DiamondRock Hospitality Co
Form 10-Q
August 07, 2015

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-32514
DIAMONDROCK HOSPITALITY COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Maryland	20-1180098
(State of Incorporation)	(I.R.S. Employer Identification No.)
3 Bethesda Metro Center, Suite 1500, Bethesda, Maryland	20814
(Address of Principal Executive Offices)	(Zip Code)

(240) 744-1150
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
The registrant had 200,735,245 shares of its $0.01 par value common stock outstanding as of August 7, 2015.

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PART I. FINANCIAL INFORMATION
Item I. Financial Statements

DIAMONDROCK HOSPITALITY COMPANY

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

	June 30, 2015	December 31, 2014
ASSETS		
Property and equipment, net	$2,896,383	$2,764,393
Restricted cash	60,203	74,730
Due from hotel managers	100,323	79,827
Favorable lease assets, net	24,171	34,274
Prepaid and other assets	54,314	52,739
Deferred financing costs, net	7,751	8,023
Cash and cash equivalents	84,123	144,365
Total assets	$3,227,268	$3,158,351
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Mortgage debt	$1,007,326	$1,038,330
Senior unsecured credit facility	90,000	—
Total debt	1,097,326	1,038,330
Deferred income related to key money, net	21,027	21,561
Unfavorable contract liabilities, net	75,613	76,220
Due to hotel managers	66,965	59,169
Dividends declared and unpaid	25,479	20,922
Accounts payable and accrued expenses	118,786	113,162
Total liabilities	1,405,196	1,329,364
Stockholders’ Equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value; 400,000,000 shares authorized; 200,735,245 and 199,964,041 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	2,007	2,000
Additional paid-in capital	2,053,938	2,045,755
Accumulated deficit	(233,873)	(218,768)
Total stockholders’ equity	1,822,072	1,828,987
Total liabilities and stockholders’ equity	$3,227,268	$3,158,351

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
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Rooms	$181,563	$165,088	$326,199	$294,824
Food and beverage	56,073	52,182	108,406	100,793
Other	12,165	12,664	24,084	24,401
Total revenues	249,801	229,934	458,689	420,018
Operating Expenses:				
Rooms	41,993	41,143	80,457	79,248
Food and beverage	35,355	34,693	70,901	69,193
Management fees	8,903	8,459	15,103	13,752
Other hotel expenses	77,546	72,393	154,052	144,869
Depreciation and amortization	25,574	25,126	49,911	50,249
Impairment losses	9,675	—	10,461	—
Hotel acquisition costs	260	—	492	—
Corporate expenses	6,331	4,690	11,741	9,878
Gain on insurance proceeds	—	(608)	—	(1,271)
Gain on litigation settlement, net	—	(10,999)	—	(10,999)
Total operating expenses, net	205,637	174,897	393,118	354,919
Operating profit	44,164	55,037	65,571	65,099
Interest income	(60)	(957)	(150)	(2,609)
Interest expense	12,838	14,600	26,056	29,125
Gain on sale of hotel property	—	(1,290)	—	(1,290)
Gain on prepayment of note receivable	—	(13,550)	—	(13,550)
Other income, net	(167)	—	(204)	—
Total other expenses (income), net	12,611	(1,197)	25,702	11,676
Income before income taxes	31,553	56,234	39,869	53,423
Income tax (expense) benefit	(6,731)	(4,318)	(4,405)	2,530
Net income	$24,822	$51,916	$35,464	$55,953
Earnings per share:				
Basic earnings per share	$0.12	$0.27	$0.18	$0.29
Diluted earnings per share	$0.12	$0.26	$0.18	$0.29

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
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$35,464	$55,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Real estate depreciation	49,911	50,249
Corporate asset depreciation as corporate expenses	43	53
Gain on sale of hotel property	—	(1,290)
Gain on prepayment of note receivable	—	(13,550)
Non-cash ground rent	2,987	3,292
Non-cash financing costs, debt premium and interest rate cap as interest	1,262	1,410
Amortization of note receivable discount as interest income	—	(1,075)
Impairment losses	10,461	—
Amortization of favorable and unfavorable contracts, net	(727)	(705)
Amortization of deferred income	(534)	(545)
Stock-based compensation	3,000	2,687
Changes in assets and liabilities:		
Prepaid expenses and other assets	(4,896)	(1,975)
Restricted cash	9,116	(9,156)
Due to/from hotel managers	(11,976)	(14,585)
Accounts payable and accrued expenses	5,832	(5,001)
Net cash provided by operating activities	99,943	65,762
Cash flows from investing activities:		
Hotel capital expenditures	(32,199)	(40,415)
Hotel acquisitions	(150,400)	—
Net proceeds from sale of hotel property	—	23,650
Note receivable principal repayments	—	64,500
Change in restricted cash	5,412	2,576
Net cash (used in) provided by investing activities	(177,187)	50,311
Cash flows from financing activities:		
Scheduled mortgage debt principal payments	(7,001)	(7,268)
Proceeds from sale of common stock, net	7,766	—
Proceeds from mortgage debt	85,000	—
Repayments of mortgage debt	(108,821)	—
Draws on senior unsecured credit facility	135,000	41,320
Repayments of senior unsecured credit facility	(45,000)	—
Purchase of interest rate cap	(325)	—
Payment of financing costs	(955)	(192)
Deposit on new mortgage loan	(75)	(1,820)
Payment of cash dividends	(45,852)	(36,899)

Repurchase of common stock	(2,735)	(1,898)
Net cash provided by (used in) financing activities	17,002	(6,757)
Net (decrease) increase in cash and cash equivalents	(60,242)	109,316
Cash and cash equivalents, beginning of period	144,365	144,584
Cash and cash equivalents, end of period	$84,123	$253,900

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

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DIAMONDROCK HOSPITALITY COMPANY

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

	Six Months Ended June 30,	
	2015	2014
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$23,748	$27,416
Cash paid for income taxes	$507	$220
Capitalized interest	$—	$687
Non-cash Financing Activities:		
Unpaid dividends	$25,479	$20,395

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

As of June 30, 2015, we owned 29 hotels with 10,936 guest rooms, located in the following markets: Atlanta, Georgia; Boston, Massachusetts (2); Burlington, Vermont; Charleston, South Carolina; Chicago, Illinois (2); Denver, Colorado (2); Fort Lauderdale, FL; Fort Worth, Texas; Huntington Beach, California; Key West, Florida (2); Minneapolis, Minnesota; New York, New York (5); Orlando, Florida; Salt Lake City, Utah; San Diego, California; San Francisco, California; Sonoma, California; Washington D.C. (2); St. Thomas, U.S. Virgin Islands; and Vail, Colorado.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2014, included in our Annual Report on Form 10-K filed on February 27, 2015.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of June 30, 2015, the results of our operations for the three and six months ended June 30, 2015 and 2014 and cash flows for the six months ended June 30, 2015 and 2014. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations.

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

the Company will consolidate the entity when it is determined to be the primary beneficiary of the entity.

Property and Equipment

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

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

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

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

Revenue Recognition

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

Earnings (Loss) Per Share

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

Stock-based Compensation

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

Income Taxes

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

in which the new rate is enacted.

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

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

We had no accruals for tax uncertainties as of June 30, 2015 and December 31, 2014.

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Fair Value Measurements

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

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

Intangible Assets and Liabilities

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This standard is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. Adoption of this standard will only affect the presentation of our balance sheet. Upon adoption we will reclassify deferred financing costs, net from total assets to be shown net of debt in the liabilities section of our balance sheet.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which changes the way reporting enterprises evaluate the consolidation of limited partnerships, variable interests and similar entities. This standard is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We are currently evaluating the effect of the ASU on our consolidated financial statements and related disclosures, but we do not believe it will have a material impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which affects virtually all aspects of an entity's revenue recognition. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for annual reporting periods beginning after December 15, 2017. We have not yet completed our assessment of the effect of the new standard on our financial statements, including possible transition alternatives.

3. Property and Equipment

Property and equipment as of June 30, 2015 and December 31, 2014 consists of the following (in thousands):

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	June 30, 2015	December 31, 2014
Land	$578,338	$508,838
Land improvements	7,994	7,994
Buildings	2,526,698	2,427,274
Furniture, fixtures and equipment	450,601	430,873
CIP	8,883	13,784
	3,572,514	3,388,763
Less: accumulated depreciation	(676,131)	(624,370)
	$2,896,383	$2,764,393

As of June 30, 2015, we had accrued capital expenditures of $5.0 million. As of December 31, 2014, we had accrued capital expenditures of $6.2 million.

4. Favorable Lease Assets

In connection with the acquisition of certain hotels, we have recognized intangible assets for favorable ground leases and tenant leases. Our favorable lease assets, net of accumulated amortization of $2.8 million and $3.0 million as of June 30, 2015 and December 31, 2014, respectively, consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Westin Boston Waterfront Hotel Ground Lease	$18,184	$18,293
Westin Boston Waterfront Hotel Lease Right	—	9,045
Hilton Minneapolis Ground Lease	5,724	5,760
Lexington Hotel New York Tenant Leases	201	1,031
Hilton Boston Downtown Tenant Leases	62	145
	$24,171	$34,274

Favorable lease assets are recorded at the acquisition date and are generally amortized using the straight-line method over the remaining non-cancelable term of the lease agreement. Amortization expense for the three months and six months ended June 30, 2015 was approximately $0.1 million and $0.3 million, respectively.

We own a favorable lease asset related to the right to acquire a leasehold interest in a parcel of land adjacent to the Westin Boston Waterfront Hotel for the development of a 320 to 350 room hotel (the “lease right”). The option expires in 2016. We do not amortize the lease right but review the asset for impairment annually or at interim periods if events or circumstances indicate that the asset may be impaired. During the second quarter of 2015, we decided not to exercise the option to acquire the leasehold interest and recorded an impairment loss of $9.6 million, which includes the write-off of $0.6 million of other assets related to the lease right included within prepaid and other assets on the accompanying condensed consolidated balance sheets.

During the first quarter of 2015, we evaluated the Lexington Hotel New York favorable tenant leases for recoverability of the carrying value. The lease with one of the retail tenants at the Lexington Hotel New York was expected to terminate prior to the end of the lease term. We reviewed the favorable lease asset for impairment and concluded that the asset was not realizable and recorded an impairment loss of $0.8 million during the first quarter of 2015. The lease terminated in June 2015.

5. Capital Stock

Common Shares

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

We have an “at-the-market” equity offering program (the “ATM program”), pursuant to which we may issue and sell shares of our common stock from time to time, having an aggregate offering price of up to $200 million. In January 2015, we sold 524,606

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shares of our common stock at an average price of $15.18 for net proceeds of $7.8 million. We have not sold any additional shares since January 2015 and there is $128.3 million remaining under the ATM program.

We have paid the following dividends to holders of our common stock during 2015 as follows:

Payment Date	Record Date	Dividend per Share
January 12, 2015	December 31, 2014	$0.1025
April 10, 2015	March 31, 2015	$0.1250
July 14, 2015	June 30, 2015	$0.1250

Preferred Shares

We are authorized to issue up to 10 million shares of preferred stock, $0.01 par value per share. Our board of directors is required to set for each class or series of preferred stock the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption. As of June 30, 2015 and December 31, 2014, there were no shares of preferred stock outstanding.

Operating Partnership Units

Holders of operating partnership units have certain redemption rights, which would enable them to cause our operating partnership to redeem their units in exchange for cash per unit equal to the market price of our common stock, at the time of redemption, or, at our option for shares of our common stock on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or our stockholders. As of June 30, 2015 and December 31, 2014, 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 3,916,133 shares as of June 30, 2015. In addition to these shares, additional shares of common stock could be issued in connection with the performance stock unit awards as further described below.

Restricted Stock Awards

Restricted stock awards issued to our officers and employees generally vest over a 3-year period from the date of the grant based on continued employment. We measure compensation expense for the restricted stock awards based upon the fair market value of our common stock at the date of grant. Compensation expense is recognized on a straight-line basis over the vesting period and is included in corporate expenses in the accompanying condensed consolidated statements of operations. A summary of our restricted stock awards from January 1, 2015 to June 30, 2015 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2015	514,419	$10.82

Granted	216,159	14.48
Forfeited	(183)	9.08
Vested	(255,828)	10.39
Unvested balance at June 30, 2015	474,567	$12.72

The remaining share awards are expected to vest as follows: 241,698 shares during 2016, 153,578 shares during 2017 and 79,291 shares during 2018. As of June 30, 2015, the unrecognized compensation cost related to restricted stock awards was $5.1 million and the weighted-average period over which the unrecognized compensation expense will be recorded is approximately 26 months. We recorded $0.7 million and $1.4 million of compensation expense related to restricted stock awards for each of the three and six months ended June 30, 2015 and 2014, respectively.

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Market Stock Units

Market stock units ("MSUs") are restricted stock units that vest three years from the date of grant. The actual number of shares issued to each executive officer at the vesting date is based on the Company's total stockholder return over a three-year period. In March 2015, the remaining 99,047 outstanding MSUs vested, resulting in the issuance of 148,572 shares of common stock, before income tax withholding. There are no MSUs remaining following this vesting. We recorded no compensation expense related to MSUs for the three months ended June 30, 2015 and less than $0.1 million for the six months ended June 30, 2015. We recorded $0.1 million and $0.2 million of compensation expense related to MSUs for the three and six months ended June 30, 2014, respectively.

Performance Stock Units

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

The fair values of the PSU awards are determined using a Monte Carlo simulation performed by a third-party valuation firm. The determination of the grant-date fair value of the awards granted during the six months ended June 30, 2015 included the following assumptions:

Award Grant Date	Volatility	Risk-Free Rate	Fair Value at Grant Date
February 27, 2015	22.9 %	1.01 %	$ 12.13

The simulations also considered the share performance of the Company and the peer group. A summary of our PSUs from January 1, 2015 to June 30, 2015 is as follows:

	Number of Target Units	Weighted-Average Grant Date Fair Value
Unvested balance at January 1, 2015	436,170	$ 10.95
Granted	218,467	12.13
Additional units from dividends	8,847	14.34
Unvested balance at June 30, 2015	663,484	$ 11.39

The remaining target units are expected to vest as follows: 234,234 units during 2016, 208,826 units during 2017 and 220,424 units during 2018. As of June 30, 2015, the unrecognized compensation cost related to the PSUs was $4.2 million and is expected to be recognized on a straight-line basis over a weighted average period of 25 months. We recorded $0.6 million and $1.1 million of compensation expense related to the PSUs for the three and six months ended June 30, 2015, respectively. We recorded $0.4 million and $0.6 million of compensation expense related to the PSUs for the three and six months ended June 30, 2014, respectively.

7. Earnings Per Share

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

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

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income	$24,822	$51,916	$35,464	$55,953
Denominator:				
Weighted-average number of common shares outstanding—basic	200,830,064	195,776,924	200,738,301	195,700,864
Effect of dilutive securities:				
Unvested restricted common stock	80,538	134,737	143,882	181,803
Unexercised stock appreciation rights	1,425	—	2,212	—
Shares related to unvested PSUs	230,720	335,057	230,720	335,057
Weighted-average number of common shares outstanding—diluted	201,142,747	196,246,718	201,115,115	196,217,724
Earnings per share:				
Basic earnings per share	$0.12	$0.27	$0.18	$0.29
Diluted earnings per share	$0.12	$0.26	$0.18	$0.29

We did not include unexercised stock appreciation rights of 262,461 in our calculation of diluted earnings per share for the three and six months ended June 30, 2014 as they would be anti-dilutive.

8. Debt

The following table sets forth information regarding the Company’s debt as of June 30, 2015 (dollars in thousands):

Property	Principal Balance	Interest Rate	Maturity Date
JW Marriott Denver at Cherry Creek (1)	$38,055	6.47%	July 2015
Orlando Airport Marriott	55,475	5.68%	January 2016
Chicago Marriott Downtown Magnificent Mile	203,449	5.975%	April 2016
Courtyard Manhattan / Fifth Avenue	48,640	6.48%	June 2016
Lexington Hotel New York	170,368	LIBOR + 2.25% (2.434% at June 30, 2015)	October 2017 (2)
Marriott Salt Lake City Downtown	60,734	4.25%	November 2020
Hilton Minneapolis	91,789	5.464%	May 2021
Westin Washington D.C. City Center	69,711	3.99%	January 2023
The Lodge at Sonoma, a Renaissance Resort & Spa	29,819	3.96%	April 2023
Westin San Diego	68,286	3.94%	April 2023
Courtyard Manhattan / Midtown East	86,000	4.40%	August 2024
Renaissance Worthington	85,000	3.66%	May 2025
Total mortgage debt	1,007,326		
Senior unsecured credit facility	90,000	LIBOR + 1.75% (1.94% at June 30, 2015)	January 2017 (3)
Total debt	$1,097,326		
Weighted-Average Interest Rate		4.43%	

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(1)

The loan was repaid on July 1, 2015, at which time we entered into a new $65 million mortgage loan, as described below.

(2) The loan may be extended for two additional one-year terms subject to the satisfaction of certain conditions and the payment of an extension fee.

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

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Mortgage Debt

We have incurred limited recourse, property specific mortgage debt secured by certain of our hotels. In the event of default, the lender may only foreclose on the secured assets; however, in the event of fraud, misapplication of funds or other customary recourse provisions, the lender may seek payment from us. As of June 30, 2015, 12 of our 29 hotels were secured by mortgage debt. Our mortgage debt contains certain property specific covenants and restrictions, including minimum debt service coverage ratios that trigger “cash trap” provisions as well as restrictions on incurring additional debt without lender consent. As of June 30, 2015, we are in compliance with the financial covenants of our mortgage debt.

On April 10, 2015, we repaid the $52.6 million mortgage loan secured by the Renaissance Worthington three months prior to the scheduled maturity date. On April 14, 2015, we entered into a new $85.0 million mortgage loan secured by the Renaissance Worthington. The new loan matures in 2025 and bears interest at a fixed rate of 3.66%. The new loan is interest-only for the first two years, after which principal will amortize on a 30-year schedule.

On May 11, 2015, we repaid the mortgage loan secured by the Frenchman's Reef & Morning Star Beach Resort three months prior to the scheduled maturity date. The loan had an outstanding principal balance of $56.2 million and incurred interest at a fixed rate of 5.44%.

On July 1, 2015, we repaid the $38.1 million mortgage loan secured by the JW Marriott Denver at Cherry Creek and entered into a new $65.0 million mortgage loan. The new loan matures in 2025 and bears interest at a fixed rate of 4.33%. The new loan is interest-only for the first year, after which principal will amortize on a 30-year schedule.

Senior Unsecured Credit Facility

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

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

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

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

	Covenant	Actual at

		June 30, 2015
Maximum leverage ratio (1)	60%	34.1%
Minimum fixed charge coverage ratio (2)	1.50x	3.3x
Minimum tangible net worth (3)	$1.91 billion	$2.50 billion
Secured recourse indebtedness	Less than 45% of Total Asset Value	31.3%

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

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

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

The facility requires us to maintain a specific pool of unencumbered borrowing base properties. The unencumbered borrowing base assets must include a minimum of five properties with an unencumbered borrowing base value, as defined in the credit agreement, of not less than $250 million. As of June 30, 2015, the unencumbered borrowing base included five properties with a borrowing base value of $329 million.

As of June 30, 2015, we had $90.0 million outstanding under the facility and the Company's ratio of net indebtedness to EBITDA was 3.70x. Accordingly, interest on our current and future borrowings, if any, under the facility will be based on LIBOR plus 175 basis points for the next quarter. We incurred interest and unused credit facility fees on the facility of $0.2 million for the three months ended June 30, 2015 and 2014. We incurred interest and unused credit facility fees on the facility of $0.4 million for the six months ended June 30, 2015 and 2014. Subsequent to June 30, 2015, we have repaid $50.0 million of borrowings outstanding under the facility.

9. Acquisitions

On February 6, 2015, we acquired the 157-room Shorebreak Hotel located in Huntington Beach, California for a contractual purchase price of $58.5 million. Upon acquisition of the hotel, we entered into a 10-year management agreement with Kimpton Hotel and Restaurant Group, LLC. The management agreement provides for a base management fee of 1.25% of gross revenues during 2015 and 2.5% of gross revenues thereafter. The agreement also provides for an incentive management fee of 15% of hotel operating profit above an owner's priority determined in accordance with the terms of the management agreement.

We own a 95.5% undivided interest in the land underlying the hotel and lease the remaining 4.5% under a long-term ground lease, which expires in 2100, including extension options. In 2021 and at certain points thereafter, we have the option to purchase the 4.5% leasehold interest at the greater of the then current rent divided by 10% or fair market value. We reviewed the terms of the ground lease in conjunction with the hotel purchase accounting and concluded that the terms are unfavorable to us compared with a current market ground lease. As a result, we recorded a $0.3 million unfavorable lease liability. We expect to exercise the leasehold purchase option in 2021. Accordingly, the unfavorable lease liability will be amortized over the remaining term through 2021.

On June 30, 2015, we acquired the 184-suite Sheraton Suites Key West located in Key West, Florida for a contractual purchase price of $94.0 million. The acquisition was funded with a combination of corporate cash on hand and a draw on our senior unsecured credit facility. We assumed the existing management agreement with Ocean Properties, which expires in July 2027 and provides for a base management fee of 3.0% of gross revenues and an incentive management fee of 10% of hotel operating profit above an owner's priority determined in accordance with the terms of the management agreement.

The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed in our acquisitions (in thousands):

Shorebreak Hotel

		Sheraton Suites Key West
Land	$ 19,908	$ 49,592
Building and improvements	37,525	43,030
Furnitures, fixtures and equipment	1,338	1,378
Total fixed assets	58,771	94,000
Unfavorable lease liability	(349)	—
Other assets and liabilities, net	401	428
Total	$ 58,823	$ 94,428

We believe all material adjustments necessary to reflect the effects of the acquisitions have been made; however, the amounts recorded are based on a preliminary estimate of the fair value of the assets acquired and the liabilities assumed. We will finalize the recorded amounts upon the completion of our valuation analysis of the assets acquired and liabilities assumed.

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Acquired properties are included in our results of operations from the date of acquisition. The following pro forma financial information presents our results of operations (in thousands, except per share data) as if the hotels acquired in 2015 and 2014 were acquired on January 1, 2014 and January 1, 2013, respectively. The pro forma financial information does not include the Hilton Garden Inn Times Square Central, since the hotel opened on September 1, 2014. The pro forma information is not necessarily indicative of the results that actually would have occurred nor does it indicate future operating results.

	Three Months Ended June 30,		Six Months Ending June 30,	
	2015	2014	2015	2014
Revenues	$254,304	$250,858	$470,247	$466,686
Net income	$26,073	$53,382	39,017	66,834
Earnings per share:				
Basic earnings per share	$0.13	$0.27	$0.19	$0.34
Diluted earnings per share	$0.13	$0.27	$0.19	$0.34

For the three and six months ended June 30, 2015, our condensed consolidated statements of operations include $3.8 million and $5.8 million, respectively, of revenues and $0.7 million and $0.8 million, respectively, of net income related to the operations of the Shorebreak Hotel and Sheraton Suites Key West.

10. Fair Value of Financial Instruments

The fair value of certain financial assets and liabilities and other financial instruments as of June 30, 2015 and