

DiamondRock Hospitality Co  
Form 10-Q  
May 05, 2010

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

**FORM 10-Q**

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

**For the quarterly period ended March 26, 2010  
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.)**

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

**20817  
(Zip Code)**

**(240) 744-1150**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

The registrant had 131,291,682 shares of its \$0.01 par value common stock outstanding as of May 5, 2010.



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**DIAMONDROCK HOSPITALITY COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**As of March 26, 2010 and December 31, 2009**  
**(in thousands, except share amounts)**

	<b>March 26, 2010</b>	<b>December 31, 2009</b>
	(Unaudited)	
<b>ASSETS</b>		
Property and equipment, at cost	\$ 2,175,430	\$ 2,171,311
Less: accumulated depreciation	(328,210)	(309,224)
	1,847,220	1,862,087
Deferred financing costs, net	3,549	3,624
Restricted cash	37,120	31,274
Due from hotel managers	50,365	45,200
Favorable lease assets, net	37,145	37,319
Prepaid and other assets	57,230	58,607
Cash and cash equivalents	181,402	177,380
<b>Total assets</b>	<b>\$ 2,214,031</b>	<b>\$ 2,215,491</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Mortgage debt	\$ 785,263	\$ 786,777
Senior unsecured credit facility		
<b>Total debt</b>	<b>785,263</b>	<b>786,777</b>
Deferred income related to key money, net	19,633	19,763
Unfavorable contract liabilities, net	82,287	82,684
Due to hotel managers	30,336	29,847
Dividends declared and unpaid		41,810
Accounts payable and accrued expenses	70,286	79,104
<b>Total other liabilities</b>	<b>202,542</b>	<b>253,208</b>
<b>Stockholders Equity:</b>		
Preferred stock, \$.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	1,311	1,243

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Common stock, \$.01 par value; 200,000,000 shares authorized;  
131,053,682 and 124,299,423 shares issued and outstanding at March 26,  
2010 and December 31, 2009, respectively

Additional paid-in capital	1,370,165	1,311,053
Accumulated deficit	(145,250)	(136,790)
Total stockholders' equity	1,226,226	1,175,506
Total liabilities and stockholders' equity	<b>\$ 2,214,031</b>	<b>\$ 2,215,491</b>

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

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**DIAMONDROCK HOSPITALITY COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Fiscal Quarters Ended March 26, 2010 and March 27, 2009**  
**(in thousands, except per share amounts)**

	<b>Fiscal Quarter Ended March 26, 2010 (Unaudited)</b>	<b>Fiscal Quarter Ended March 27, 2009 (Unaudited)</b>
<b>Revenues:</b>		
Rooms	\$ 71,648	\$ 75,116
Food and beverage	35,552	36,890
Other	5,628	6,538
Total revenues	112,828	118,544
<b>Operating Expenses:</b>		
Rooms	20,073	19,982
Food and beverage	24,725	26,581
Management fees	3,072	3,327
Other hotel expenses	44,629	46,024
Depreciation and amortization	18,907	18,717
Corporate expenses	3,351	3,769
Total operating expenses	114,757	118,400
<b>Operating (loss) profit</b>	<b>(1,929)</b>	<b>144</b>
<b>Other Expenses (Income):</b>		
Interest income	(81)	(83)
Interest expense	8,126	11,498
Total other expenses	8,045	11,415
<b>Loss before income taxes</b>	<b>(9,974)</b>	<b>(11,271)</b>
Income tax benefit	1,628	5,978



<b>Net loss</b>	\$	(8,346)	\$	(5,293)
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**Loss per share:**

Basic and diluted loss per share	\$	(0.07)	\$	(0.06)
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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**DIAMONDROCK HOSPITALITY COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Fiscal Quarters Ended March 26, 2010 and March 27, 2009**  
(in thousands)

	<b>Fiscal Quarter Ended March 26, 2010 (Unaudited)</b>	<b>Fiscal Quarter Ended March 27, 2009 (Unaudited)</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (8,346)	\$ (5,293)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Real estate depreciation	18,907	18,717
Corporate asset depreciation as corporate expenses	34	34
Non-cash ground rent	1,789	1,787
Non-cash financing costs as interest expense	227	193
Non-cash reversal of penalty interest	(3,134)	
Amortization of unfavorable contract liabilities	(397)	(397)
Amortization of deferred income	(130)	(130)
Stock-based compensation	786	1,207
Changes in assets and liabilities:		
Prepaid expenses and other assets	1,377	1,658
Restricted cash	917	1,383
Due to/from hotel managers	(4,676)	3,570
Accounts payable and accrued expenses	(6,769)	(8,886)
<b>Net cash provided by operating activities</b>	<b>585</b>	<b>13,843</b>
<b>Cash flows from investing activities:</b>		
Hotel capital expenditures	(4,604)	(7,293)
Change in restricted cash	(6,763)	143
<b>Net cash used in investing activities</b>	<b>(11,367)</b>	<b>(7,150)</b>
<b>Cash flows from financing activities:</b>		
Repayments of credit facility		(5,000)
Scheduled mortgage debt principal payments	(1,513)	(1,002)
Repurchase of common stock	(2,023)	(158)
Proceeds from sale of common stock, net	22,816	
Payment of financing costs	(153)	
Payment of cash dividends	(4,323)	(80)
<b>Net cash provided by (used in) financing activities</b>	<b>14,804</b>	<b>(6,240)</b>

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Net increase in cash and cash equivalents	4,022	453
Cash and cash equivalents, beginning of period	177,380	13,830
Cash and cash equivalents, end of period	\$ 181,402	\$ 14,283

**Supplemental Disclosure of Cash Flow Information:**

Cash paid for interest	\$ 11,633	\$ 11,987
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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**DIAMONDROCK HOSPITALITY COMPANY**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**1. Organization**

DiamondRock Hospitality Company (the Company or we ) is a lodging-focused real estate company that owns a portfolio of 20 premium hotels and resorts. Our hotels are concentrated in key gateway cities and in destination resort locations and are all operated under a brand owned by one of the leading global lodging brand companies (Marriott International, Inc. ( Marriott ), Starwood Hotels & Resorts Worldwide, Inc. ( Starwood ) or Hilton Worldwide ( Hilton )). We are an owner, as opposed to an operator, of hotels. As an owner, we receive all of the operating profits or losses generated by our hotels, after we pay fees to the hotel manager, which are based on the revenues and profitability of the hotels.

As of March 26, 2010, we owned 20 hotels, comprising 9,586 rooms, located in the following markets: Atlanta, Georgia (3); Austin, Texas; Boston, Massachusetts; Chicago, Illinois (2); Fort Worth, Texas; Lexington, Kentucky; Los Angeles, California (2); New York, New York (2); Northern California; Oak Brook, Illinois; Orlando, Florida; Salt Lake City, Utah; Washington D.C.; St. Thomas, U.S. Virgin Islands; and Vail, Colorado.

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

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, or GAAP, in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2009, included in our Annual Report on Form 10-K dated February 26, 2010.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of March 26, 2010 and the results of our operations and cash flows for the fiscal quarters ended March 26, 2010 and March 27, 2009. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations.

Our financial statements include all of the accounts of the Company and its subsidiaries in accordance with U.S. GAAP. All intercompany accounts and transactions have been eliminated in consolidation.

*Reporting Periods*

The results we report in our condensed consolidated statements of operations are based on results of our hotels reported to us by our hotel managers. Our hotel managers use different reporting periods. Marriott, the manager of most of our properties, uses a fiscal year ending on the Friday closest to December 31 and reports twelve weeks of operations for each of the first three quarters and sixteen or seventeen weeks for the fourth quarter of the year for its domestic managed hotels. In contrast, Marriott, for its non-domestic hotels (including Frenchman s Reef), Vail Resorts, manager of the Vail Marriott, Davidson Hotel Company, manager of the Westin Atlanta North at Perimeter, Hilton Hotels Corporation, manager of the Conrad Chicago, and Westin Hotel Management, L.P, manager of the Westin Boston Waterfront Hotel report results on a monthly basis. Additionally, as a REIT, we are required by U.S. federal tax laws to report results on a calendar year basis. As a result, we have adopted the reporting periods used by Marriott for its domestic hotels, except that the fiscal year always ends on December 31 to comply with REIT rules. The first three fiscal quarters end on the same day as Marriott s fiscal quarters but the fourth quarter ends on December 31 and the full year results, as reported in the statement of operations, always include the same number of days as the calendar year.



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

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

*Investment in Hotels*

Acquired hotels, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets are initially recorded at fair value. 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 15 to 40 years for buildings and land improvements and one to ten 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 typically enter into a new hotel management agreement based on market terms at the time of acquisition. 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 the 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 recognized.

*Revenue Recognition*

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

*Loss Per Share*

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

*Stock-based Compensation*

We account for stock-based employee compensation using the fair value based method of accounting. We record the cost of awards with service conditions and market conditions based on the grant-date fair value of the award. For awards based on market conditions, the grant-date fair value is derived using an open form valuation model. The cost of the award 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.

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*Income Taxes*

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

We have elected to be treated as a REIT under the provisions of the Internal Revenue Code and, as such, are not subject to federal income tax, provided we distribute all of our taxable income annually to our stockholders and comply with certain other requirements. In addition to paying federal and state income tax on any retained income, we are subject to taxes on built-in-gains on sales of certain assets. Additionally, our taxable REIT subsidiaries are subject to federal, state and foreign income tax.

*Intangible Assets and Liabilities*

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

*Straight-Line Rent*

We record rent expense on leases that provide for minimum rental payments that increase in pre-established amounts over the remaining term of the lease on a straight-line basis as required by U.S. GAAP.

*Concentration of Credit Risk*

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

*Use of Estimates*

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

*Risks and Uncertainties*

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



**Table of Contents****3. Property and Equipment**

Property and equipment as of March 26, 2010 (unaudited) and December 31, 2009 consists of the following (in thousands):

	<b>March 26, 2010</b>	<b>December 31, 2009</b>
Land	\$ 220,445	\$ 220,445
Land improvements	7,994	7,994
Buildings	1,672,787	1,671,821
Furniture, fixtures and equipment	273,125	270,042
CIP and corporate office equipment	1,079	1,009
	2,175,430	2,171,311
Less: accumulated depreciation	(328,210)	(309,224)
	\$ 1,847,220	\$ 1,862,087

**4. Favorable Lease Assets**

In connection with the acquisition of certain hotels, we have recognized intangible assets for favorable ground leases. The favorable lease assets are recorded at the acquisition date and amortized using the straight-line method over the term of the non-cancelable term of the lease agreement.

We also own a favorable lease asset related to the right to acquire a leasehold interest in a parcel of land adjacent to the Westin Boston Waterfront Hotel for the development of a 320 to 350 room hotel (the "lease right"). We do not amortize the lease right but review the asset for impairment if events or circumstances indicate that the asset may be impaired. We have not recorded any impairment losses during 2010. As of March 26, 2010, the carrying amount of the lease right is \$9.5 million.

The U.S. GAAP fair value hierarchy assigns a level to fair value measurements based on inputs used: Level 1 inputs are quoted prices in active markets for identical assets and liabilities; Level 2 inputs are inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly; or Level 3 inputs are unobservable inputs. The fair value of the lease right is a Level 3 measurement and is derived from a discounted cash flow model using the favorable difference between the estimated participating rents in accordance with the lease terms and the estimated market rents. The discount rate was estimated using a risk adjusted rate of return, the estimated participating rents were estimated based on a hypothetical completed 327-room hotel comparable to our Westin Boston Waterfront Hotel, and market rents were based on comparable long-term ground leases in the City of Boston. The methodology used to determine the fair value of the lease right is consistent with the methodology used since acquisition of the lease right.

**5. Capital Stock****Common Shares**

We are authorized to issue up to 200,000,000 shares of common stock, \$.01 par value per share. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Holders 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.

*Stock Dividend.* On January 29, 2010, we paid a dividend to stockholders of record as of December 28, 2009 in the amount of \$0.33 per share. We relied on the Internal Revenue Service's Revenue Procedure 2009-15, as amplified and superseded by Revenue Procedure 2010-12, that allowed us to pay up to 90% of that dividend in shares of common stock and the remainder in cash. Based on stockholder elections, we paid the dividend in the form of approximately 3.9 million shares of common stock and \$4.3 million of cash.



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*Controlled Equity Offering Program.* During the first quarter ended March 26, 2010, we completed our previously announced \$75 million controlled equity offering program by selling 2.8 million shares at an average price of \$9.13 per share, raising net proceeds of \$25.1 million. Of the shares sold during the quarter, 0.2 million shares, representing net proceeds of \$2.3 million, settled subsequent to March 26, 2010.

**Preferred Shares**

We are authorized to issue up to 10,000,000 shares of preferred stock, \$.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 26, 2010 and December 31, 2009, there were no shares of preferred stock outstanding.

**Operating Partnership Units**

Holders of operating partnership 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. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or our stockholders. As of March 26, 2010 and December 31, 2009, there were no operating partnership units held by unaffiliated third parties.

**6. Stock Incentive Plans**

We are authorized to issue up to 8,000,000 shares of our common stock under our 2004 Stock Option and Incentive Plan, as amended (the Incentive Plan), of which we have issued or committed to issue 3,307,836 shares as of March 26, 2010. In addition to these shares, additional shares could be issued related to the Stock Appreciation Rights and Market Stock Unit awards as further described below.

In April 2010, our board of directors approved an amendment to the Incentive Plan primarily to add a deferred compensation program, which will permit non-employee directors to elect to defer the receipt of the annual unrestricted stock award under the Incentive Plan that is generally made to non-employee directors following the Company's annual stockholders meeting. Those non-employee directors who elect to defer such awards will instead be granted an award of deferred stock units under the Incentive Plan. The deferred stock units will be settled in shares of stock in a lump sum six months after a director ceases to be a member of our board of directors.

**Restricted Stock Awards**

Restricted stock awards issued to our officers and employees 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 condensed consolidated statements of operations.

A summary of our restricted stock awards from January 1, 2010 to March 26, 2010 is as follows:

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value</b>
Unvested balance at January 1, 2010	1,719,376	\$ 4.76
Granted	356,425	8.41
Additional shares from dividends	46,206	9.57
Vested	(573,848)	5.19
Unvested balance at March 26, 2010	1,548,159	\$ 5.49

The remaining share awards are expected to vest as follows: 848,428 shares during 2011, 580,918 shares during 2012 and 118,813 during 2013. As of March 26, 2010, the unrecognized compensation cost related to restricted stock

awards was \$6.4 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 26 months. For the fiscal quarters ended March 26, 2010 and March 27, 2009, we recorded \$0.7 million and \$1.1 million, respectively, of compensation expense related to restricted stock awards.

**Table of Contents***Deferred Stock Awards*

At the time of our initial public offering, we made a commitment to issue 382,500 shares of deferred stock units to our senior executive officers. These deferred stock units are fully vested and represent the promise to issue a number of shares of our common stock to each senior executive officer upon the earlier of (i) a change of control or (ii) five years after the date of grant, which was the initial public offering completion date (the *Deferral Period*). However, if an executive's service with the Company is terminated for cause prior to the expiration of the *Deferral Period*, all deferred stock unit awards will be forfeited. The executive officers are restricted from transferring these shares until the fifth anniversary of the initial public offering completion date, which is June 2010. As of March 26, 2010, we have a commitment to issue 482,715 shares under this plan. The share commitment increased from 382,500 to 482,715 since our initial public offering because current dividends are not paid out but instead are effectively reinvested in additional deferred stock units based on the closing price of our common stock on the dividend payment date.

*Stock Appreciation Rights and Dividend Equivalent Rights*

In 2008, we awarded our executive officers stock-settled Stock Appreciation Rights ( *SARs* ) and Dividend Equivalent Rights ( *DERs* ). The *SARs/DERs* vest over three years based on continued employment and may be exercised, in whole or in part, at any time after the instrument vests and before the tenth anniversary of issuance. Upon exercise, the holder of a *SAR* is entitled to receive a number of common shares equal to the positive difference, if any, between the closing price of our common stock on the exercise date and the *strike price*. The *strike price* is equal to the closing price of our common stock on the *SAR* grant date. We simultaneously issued one *DER* for each *SAR*. The *DER* entitles the holder to the value of dividends issued on one share of common stock. No dividends are paid on a *DER* prior to vesting, but upon vesting, the holder of each *DER* will receive a lump sum equal to the cumulative dividends paid per share of common stock from the grant date through the vesting date. We measure compensation expense of the *SAR/DER* awards based upon the fair market value of these awards at the grant date. Compensation expense is recognized on a straight-line basis over the vesting period and is included in corporate expenses in the accompanying condensed consolidated statements of operations. For the fiscal quarters ended March 26, 2010 and March 27, 2009, we recorded approximately \$0.1 million and \$0.2 million, respectively, of compensation expense related to the *SARs/DERs*. A summary of our *SARs/DERs* from January 1, 2010 to March 26, 2010 is as follows:

	<b>Number of SARs/DERs</b>	<b>Weighted-Average Grant Date Fair Value</b>
Balance at January 1, 2010	300,225	\$ 6.62
Granted		
Exercised		
Balance at March 26, 2010	300,225	\$ 6.62

As of March 26, 2010, approximately two-thirds of the *SAR/DER* awards were vested. The remainder is expected to vest in March 2011. As of March 26, 2010, the unrecognized compensation cost related to the *SAR/DER* awards was \$0.3 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately one year.

*Market Stock Units*

We have awarded our executive officers market stock units ( *MSUs* ). *MSUs* are restricted stock units that vest three years from the date of grant, subject to the achievement of certain levels of total stockholder return over the vesting period (the *Performance Period*). We do not pay dividends on the shares of common stock underlying the *MSUs*; instead, the dividends are effectively reinvested as each of the executive officers is credited with an additional number of *MSUs* that have a fair market value (based on the closing stock price on the day the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares.

Each executive officer was granted a target number of *MSUs* (the *Target Award*). The actual number of *MSUs* that will be earned, if any, and converted to common stock at the end of the *Performance Period* is equal to the *Target*

Award plus an additional number of shares of common stock to reflect dividends that would have been paid during the Performance Period on the Target Award multiplied by the percentage of total stockholder return over the Performance Period. The total stockholder return is based on the 30-trading day average closing price of our common stock calculated on the vesting date plus dividends paid and the 30-trading day average closing price of our common stock on the date of grant. There will be no payout of shares of our common stock if the total stockholder return percentage on the vesting date is less than negative 50%. The maximum payout to an executive officer under an MSU award is equal to 150% of the Target Award.

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On March 3, 2010, we issued 84,854 MSUs to our executive officers with an aggregate fair value of \$0.8 million, or \$9.87 per share. We used a Monte Carlo simulation model to determine the grant-date fair value of the awards using the following assumptions: expected volatility of 68% and a risk-free rate of 1.33%. We recorded approximately \$21,000 of compensation expense related to the MSUs during the fiscal quarter ended March 26, 2010. As of March 26, 2010, the unrecognized compensations costs related to the MSU awards was \$0.8 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 34 months.

**7. Loss Per Share**

Basic loss per share is calculated by dividing net loss available to common stockholders by the weighted-average number of common shares outstanding. Diluted loss per share is calculated by dividing net loss available to common stockholders that has been adjusted for dilutive securities, by the weighted-average number of common shares outstanding including dilutive securities. Our unvested restricted stock, unexercised SARs and unvested MSUs are anti-dilutive for the fiscal quarters ended March 26, 2010 and March 27, 2009.

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

	<b>Fiscal Quarter Ended March 26, 2010 (unaudited)</b>	<b>Fiscal Quarter Ended March 27, 2009 (unaudited)</b>
<b>Basic Loss per Share Calculation:</b>		
Numerator:		
Net loss	\$ (8,346)	\$ (5,293)
Less: dividends on unvested restricted common stock		
Net loss after dividends on unvested restricted common stock	\$ (8,346)	\$ (5,293)
Weighted-average number of common shares outstanding basic	127,747,674	90,551,505
Basic loss per share	\$ (0.07)	\$ (0.06)
<b>Diluted Loss per Share Calculation:</b>		
Numerator:		
Net loss	\$ (8,346)	\$ (5,293)
Less: dividends on unvested restricted common stock		
Net loss after dividends on unvested restricted common stock	\$ (8,346)	\$ (5,293)
Weighted-average number of common shares outstanding basic	127,747,674	90,551,505
Unvested restricted common stock		
Unexercised SARs		
Unvested MSUs		
Weighted-average number of common shares outstanding diluted	127,747,674	90,551,505

Diluted loss per share \$ (0.07) \$ (0.06)

**8. Debt**

We have incurred limited recourse, property specific mortgage debt in conjunction with certain of our hotels. In the event of default, the lender may only foreclose on the pledged assets; however, in the event of fraud, misapplication of funds and other customary recourse provisions, the lender may seek payment from us. As of March 26, 2010, ten of our 20 hotel properties were secured by mortgage debt. Our mortgage debt contains certain property specific covenants and restrictions, including minimum debt service coverage ratios that trigger cash trap provisions as well as restrictions on incurring additional debt without lender consent. As of March 26, 2010, we were in compliance with the financial covenants of our mortgage debt. Subsequent to the end of the first quarter, the lender on the Courtyard Manhattan/Midtown East mortgage notified us that the cash trap provision was triggered.



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The following table sets forth information regarding the Company's debt as of March 26, 2010 (unaudited), in thousands:

	<b>Principal Balance</b>	<b>Interest Rate</b>
Courtyard Manhattan / Midtown East	\$ 42,876	8.81%
Marriott Salt Lake City Downtown	32,757	5.50%
Courtyard Manhattan / Fifth Avenue	51,000	6.48%
Renaissance Worthington	56,906	5.40%
Frenchman's Reef & Morning Star Marriott Beach Resort	61,199	5.44%
Marriott Los Angeles Airport	82,600	5.30%
Orlando Airport Marriott	59,000	5.68%
Chicago Marriott Downtown Magnificent Mile	218,925	5.975%
Renaissance Austin	83,000	5.507%
Renaissance Waverly	97,000	5.503%
Senior unsecured credit facility		LIBOR + 1.25
 Total debt	 \$ 785,263	

Weighted-Average Interest Rate 5.86%

***Mortgage Loan Modification***

As of December 31, 2009, we had not completed certain capital projects at Frenchman's Reef & Morning Star Marriott Beach Resort (Frenchman's Reef) as required by the mortgage loan secured by the hotel (the Loan). As a result, we had accrued \$3.1 million of penalty interest as of December 31, 2009. During the fiscal quarter ended March 26, 2010, we amended certain provisions of the Loan. The lender provided us with a waiver for any penalty interest and an extension to December 31, 2010 and December 31, 2011, respectively, for the completion date of certain lender required capital projects. In conjunction with the Loan modification, we pre-funded \$5.0 million for the capital projects into an escrow account and paid the lender a \$150,000 modification fee. As a result of the modification, we reversed the \$3.1 million accrual for penalty interest, which was recorded as an offset to interest expense in the accompanying condensed consolidated statement of operations.

***Senior Unsecured Credit Facility***

We are party to a four-year, \$200.0 million unsecured credit facility (the Facility) expiring in February 2011. The maturity date of the Facility may be extended for an additional year upon the payment of applicable fees and the satisfaction of certain other customary conditions. Interest is paid on the periodic advances under the Facility at varying rates, based upon either LIBOR or the alternate base rate, plus an agreed upon additional margin amount. The interest rate depends upon our level of outstanding indebtedness in relation to the value of our assets from time to time, as follows:

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

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

	<b>Covenant</b>	<b>Actual at March 26, 2010</b>
Maximum leverage ratio(1)	65%	51.0%
Minimum fixed charge coverage ratio	1.6x	1.81x
Minimum tangible net worth(2)	\$892.3 million	\$1.6 billion
Unhedged floating rate debt as a percentage of total indebtedness	35%	0.0%

(1) Maximum leverage ratio is determined by dividing the total debt outstanding by the net asset value of our corporate assets and hotels. Hotel level net asset values are calculated based on the application of a contractual capitalization rate (which ranges from 7.5% to 8.0%) to the trailing twelve month hotel net operating income.

(2) Tangible net worth is defined as the gross book value of the Company's real estate assets and other corporate assets less the Company's total debt and all other corporate liabilities.



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

	<b>Covenant</b>	<b>Actual at March 26, 2010</b>
Minimum implied debt service ratio	1.5x	N/A
Maximum unencumbered leverage ratio	65%	0.0%
Minimum number of unencumbered borrowing base properties	4	10
	\$150	\$525.4
Minimum unencumbered borrowing base value	million	million
Percentage of total asset value owned by borrowers or guarantors	90%	100%

In addition to the interest payable on amounts outstanding under the Facility, we are required to pay an amount equal to 0.20% of the unused portion of the Facility if the unused portion of the Facility is greater than 50% and 0.125% if the unused portion of the Facility is less than 50%. We incurred interest and unused credit facility fees of \$0.1 million and \$0.3 million for the fiscal quarters ended March 26, 2010 and March 27, 2009, respectively, on the Facility. As of March 26, 2010, we had no outstanding borrowings on the Facility.

We have reached agreement on a term sheet with certain lenders for a new \$200 million unsecured credit facility with a three-year term and a one year extension option. There can be no assurances, however, that we will enter into the proposed credit facility as it remains subject to a variety of conditions, including the negotiation and execution of definitive loan agreements satisfactory to us and the satisfaction of closing conditions.

**9. Fair Value of Financial Instruments**

The fair value of certain financial assets and liabilities and other financial instruments as of March 26, 2010 (unaudited) and December 31, 2009, in thousands, are as follows:

	<b>As of March 26, 2010</b>		<b>As of December 31, 2009</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Debt	\$ 785,263	\$ 728,865	\$ 786,777	\$ 670,936

We estimate the fair value of our mortgage debt by discounting the future cash flows of each instrument at estimated market rates. The carrying values 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 not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us. We are involved in routine litigation arising out of the ordinary course of business, all of which is expected to be covered by insurance and none of which is expected to have a material impact on our financial condition or results of operations.

*Income Taxes*

We had no accruals for tax uncertainties as of March 26, 2010 and December 31, 2009. As of March 26, 2010, all of our federal income tax returns and state tax returns for the jurisdictions in which our hotels are located remain subject to examination by the respective jurisdiction tax authorities.

The Frenchman's Reef & Morning Star Marriott Beach Resort is owned by a subsidiary that has elected to be treated as a taxable REIT subsidiary ( TRS ), and is subject to U.S. Virgin Island ( USVI ) income taxes. We were party to a tax agreement with the USVI that reduced the income tax rate to approximately 4%. This agreement expired in February 2010. We are working to extend this agreement, which, if extended, would be effective as of the date of expiration, but we may not be successful. If the agreement is not extended, the TRS that owns Frenchman's Reef &

Morning Star Marriott Beach Resort is subject to an income tax rate of 37.4%.

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

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

**Overview**

We are a lodging-focused real estate company that, as of May 5, 2010, owns a portfolio of 20 premium hotels and resorts that contain approximately 9,600 guestrooms. We are an owner, as opposed to an operator, of hotels. As an owner, we receive all of the operating profits or losses generated by our hotels, after we pay fees to the hotel manager, which are based on the revenues and profitability of the hotels.

Our vision is to be the premier allocator of capital in the lodging industry. Our mission is to deliver long-term stockholder returns through a combination of dividends and long-term capital appreciation. Our strategy is to utilize disciplined capital allocation and focus on acquiring, owning, and measured recycling of high quality, branded lodging properties in North America with superior long-term growth prospects and high barrier-to-entry for new supply. In addition, we are committed to enhancing the value of our platform by being open and transparent in our communications with investors, monitoring our corporate overhead and following sound corporate governance practices.

Consistent with our strategy, we continue to focus on opportunistically investing in premium full-service hotels and, to a lesser extent, premium urban limited-service hotels located throughout North America. Our portfolio of 20 hotels is concentrated in key gateway cities and in destination resort locations and are all operated under a brand owned by one of the leading global lodging brand companies (Marriott International, Inc. (Marriott), Starwood Hotels & Resorts Worldwide, Inc. (Starwood) or Hilton Worldwide (Hilton)).

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

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

***High Quality Urban and Destination Resort Focused Branded Real Estate***

We own 20 premium hotels and resorts in North America. These hotels and resorts are primarily categorized as upper upscale as defined by Smith Travel Research and are generally located in high barrier-to-entry markets with multiple demand generators.

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

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



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In addition, a core tenet of our strategy is to leverage global hotel brands. We strongly believe in the value of powerful global brands because we believe that they are able to produce incremental revenue and profits compared to similar unbranded hotels. Dominant global hotel brands typically have very strong reservation and reward systems and sales organizations, and all of our hotels are operated under a brand owned by one of the top global lodging brand companies (Marriott, Starwood or Hilton) and all but two of our hotels are managed by the brand company directly. Generally, we are interested in owning hotels that are currently operated under, or can be converted to, a globally recognized brand.

***Conservative Capital Structure***

Since our formation in 2004, we have been committed to a flexible capital structure with prudent leverage. During 2004 through early 2007, we took advantage of the low interest rate environment by fixing our interest rates for an extended period of time. Moreover, during the peak years (2006 and 2007) in the commercial real estate market, we maintained low financial leverage by funding several of our acquisitions with proceeds from the issuance of equity. This capital markets strategy allowed us to maintain a balance sheet with a moderate amount of debt as the lodging cycle began to decline. During the peak years, we believed, and present events have confirmed, that it is not prudent to increase the inherent risk of a highly cyclical business through a highly levered capital structure.

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

We have always strived to operate our business with prudent leverage. During 2009, a year that experienced a significant industry downturn, we focused on preserving and enhancing our liquidity. Based on a comprehensive action plan, which included equity offerings and debt repayment, we achieved that goal.

As of March 26, 2010, we had \$181.4 million of unrestricted corporate cash. We believe that we maintain a reasonable amount of fixed interest rate mortgage debt. As of March 26, 2010, we had \$785.3 million of mortgage debt outstanding with a weighted average interest rate of 5.9 percent and a weighted average maturity date of approximately 5.8 years, with no maturities until late 2014. In addition, we currently have ten hotels unencumbered by debt and no corporate-level debt outstanding.

***Thoughtful Asset Management***

We believe that we are able to create significant value in our portfolio by utilizing our management team's extensive experience and our innovative asset management strategies. Our senior management team has an established broad network of hotel industry contacts and relationships, including relationships with hotel owners, financiers, operators, project managers and contractors and other key industry participants.

In the current economic environment, we believe that our extensive lodging experience, our network of industry relationships and our asset management strategies position us to minimize the impact of declining revenues on our hotels. In particular, we are focused on controlling our property-level and corporate expenses, as well as working closely with our managers to optimize the mix of business at our hotels in order to maximize potential revenue. Our property-level cost containment efforts include the implementation of aggressive contingency plans at each of our hotels. The contingency plans include controlling labor expenses, eliminating hotel staff positions, adjusting food and beverage outlet hours of operation and not filling open positions. In addition, our strategy to significantly renovate many of the hotels in our portfolio from 2006 to 2008 resulted in the flexibility to significantly curtail our planned capital expenditures for 2009 and 2010.

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



relationships with our hotel managers senior executives, and we work directly with these senior executives to improve the performance of our portfolio.

We believe we can create significant value in our portfolio through innovative asset management strategies such as rebranding, renovating and repositioning. We are committed to regularly evaluating our portfolio to determine if we can employ these value-added strategies at our hotels.

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**Key Indicators of Financial Condition and Operating Performance**

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

Occupancy percentage;

Average Daily Rate (or ADR);

Revenue per Available Room (or RevPAR);

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

Funds From Operations (or FFO).

Occupancy, ADR and RevPAR are commonly used measures within the hotel industry to evaluate operating performance. RevPAR, which is calculated as the product of ADR and occupancy percentage, is an important statistic for monitoring operating performance at the individual hotel level and across our business as a whole. We evaluate individual hotel RevPAR performance on an absolute basis with comparisons to budget and prior periods, as well as on a company-wide and regional basis. ADR and RevPAR include only room revenue. Room revenue comprised approximately 64% of our total revenues for the fiscal quarter ended March 26, 2010, and is dictated by demand, as measured by occupancy percentage, pricing, as measured by ADR, and our available supply of hotel rooms.

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

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

**Table of Contents****Our Hotels**

The following table sets forth certain operating information for each of our hotels for the period from January 1, 2010 to March 26, 2010.

Property	Location	Number		ADR(\$)	RevPAR(\$)	% Change from 2009 RevPAR
		Rooms	Occupancy			
Chicago Marriott	Chicago, Illinois	1,198	52.0%	\$ 146.43	\$ 76.21	(13.7%)
Los Angeles Airport Marriott	Los Angeles, California	1,004	82.9%	106.43	88.24	(4.5%)
Westin Boston Waterfront Hotel (1)	Boston, Massachusetts	793	49.3%	154.19	76.04	(2.1%)
Renaissance Waverly Hotel	Atlanta, Georgia	521	69.7%	130.48	90.93	4.6%
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	53.5%	137.90	73.78	(9.0%)
Renaissance Worthington	Fort Worth, Texas	504	76.2%	155.34	118.38	(0.3%)
Frenchman s Reef & Morning Star Marriott Beach Resort (1)	St. Thomas, U.S. Virgin Islands	502	82.4%	294.01	242.25	3.4%
Renaissance Austin Hotel	Austin, Texas	492	63.7%	145.30	92.61	(6.0%)
Torrance Marriott South Bay	Los Angeles County, California	487	81.7%	99.19	81.00	8.2%
Orlando Airport Marriott	Orlando, Florida	486	80.6%	106.65	85.92	(12.9%)
Marriott Griffin Gate Resort	Lexington, Kentucky	408	49.4%	105.58	52.20	(1.7%)
Oak Brook Hills Marriott Resort	Oak Brook, Illinois	386	36.6%	103.85	38.06	2.4%
Westin Atlanta North at Perimeter (1)	Atlanta, Georgia	369	67.3%	101.97	68.62	(5.9%)
Vail Marriott Mountain Resort & Spa (1)	Vail, Colorado	346	82.0%	302.83	248.44	8.2%
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	68.7%	120.67	82.86	6.4%
Courtyard Manhattan/Midtown East	New York, New York	312	77.3%	184.21	142.44	(10.3%)
Conrad Chicago (1)	Chicago, Illinois	311	51.3%	144.27	74.03	(15.7%)
Bethesda Marriott Suites	Bethesda, Maryland	272	57.3%	164.83	94.38	(15.2%)
Courtyard Manhattan/Fifth Avenue	New York, New York	185	82.4%	204.03	168.11	(5.1%)
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	47.4%	152.71	72.35	13.1%
TOTAL/WEIGHTED AVERAGE		9,586	65.5%	\$ 145.34	\$ 95.15	(3.7%)

(1) The Frenchman s  
Reef & Morning  
Star Marriott  
Beach Resort,  
Vail Marriott  
Mountain  
Resort & Spa,  
Westin Atlanta  
North at  
Perimeter,  
Conrad Chicago

and the Westin  
Boston  
Waterfront  
Hotel report  
operations on a  
calendar month  
and year basis.  
The period from  
January 1, 2010  
to March 26,  
2010 includes  
the operations  
for the period  
from January 1,  
2010 to  
February 28,  
2010 for these  
five hotels.

**Results of Operations**

During the fiscal quarter ended March 26, 2010, our hotels continued to operate in a challenging economic environment. Lodging fundamentals have historically correlated with several key economic indicators such as GDP growth, employment trends, corporate profits, consumer confidence and business investment. As some of these economic indicators have begun to improve, our hotels experienced improvement in demand during the quarter, although average daily rates were lower. As demand continues to strengthen, we expect pricing to improve later in 2010.

*Comparison of the Fiscal Quarter Ended March 26, 2010 to the Fiscal Quarter Ended March 27, 2009*

Our net loss for the fiscal quarter ended March 26, 2010 was \$8.3 million compared to a net loss of \$5.3 million for the fiscal quarter ended March 27, 2009.

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*Revenue.* Revenue consists primarily of the room, food and beverage and other operating revenues from our hotels. Revenues for the fiscal quarters ended March 26, 2010 and March 27, 2009, respectively, consisted of the following (in thousands):

	<b>Fiscal Quarter Ended March</b>	<b>Fiscal Quarter Ended March</b>	<b>% Change</b>
	<b>26, 2010</b>	<b>27, 2009</b>	
Rooms	\$ 71,648	\$ 75,116	(4.6%)
Food and beverage	35,552	36,890	(3.6%)
Other	5,628	6,538	(13.9%)
Total revenues	\$ 112,828	\$ 118,544	(4.8%)

Individual hotel revenues for the fiscal quarters ended March 26, 2010 and March 27, 2009, respectively, consist of the following (in millions):

	<b>Fiscal Quarter Ended March</b>	<b>Fiscal Quarter Ended March</b>	<b>% Change</b>
	<b>26, 2010</b>	<b>27, 2009</b>	
Los Angeles Airport Marriott	\$ 12.3	\$ 13.0	(5.4%)
Chicago Marriott	12.1	14.7	(17.7%)
Frenchman s Reef & Morning Star Marriott Beach Resort (1)	10.7	10.0	7.0%
Renaissance Worthington	7.9	8.5	(7.1%)
Renaissance Waverly Hotel	7.8	7.2	8.3%
Renaissance Austin Hotel	7.1	7.6	(6.6%)
Westin Boston Waterfront Hotel (1)	6.9	7.0	(1.4%)
Vail Marriott Mountain Resort & Spa (1)	6.6	6.1	8.2%
Orlando Airport Marriott	5.5	6.6	(16.7%)
Salt Lake City Marriott Downtown	5.1	5.6	(8.9%)
Torrance Marriott South Bay	4.5	4.6	(2.2%)
Courtyard Manhattan/Midtown East	4.0	4.5	(11.1%)
Marriott Griffin Gate Resort	3.8	3.7	2.7%
Marriott Atlanta Alpharetta	3.4	3.1	9.7%
Bethesda Marriott Suites	3.0	3.5	(14.3%)
Oak Brook Hills Marriott Resort	2.9	3.0	(3.3%)
Courtyard Manhattan/Fifth Avenue	2.7	2.9	(6.9%)
Westin Atlanta North at Perimeter (1)	2.4	2.5	(4.0%)
The Lodge at Sonoma, a Renaissance Resort & Spa	2.3	2.2	4.6%
Conrad Chicago (1)	1.8	2.2	(18.2%)
Total	\$ 112.8	\$ 118.5	(4.8%)

(1)

The Frenchman s  
 Reef & Morning  
 Star Marriott  
 Beach Resort,  
 Vail Marriott  
 Mountain  
 Resort & Spa,  
 Westin Atlanta  
 North at  
 Perimeter,  
 Conrad Chicago  
 and the Westin  
 Boston  
 Waterfront  
 Hotel report  
 operations on a  
 calendar month  
 and year basis.  
 The fiscal  
 quarters ended  
 March 26, 2010  
 and March 27,  
 2009 include the  
 operations for  
 the period from  
 January 1, 2010  
 to February 28,  
 2010 for these  
 five hotels.

Our total revenues declined \$5.7 million, or 4.8%, from \$118.5 million for the fiscal quarter ended March 27, 2009 to \$112.8 million for the fiscal quarter ended March 26, 2010, reflecting the continued weakness in lodging fundamentals. The decline reflects a 3.7 percent decline in RevPAR, which is the result of a 6.2 percent decrease in ADR offset by a 1.8 percentage point increase in occupancy. The following are the key hotel operating statistics for our hotels for the fiscal quarters ended March 26, 2010 and March 27, 2009, respectively.

	<b>Fiscal Quarter Ended March 26, 2010</b>	<b>Fiscal Quarter Ended March 27, 2009</b>	<b>% Change</b>
Occupancy %	65.5%	63.7%	1.8 percentage points
ADR	\$ 145.34	\$ 155.00	(6.2%)
RevPAR	\$ 95.15	\$ 98.80	(3.7%)

Food and beverage revenues decreased 3.6% from 2009, reflecting a decline in both banquet and outlet revenues. Other revenues, which primarily represent spa, golf, parking and attrition and cancellation fees, decreased 13.9% from 2009.

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*Hotel operating expenses.* Hotel operating expenses consist primarily of operating expenses of our hotels, including non-cash ground rent expense. The operating expenses for the fiscal quarters ended March 26, 2010 and March 27, 2009, respectively, consist of the following (in millions):

	<b>Fiscal Quarter Ended March</b>	<b>Fiscal Quarter Ended March</b>	<b>% Change</b>
	<b>26, 2010</b>	<b>27, 2009</b>	
Rooms departmental expenses	\$ 20.1	\$ 20.0	0.5%
Food and beverage departmental expenses	24.7	26.6	(7.1%)
Other departmental expenses	5.5	6.4	(14.1%)
General and administrative	11.1	11.1	0.0%
Utilities	5.0	5.4	(7.4%)
Repairs and maintenance	6.1	6.2	(1.6%)
Sales and marketing	8.5	8.7	(2.3%)
Base management fees	3.0	3.1	(3.2%)
Incentive management fees	0.1	0.2	(50.0%)
Property taxes	6.2	6.0	3.3%
Ground rent- Contractual	0.4	0.4	0.0%
Ground rent- Non-cash	1.8	1.8	0.0%
Total hotel operating expenses	\$ 92.5	\$ 95.9	(3.5%)

Our hotel operating expenses decreased \$3.4 million or 3.5%, from \$95.9 million for the fiscal quarter ended March 27, 2009 to \$92.5 million for the fiscal quarter ended March 26, 2010. We continue to work with our hotel managers to lower operating expenses. The primary driver for the decrease in operating expenses is an overall decline in wages and benefits. As a result of continuing these cost-containment measures, we have reduced food and beverage and other hotel departmental expenses. Rooms departmental expense was flat despite the cost-containment measures in place due to the 1.8% increase in occupancy.

Management fees are calculated as a percentage of total revenues, as well as the level of operating profit at certain hotels. Therefore, the decline in base management fees is due to the overall decline in revenues at our hotels. We pay incentive management fees only at certain of our hotels based on operating profits. The decrease in incentive management fees of approximately \$0.1 million is due to only one hotel earning incentive fees in 2010.

*Depreciation and amortization.* Depreciation and amortization is recorded on our hotel buildings over 40 years for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. Our depreciation and amortization expense increased \$0.2 million from \$18.7 million for the fiscal quarter ended March 27, 2009 to \$18.9 million for the fiscal quarter ended March 26, 2010.

*Corporate expenses.* Our corporate expenses decreased from \$3.8 million for the fiscal quarter ended March 27, 2009 to \$3.4 million for the fiscal quarter ended March 26, 2010. Corporate expenses principally consist of employee-related costs, including base payroll, bonus and restricted stock. Corporate expenses also include corporate operating costs, professional fees and directors' fees. The decrease in corporate expenses is due primarily to a decrease in stock-based compensation expense and payroll costs, partially offset by an increase in directors' fees.

*Interest expense.* Our interest expense decreased \$3.4 million from \$11.5 million for the fiscal quarter ended March 27, 2009 to \$8.1 million for the fiscal quarter ended March 26, 2010. The decrease in interest expense is primarily attributable to the reversal during the quarter of \$3.1 million accrued as of December 31, 2009 for penalty interest on the Frenchman's Reef mortgage loan. The 2010 interest expense was comprised of mortgage debt (\$10.9 million), amortization of deferred financing costs (\$0.2 million) and unused fees on our credit facility

(\$0.1 million), which was offset by the reversal of accrued penalty interest. The 2009 interest expense is comprised of mortgage debt (\$11.0 million), amortization of deferred financing costs (\$0.2 million) and interest and unused fees on our credit facility (\$0.3 million).

As of March 26, 2010, we had property-specific mortgage debt outstanding on ten of our hotels. All of our mortgage debt is fixed-rate secured debt bearing interest at rates ranging from 5.30% to 8.81% per year. Our weighted-average interest rate on all debt as of March 26, 2010 was 5.86%.



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*Interest income.* Interest income remained flat at \$0.1 million for the fiscal quarters ended March 26, 2010 and March 27, 2009. Although our corporate cash balances are significantly higher in 2010, the interest rates earned on corporate cash are significantly lower.

*Income taxes.* We recorded an income tax benefit of \$1.6 million for the fiscal quarter ended March 26, 2010 and \$6.0 million for the fiscal quarter ended March 27, 2009. The first quarter 2010 income tax benefit was incurred on the \$7.7 million pre-tax loss of our taxable REIT subsidiary, or TRS, for the fiscal quarter ended March 26, 2010, together with foreign income tax expense of \$1.4 million related to the taxable REIT subsidiary that owns the Frenchman's Reef & Morning Star Marriott Beach Resort. The first quarter 2009 income tax benefit was incurred on the \$15.7 million pre-tax loss of our TRS for the fiscal quarter ended March 27, 2009, together with foreign income tax expense of \$0.2 million related to the taxable REIT subsidiary that owns the Frenchman's Reef & Morning Star Marriott Beach Resort.

The Frenchman's Reef & Morning Star Marriott Beach Resort is owned by a subsidiary that has elected to be treated as a TRS, and is subject to USVI income taxes. We were party to a tax agreement with the USVI that reduced the income tax rate to approximately 4%. This agreement expired in February 2010. We are diligently working to extend this agreement, which, if extended, would be effective as of the date of expiration, but we may not be successful. If the agreement is not extended, the TRS that owns Frenchman's Reef & Morning Star Marriott Beach Resort is subject to an income tax rate of 37.4%. The first quarter income tax expense of \$1.4 million related to the taxable REIT subsidiary that owns the Frenchman's Reef & Morning Star Marriott Beach Resort reflects the statutory tax rate of 37.4% on the pre-tax income generated after expiration of the tax agreement. This expense will be reversed to an amount which reflects the lower rate if the tax agreement is extended.

**Liquidity and Capital Resources**

Our short-term liquidity requirements consist primarily of funds necessary to fund future distributions to our stockholders to maintain our REIT status as well as to pay for operating expenses and other expenditures directly associated with our hotels, including capital expenditures as well as payments of interest and principal. We currently expect that our available cash flows generally provided through net cash provided by hotel operations, existing cash balances and, if necessary, short-term borrowings under our credit facility will be sufficient to meet our short-term liquidity requirements. Some of our mortgage debt agreements contain "cash trap" provisions that are triggered when the hotel's operating results fall below a certain debt service coverage ratio. When these provisions are triggered, all of the excess cash flow generated by the hotel is deposited directly into cash management accounts for the benefit of our lenders until a specified debt service coverage ratio is reached and maintained for a certain period of time. Subsequent to the end of the first quarter, the lender on the Courtyard Manhattan/Midtown East mortgage notified us that the cash trap provision was triggered.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional hotels, renovations, expansions and other capital expenditures that need to be made periodically to our hotels, scheduled debt payments and making distributions to our stockholders. We expect to meet our long-term liquidity requirements through various sources of capital, cash provided by operations and borrowings, as well as through our issuances of additional equity or debt securities. 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 additional equity is also dependent on a number of factors including the current state of the capital markets, investor sentiment and use of proceeds.

**Our Financing Strategy**

Since our formation in 2004, we have been consistently committed to a flexible capital structure with prudent leverage levels. During 2004 through early 2007, we took advantage of the low interest rate environment by fixing our interest rates for an extended period of time. Moreover, during the peak in the commercial real estate market in the recent past (2006 and 2007), we maintained low financial leverage by funding the majority of our acquisitions through the issuance of equity. This strategy allowed us to maintain a balance sheet with a moderate amount of debt. During the peak years, we believed, and present events have confirmed, that it would be inappropriate to increase the inherent risk of a highly cyclical business through a highly levered capital structure.

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

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We have always strived to operate our business with prudent leverage. During 2009, a year that experienced a significant industry downturn, we focused on preserving and enhancing our liquidity. Based on a comprehensive action plan, which included equity offerings and debt repayment, we achieved that goal.

We believe that we maintain a reasonable amount of fixed interest rate mortgage debt. As of March 26, 2010, we had \$785.3 million of mortgage debt outstanding with a weighted average interest rate of 5.9 percent and a weighted average maturity date of approximately 5.8 years with no maturities until late 2014. In addition, we currently have ten hotels unencumbered by debt and no corporate-level debt outstanding.

*Controlled Equity Offering Program.* During the first quarter ended March 26, 2010, we completed our previously announced \$75 million controlled equity offering program by selling 2.8 million shares at an average price of \$9.13 per share, raising net proceeds of \$25.1 million. Of the shares sold during the quarter, 0.2 million shares, representing net proceeds of \$2.3 million, settled subsequent to March 26, 2010.

*Mortgage Loan Modification.* During the first quarter ended March 26, 2010, we amended certain provisions of the limited recourse mortgage loan secured by Frenchman's Reef & Morning Star Marriott Beach Resort. The lender provided us with a waiver for any penalty interest and an extension to December 31, 2010 and December 31, 2011, respectively, for the completion date of certain lender required capital projects. In conjunction with the loan modification, we pre-funded \$5.0 million for the capital projects into an escrow account and paid the lender a \$150,000 modification fee. As a result of the loan modification, we reversed the \$3.1 million penalty interest accrued last year.

**Senior Unsecured Credit Facility**

We are party to a four-year, \$200.0 million unsecured credit facility (the Facility) expiring in February 2011. We may extend the maturity date of the Facility for an additional year upon the payment of applicable fees and the satisfaction of certain other customary conditions. Interest is paid on the periodic advances under the Facility at varying rates, based upon either LIBOR or the alternate base rate, plus an agreed upon additional margin amount. The interest rate depends upon our level of outstanding indebtedness in relation to the value of our assets from time to time, as follows:

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

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

	<b>Covenant</b>	<b>Actual at March 26, 2010</b>
Maximum leverage ratio(1)	65%	51.0%
Minimum fixed charge coverage ratio(2)	1.6x	1.81x
Minimum tangible net worth(3)	\$892.3 million	\$1.6 billion
Unhedged floating rate debt as a percentage of total indebtedness	35%	0.0%

- (1) Maximum leverage ratio is determined by dividing the total debt outstanding by the net asset

value of our corporate assets and hotels.

Hotel level net asset values are calculated based on the application of a contractual capitalization rate (which ranges from 7.5% to 8.0%) to the trailing twelve month hotel net operating income.

- (2) Minimum fixed charge ratio is calculated based on the trailing four quarters.
- (3) Tangible net worth is defined as the gross book value of our real estate assets and other corporate assets less our total debt and all other corporate liabilities.

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

	<b>Covenant</b>	<b>Actual at March 26, 2010</b>
Minimum implied debt service ratio	1.5x	N/A
Maximum unencumbered leverage ratio	65%	0%
Minimum number of unencumbered borrowing base properties	4	10
Minimum unencumbered borrowing base value	\$150 million	\$525.4 million
Percentage of total asset value owned by borrowers or guarantors	90%	100%

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In addition to the interest payable on amounts outstanding under the Facility, we are required to pay unused credit facility fees equal to 0.20% of the unused portion of the Facility if the unused portion of the Facility is greater than 50% or 0.125% of the unused portion of the Facility if the unused portion of the Facility is less than 50%. We incurred interest and unused credit facility fees on the Facility of \$0.1 million and \$0.3 million for the fiscal quarters ended March 26, 2010 and March 27, 2009, respectively. As of March 26, 2010, we did not have an outstanding balance on the Facility.

We have reached agreement on a term sheet with certain lenders for a new \$200 million unsecured credit facility with a three-year term and a one year extension option. There can be no assurances, however, that we will enter into the proposed credit facility as it remains subject to a variety of conditions, including the negotiation and execution of definitive loan agreements satisfactory to us and the satisfaction of closing conditions.

**Sources and Uses of Cash**

Our principal sources of cash are net cash flow from hotel operations, borrowing under mortgage debt and our credit facility and the proceeds from our equity offerings. Our principal uses of cash are debt service, capital expenditures, operating costs, corporate expenses and dividends. As of March 26, 2010, we had \$181.4 million of unrestricted corporate cash and \$37.1 million of restricted cash.

Our net cash provided by operations was \$0.6 for the fiscal quarter ended March 26, 2010. Our cash from operations generally consists of the net cash flow from hotel operations offset by cash paid for corporate expenses, cash paid for interest, funding of lender escrow reserves and other working capital changes. The net cash provided by operations declined from 2009 due primarily to the decline in hotel operations.

Our net cash used in investing activities was \$11.4 million for the fiscal quarter ended March 26, 2010 due primarily to capital expenditures at our hotels and the net funding of restricted cash reserves.

Our net cash provided by financing activities was \$14.8 million for the fiscal quarter ended March 26, 2010. The following table summarizes the significant financing activities for the fiscal quarter ended March 26, 2010 (in millions):

<b>Transaction Date</b>	<b>Description of Transaction</b>	<b>Amount</b>
January	Payment of dividends	\$ (4.3)
January	Repurchase of shares for employee taxes	\$ (2.0)
	Proceeds from Controlled Equity Offering	\$ 22.8
March	Program	

**Dividend Policy**

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

- 90% of our REIT taxable income determined without regard to the dividends paid deduction, plus
- 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.

On January 29, 2010, we paid a dividend to our stockholders of record as of December 28, 2009 in the amount of \$0.33 per share, which represented 100% of our 2009 taxable income. We relied on the Internal Revenue Service's Revenue Procedure 2009-15, as amplified and superseded by Revenue Procedure 2010-12, that allowed us to pay 90% of the dividend in shares of our common stock and the remainder in cash. We intend to declare our next dividend, if any, to stockholders of record on a date close to December 31, 2010.



**Table of Contents****Capital Expenditures**

The management and franchise agreements for each of our hotels provide for the establishment of separate property improvement funds to cover, among other things, the cost of replacing and repairing furniture and fixtures at our hotels. 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 26, 2010, we have set aside \$30.8 million for capital projects in property improvement funds, which are included in restricted cash. Funds held in property improvement funds for one hotel are typically not permitted to be applied to any other property.

Although we have significantly curtailed the capital expenditures at our hotels, we continue to benefit from the extensive capital investments made from 2006 to 2008, during which time many of our hotels were fully renovated. In 2009 and 2010, we have focused our capital expenditures primarily on life safety, capital preservation and return-on-investment projects. The total budget in 2010 for capital improvements is \$36 million, only \$7 million of which is expected to be funded from corporate cash with the balance to be funded from hotel escrow reserves. We spent approximately \$4.6 million on capital improvements during the period from January 1, 2010 through March 26, 2010, of which approximately \$0.2 million was funded from corporate cash.

**Off-Balance Sheet Arrangements**

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

**Non-GAAP Financial Measures**

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

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

	<b>Fiscal Quarter Ended March 26, 2010</b>	<b>Fiscal Quarter Ended March 27, 2009</b>
	<b>(in thousands)</b>	
Net loss	\$ (8,346)	\$ (5,293)
Interest expense	8,126	11,498
Income tax benefit	(1,628)	(5,978)
Real estate related depreciation	18,907	18,717
<b>EBITDA</b>	<b>\$ 17,059</b>	<b>\$ 18,944</b>

We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, which defines FFO as net (loss) income (determined in accordance with GAAP), excluding gains (losses) from sales of property, plus depreciation and amortization. We believe that the presentation of FFO provides useful

information to investors regarding our operating performance because it is a measure of our operations without regard to specified non-cash items, such as real estate depreciation and amortization and gain or loss on sale of assets. We also use FFO as one measure in assessing our results.

	<b>Fiscal Quarter Ended March 26, 2010</b>	<b>Fiscal Quarter Ended March 27, 2009 (in thousands)</b>
Net loss	\$ (8,346)	\$ (5,293)
Real estate related depreciation	18,907	18,717
FFO	\$ 10,561	\$ 13,424



**Table of Contents****Critical Accounting Policies**

Our consolidated financial statements include the accounts of the DiamondRock Hospitality Company and all consolidated subsidiaries. The preparation of financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, 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 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 materially from these estimates. We evaluate our estimates and judgments, including those related to the impairment of long-lived assets, on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies are disclosed in the notes to our consolidated financial statements. The following represent certain critical accounting policies that require us to exercise our business judgment or make significant estimates:

*Investment in Hotels.* Acquired hotels, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets are initially recorded at fair value. 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 15 to 40 years for buildings and land improvements and one to ten 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 typically enter into a new hotel management agreement based on market terms at the time of acquisition. 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 the 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 recognized.

*Revenue Recognition.* Hotel revenues, including room, golf, food and beverage, and other hotel revenues, are recognized as the related services are provided.

*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 conditions and market conditions based on the grant-date fair value of the award. For awards based on market conditions, the grant-date fair value is derived using an open form valuation model. The cost of the award 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.* Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a

change in tax rates is recognized in earnings in the period when the new rate is enacted.

We have elected to be treated as a REIT under the provisions of the Internal Revenue Code and, as such, are not subject to federal income tax, provided we distribute all of our taxable income annually to our stockholders and comply with certain other requirements. In addition to paying federal and state income tax on any retained income, we are subject to taxes on built-in-gains on sales of certain assets. Additionally, our taxable REIT subsidiaries are subject to federal, state and foreign income tax.

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**Inflation**

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

**Seasonality**

The operations of hotels historically have been seasonal depending on location, and accordingly, we expect some seasonality in our business. Historically, we have experienced approximately two-thirds of our annual income in the second and fourth fiscal quarters.

**New Accounting Pronouncements Not Yet Implemented**

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

**Item 3. Qualitative Disclosure 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. As of March 26, 2010, all of our debt was fixed rate and therefore not exposed to interest rate risk.

**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 Commissions rules and forms.

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

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**PART II**

**Item 1. Legal Proceedings**

We are not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us other than routine litigation arising out of the ordinary course of business or which is expected to be covered by insurance and none of which is expected to have a material impact on our business, financial condition or results of operations.

**Item 1A. Risk Factors**

There have been no material changes in the risk factors described in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

None.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Removed and Reserved**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits

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

**Exhibit**

- 3.1.1 Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (*incorporated by reference to the Registrant's Registration Statement on Form S-11 filed with the Securities and Exchange Commission (File no. 333-123065)*)
- 3.1.2 Amendment to the Articles of Amendment and Restatement of the Articles of Incorporation of DiamondRock Hospitality Company (*incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2007*)
- 3.2 Third Amended and Restated Bylaws of DiamondRock Hospitality Company (*incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 17, 2009*)
- 4.1 Form of Certificate for Common Stock for DiamondRock Hospitality Company
- 10.1\* Amended and Restated 2004 Stock Option and Incentive Plan, as amended and restated on April 28, 2010
- 10.2\* Form of Restricted Stock Award Agreement
- 10.3\* Form of Market Stock Unit Agreement (*incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2010*)
- 10.4\* Form of Deferred Stock Unit Award Agreement

- 10.5\* Form of Director Election Form
- 31.1 Certification of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.

\* Exhibit is  
management  
contract or  
compensatory  
plan or  
arrangement

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**SIGNATURE**

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

May 5, 2010

DiamondRock Hospitality Company

/s/ Sean M. Mahoney

/s/ William J. Tennis

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

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

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