thereof, in whole or in part, or the grant of any participation therein, without prejudice, however, to the Grantee's right (subject to the terms of the LTIP Units, the Plan and this Agreement) at all times to sell or otherwise dispose of all or any part of his or her LTIP Units, Common Units or Shares in compliance with the Securities Act, and applicable state securities laws, and subject, nevertheless, to the disposition of his or her assets being at all times within his or her control.

(iv) The Grantee acknowledges that (A) neither the LTIP Units to be issued, nor the Common Units issuable upon conversion of the LTIP Units, have been registered under the Securities Act or state securities laws by reason of a specific exemption or exemptions from registration under the Securities Act and applicable state securities laws and, if such LTIP Units or Common Units are represented by certificates, such certificates will bear a legend to such effect, (B) the reliance by the Operating Partnership and the Company on such exemptions is predicated in part on the accuracy and completeness of the representations and warranties of the Grantee contained herein, (C) such LTIP Units, or Common Units, therefore, cannot be resold unless registered under the Securities Act and applicable state securities laws, or unless an exemption from registration is available, (D) there is no public market for such LTIP Units and Common Units and (E) neither the Operating Partnership nor the Company has any obligation or intention to register such LTIP Units or the Common Units issuable upon conversion of the LTIP Units under the Securities Act or any state securities laws or to take any action that would make available any exemption from the registration requirements of such laws, except, that, upon the redemption of the Common Units for Shares, the Company currently intends to issue such shares under the Plan and pursuant to a Registration Statement on Form S-8 under the Securities Act, to the extent that (I) the Grantee is eligible to receive such Shares under the Plan at the time of such issuance and (II) the Company has filed an effective Form S-8 Registration Statement with the Securities and Exchange Commission registering the issuance of such Shares. The Grantee hereby acknowledges that because of the restrictions on transfer or assignment of such LTIP Units acquired hereby and the Common Units issuable upon conversion of the LTIP Units which are set forth in the LP Agreement and this Agreement, the Grantee may have to bear the economic risk of his or her ownership of the LTIP Units acquired hereby and the Common Units issuable upon conversion of the LTIP Units for an indefinite period of time.

(v) The Grantee has determined that the LTIP Units are a suitable investment for the Grantee.

(vi) No representations or warranties have been made to the Grantee by the Operating Partnership or the Company, or any officer, director, shareholder, agent, or affiliate of any of them, and the Grantee

has received no information relating to an investment in the Operating Partnership or the LTIP Units except the information specified in this Paragraph (b).

(c) So long as the Grantee holds any LTIP Units, the Grantee shall disclose to the Operating Partnership in writing such information as may be reasonably requested with respect to ownership of LTIP Units as the Operating Partnership may deem reasonably necessary to ascertain and to establish compliance with provisions of the Code, applicable to the Operating Partnership or to comply with requirements of any other appropriate taxing authority.

(d) The address set forth on the signature page of this Agreement is the address of the Grantee's principal residence, and the Grantee has no present intention of becoming a resident of any country, state or jurisdiction other than the country and state in which such residence is sited.

(e) The representations of the Grantee as set forth above are true and complete to the best of the information and belief of the Grantee, and the Operating Partnership shall be notified promptly of any changes in the foregoing representations.

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

I, Mark W. Brugger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DiamondRock Hospitality Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2019

/s/ Mark W. Brugger

Mark W. Brugger

Chief Executive Officer

(Principal Executive Officer)

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

I, Jay L. Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DiamondRock Hospitality Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2019

/s/ Jay L. Johnson

Jay L. Johnson

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

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

Mark W. Brugger
Chief Executive Officer

May 9, 2019

/s/ Jay L. Johnson

Jay L. Johnson
Executive Vice President and Chief Financial Officer

May 9, 2019