DiamondRock Hospitality Co
Form 10-Q
July 25, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 15, 2007

OR

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

Commission file number 001-32514

DIAMONDROCK HOSPITALITY COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Maryland	**20-1180098**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
6903 Rockledge Drive, Suite 800, Bethesda, Maryland	**20817**
(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, and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The registrant had 94,680,827 shares of its $0.01 par value common stock outstanding as of July 25, 2007.

Table of Contents

INDEX

		Page No.
	PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements (unaudited):	
	Condensed Consolidated Balance Sheets- June 15, 2007 and December 31, 2006	1
	Condensed Consolidated Statements of Operations For the Fiscal Quarters ended June 15, 2007 and June 16, 2006 and the Periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006	2
	Condensed Consolidated Statements of Cash Flows For the Periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006	3
	Notes to Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	12
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	27
Item 4.	Controls and Procedures	27
	PART II. OTHER INFORMATION AND SIGNATURE	
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3.	Defaults Upon Senior Securities	28
Item 4.	Submission of Matters to a Vote of Security Holders	28
Item 5.	Other Information	28
Item 6.	Exhibits	29

Item I. Financial Statements

DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS
June 15, 2007 and December 31, 2006
(in thousands, except share amounts)

	June 15, 2007 (Unaudited)	December 31, 2006
ASSETS		
Property and equipment, at cost	$ 2,082,219	$ 1,761,748
Less: accumulated depreciation	(109,095)	(75,322)
	1,973,124	1,686,426
Deferred financing costs, net	4,528	3,764
Restricted cash	28,628	28,595
Due from hotel managers	70,381	57,753
Favorable lease assets, net	42,477	10,060
Prepaid and other assets	12,636	12,676
Cash and cash equivalents	23,266	19,691
Total assets	**$ 2,155,040**	**$ 1,818,965**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Debt, at face amount	$ 865,944	$ 841,151
Debt premium	2,545	2,620
Total debt	868,489	843,771
Deferred income related to key money	11,332	11,495
Unfavorable contract liabilities, net	87,049	87,843
Due to hotel managers	37,899	34,545
Dividends declared and unpaid	22,947	13,871
Accounts payable and accrued expenses	41,174	42,512
Total other liabilities	200,401	190,266
Shareholders' Equity:		
Preferred stock, $.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $.01 par value; 200,000,000 shares authorized; 94,534,132 and 76,191,632 shares issued and outstanding at June 15, 2007 and December 31, 2006, respectively	945	762

Additional paid-in capital		1,146,545		826,918
Accumulated deficit		(61,340)		(42,752)
Total shareholders' equity		1,086,150		784,928
Total liabilities and shareholders' equity	**$**	**2,155,040**	**$**	**1,818,965**

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

DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Fiscal Quarters Ended June 15, 2007 and June 16, 2006 and
the Periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006
(in thousands, except per share amounts)

	Fiscal Quarter Ended June 15, 2007 (Unaudited)	Fiscal Quarter Ended June 16, 2006 (Unaudited)	Period from January 1, 2007 to June 15, 2007 (Unaudited)	Period from January 1, 2006 to June 16, 2006 (Unaudited)
Rooms	$ 115,681	$ 81,273	$ 201,796	$ 135,788
Food and beverage	54,340	36,676	95,843	60,745
Other	9,523	7,018	15,640	11,556
Total revenues	179,544	124,967	313,279	208,089
Operating Expenses:				
Rooms	25,452	18,134	45,835	30,969
Food and beverage	35,771	23,420	64,277	40,309
Management fees	7,934	4,780	13,166	7,697
Other hotel expenses	54,649	40,066	99,021	68,973
Depreciation and amortization	17,643	12,078	33,704	21,125
Corporate expenses	3,274	2,646	6,422	5,213
Total operating expenses	144,723	101,124	262,425	174,286
Operating profit	34,821	23,843	50,854	33,803
Other Expenses (Income):				
Interest income	(671)	(1,207)	(1,268)	(1,391)
Interest expense	11,884	9,324	23,379	15,132
Total other expenses	11,213	8,117	22,111	13,741
Income before income taxes	23,608	15,726	28,743	20,062
Income tax expense	(3,095)	(1,829)	(1,440)	(1,799)
Net income	$ 20,513	$ 13,897	$ 27,303	$ 18,263
Earnings per share:				
Basic and diluted	$ 0.21	$ 0.20	$ 0.29	$ 0.30

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

DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006
(in thousands)

	Period from January 1, 2007 to June 15, 2007	Period from January 1, 2006 to June 16, 2006
Cash flows from operating activities:	(Unaudited)	(Unaudited)
Net income	$ 27,303	$ 18,263
Adjustments to reconcile net income to net cash provided by operating activities:		
Real estate depreciation	33,704	21,125
Corporate asset depreciation as corporate expenses	79	74
Non-cash ground rent	3,594	3,412
Non-cash financing costs as interest	349	516
Market value adjustment to interest rate caps	-	16
Amortization of debt premium and unfavorable contract liabilities	(868)	(503)
Amortization of deferred income	(164)	(135)
Stock-based compensation	2,097	1,157
Yield support received	1,741	-
Non-cash yield support recognized	(189)	(1,613)
Changes in assets and liabilities:		
Prepaid expenses and other assets	(460)	(270)
Restricted cash	530	(3,125)
Due to/from hotel managers	(10,650)	(4,350)
Accounts payable and accrued expenses	(3,630)	(184)
Net cash provided by operating activities	53,436	34,383
Cash flows from investing activities:		
Hotel acquisitions	(331,325)	(145,566)
Hotel capital expenditures	(22,549)	(25,960)
Change in restricted cash	(564)	3,600
Net cash used in investing activities	(354,438)	(167,926)
Cash flows from financing activities:		
Repayments of credit facilities	(35,000)	(33,000)
Draws on credit facilities	61,500	24,000
Proceeds from mortgage debt	-	271,000
Repayments of mortgage debt	-	(325,500)
Proceeds from short-term loan	-	79,500
Scheduled mortgage debt principal payments	(1,707)	(1,607)
Payment of financing costs	(1,113)	(1,272)
Proceeds from sale of common stock	317,935	239,230
Payment of costs related to sale of common stock	(380)	(1,041)
Payment of dividends	(36,658)	(18,318)

Net cash provided by financing activities	$	304,577	$	232,992

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

DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
For the Periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006
(in thousands)

	Period from January 1, 2007 to June 15, 2007 (Unaudited)	Period from January 1, 2006 to June 16, 2006 (Unaudited)
Net increase in cash and cash equivalents	$ 3,575	$ 99,449
Cash and cash equivalents, beginning of period	19,691	9,432
Cash and cash equivalents, end of period	$ 23,266	$ 108,881
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 24,716	$ 14,808
Cash paid for income taxes	$ 340	$ 926
Capitalized interest	$ -	$ 221
Non Cash Investing and Financing Activities:		
Assumption of mortgage debt	$ -	$ 220,000

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

DIAMONDROCK HOSPITALITY COMPANY

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

DiamondRock Hospitality Company (the "Company") is a lodging focused real estate company that commenced operations in July of 2004. As of June 15, 2007, the Company owned twenty-one hotels, comprising 9,804 rooms, located in the following markets: Atlanta, Georgia (4); 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.

The Company conducts its business through a traditional umbrella partnership REIT, or UPREIT, in which the Company's hotel properties are owned by its operating partnership, DiamondRock Hospitality Limited Partnership, or subsidiaries of the Company's operating partnership. The Company is the sole general partner of its 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

Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, or GAAP, have been condensed or omitted in the accompanying unaudited condensed consolidated financial statements. The Company believes 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, 2006, included in the Company's Annual Report on Form 10-K dated February 28, 2007.

In the Company's opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly the Company's financial position as of June 15, 2007, and the results of the Company's operations for the fiscal quarters ended June 15, 2007 and June 16, 2006, and for the periods from January 1, 2007 to June 15, 2007, and January 1, 2006 to June 16, 2006, respectively, and cash flows for the periods from January 1, 2007 to June 15, 2007, and January 1, 2006 to June 16, 2006, respectively. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations and the timing of the Company's acquisitions.

The Company's financial statements include all of the accounts of the Company and its subsidiaries in accordance with U.S. generally accepted accounting principles. All intercompany accounts and transactions have been eliminated in consolidation.

Reporting Periods

The results reported in the Company's condensed consolidated statements of operations are based on results of its hotels reported by hotel managers. The Company's hotel managers use different reporting periods. Marriott International, the manager of most of the Company's 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, Noble Management Group, LLC, 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, the Company, as a REIT, is required by U.S. federal tax laws to report results on a calendar year basis. As a result, the Company has adopted the reporting periods used by Marriott International 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 International'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.

Two consequences of the reporting cycle the Company has 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 the Company adopted is more closely aligned with the reporting calendar used by the manager of most of its properties, one final consequence of the calendar is the Company is 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, Noble Management Group, LLC, Vail Resorts nor Marriott International make mid-month results available. As a result, the 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, 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.

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.

Earnings Per Share

Basic earnings per share is calculated by dividing net income, adjusted for dividends on unvested stock grants, by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income, 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

The Company accounts for stock-based employee compensation using the fair value based method of accounting under Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS 123R"), *Share-Based Payment*. The Company records the cost of awards with service conditions based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. No awards with performance-based or market-based conditions have been issued.

Key Money

Key money received in conjunction with entering into hotel management agreements is deferred and amortized over the term of the hotel management agreement. Key money is classified as deferred income on the accompanying condensed consolidated balance sheets and amortized against management fees on the accompanying condensed consolidated statements of operations.

Yield Support

Marriott has provided the Company with operating cash flow guarantees for certain hotels to fund shortfalls of actual hotel operating income compared to a negotiated target net operating income. The Company refers to these guarantees as "Yield Support." Yield Support received is recognized over the period earned if the Yield Support is not refundable

and there is reasonable uncertainty of receipt at inception of the management agreement. Yield Support is recorded as an offset to base management fees.

Straight-Line Rent

The Company records 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. generally accepted accounting principles.

Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48") on January 1, 2007. FIN 48 did not have a material impact on the Company's results of operations, financial position or cash flows. The Company had no accruals for tax uncertainties as of June 15, 2007 and December 31, 2006. As of June 15, 2007, all of the Company's federal income tax returns and state tax returns for the jurisdictions in which the Company's hotels are located remain subject to examination by the respective jurisdiction tax authorities.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

3. Property and Equipment

Property and equipment as of June 15, 2007 (unaudited) and December 31, 2006 consists of the following (in thousands):

	June 15, 2007	December 31, 2006
Land	$ 223,490	$ 223,490
Land improvements	8,292	5,594
Buildings	1,650,445	1,375,143
Furniture, fixtures and equipment	196,811	149,842
Corporate office equipment and CIP	3,181	7,679
	2,082,219	1,761,748
Less: accumulated depreciation	(109,095)	(75,322)
	$ 1,973,124	$ 1,686,426

4. Capital Stock

Common Shares

The Company is authorized to issue up to 200,000,000 shares of common stock, $.01 par value per share. The Company's authorized number of shares of common stock increased from 100,000,000 to 200,000,000 in the first fiscal quarter of 2007. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Holders of the Company's common stock are entitled to receive dividends out of assets legally available for the payment of dividends when authorized by the Company's board of directors.

The Company completed an additional follow-on offering of its common stock during the first fiscal quarter of 2007. The Company sold 18,342,500 shares of common stock, including the underwriters' over-allotment of 2,392,500 shares, at an offering price of $18.15 per share. The net proceeds to the Company, after deduction of offering costs, were $317.6 million. The Company used the net proceeds of this offering to complete the acquisition of the Westin Boston Waterfront Hotel.

Preferred Shares

The Company is authorized to issue up to 10,000,000 shares of preferred stock, $.01 par value per share. The Company's 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 15, 2007 and December 31, 2006, there were no shares of preferred stock outstanding.

5. Stock Incentive Plan

As of June 15, 2007, the Company has issued or committed to issue 1,413,854 shares of common stock under the 2004 Stock Option and Incentive Plan, as amended, including 659,306 shares of unvested restricted common stock and a commitment to issue 418,780 units of deferred common stock.

As of June 15, 2007, the Company's officers and employees have been awarded 1,142,139 shares of restricted common stock. The aggregate fair value of these awards on the respective grant dates was $14.2 million. The weighted-average grant-date fair value of these awards was $12.44 per share. As of June 15, 2007, 482,833 of these awards have vested. The remaining share awards will vest as follows: 314,787 shares during 2007, 146,880 shares during 2008, 131,713 shares during 2009 and 65,926 shares during 2010. None of the recipients were required to pay for such shares of common stock. The Company awarded 197,779 shares of restricted common stock to the Company's officers and employees during the first fiscal quarter of 2007. The aggregate fair value of these awards was $3.6 million, and the weighted average grant date fair value of these awards was $18.00 per share. As of June 15, 2007, the Company's independent directors have been awarded 40,288 shares of common stock. Shares issued to the Company's independent directors were fully vested upon issuance. Shares issued to the Company's officers and employees vest over a three-year period from the date of the grant. As of June 15, 2007, the unrecognized compensation cost related to the share awards was $5.6 million and the weighted- average period over which the unrecognized compensation expense will be recorded is approximately 28 months.

At the time of its initial public offering, the Company made a commitment to issue 382,500 shares of deferred stock units to the Company's senior executive officers. These deferred stock units are fully vested and represent the promise of the Company to issue a number of shares of the Company's 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. As of June 15, 2007, the Company has a commitment to issue 418,780 shares under this plan. The share commitment increased from 382,500 to 418,780 since the Company's initial public offering because dividends are not paid out but instead are effectively reinvested at the dividend payment date's closing price of our common stock. No expense has been recognized during the period from January 1, 2007 to June 15, 2007 for these awards.

In total, for the periods from January 1, 2007 to June 15, 2007, and January 1, 2006 to June 16, 2006, the Company recorded $2.1 million and $1.2 million, respectively, and $1.1 million and $0.6 million during the fiscal quarters ended June 15, 2007 and June 16, 2006, respectively, of stock-based compensation expense, which is included in corporate expenses in the accompanying condensed consolidated statements of operations.

6. Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share is calculated by dividing net income available to common shareholders, that has been adjusted for dilutive securities, by the weighted-average number of common shares outstanding including dilutive securities. No effect is shown for securities that are anti-dilutive.

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

Basic Earnings per Share Calculation:	**Fiscal Quarter Ended June 15, 2007** (unaudited)	**Fiscal Quarter Ended June 16, 2006** (unaudited)	**Period from January 1, 2007 to June 15, 2007** (unaudited)	**Period from January 1, 2006 to June 16, 2006** (unaudited)
Net income	$ 20,513	$ 13,897	$ 27,303	$ 18,263
Dividends on unvested restricted common stock	(158)	(135)	(241)	(269)

Net income after dividends on unvested restricted common stock	$ 20,355	$ 13,762	$ 27,062	$ 17,994
Weighted-average number of common shares outstanding—basic	94,946,628	69,383,184	93,089,822	60,349,939
Basic earnings per share	$ 0.21	$ 0.20	$ 0.29	$ 0.30

Diluted Earnings per Share Calculation:	Fiscal Quarter Ended June 15, 2007 (unaudited)	Fiscal Quarter Ended June 16, 2006 (unaudited)	Period from January 1, 2007 to June 15, 2007 (unaudited)	Period from January 1, 2006 to June 16, 2006 (unaudited)
Net income	$ 20,513	$ 13,897	$ 27,303	$ 18,263
Dividends on unvested restricted common stock	(158)	(135)	(241)	(269)
Net income after dividends on unvested restricted common stock	$ 20,355	$ 13,762	$ 27,062	$ 17,994
Weighted-average number of common shares outstanding—basic	94,946,628	69,383,184	93,089,822	60,349,939
Unvested restricted common stock	345,214	536,207	372,846	499,997
Weighted-average number of common shares outstanding—diluted	95,291,842	69,919,391	93,462,668	60,849,936
Diluted earnings per share	$ 0.21	$ 0.20	$ 0.29	$ 0.30

7. Debt

The Company has incurred limited recourse, property specific mortgage debt in conjunction with certain of the Company's 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 the Company. As of June 15, 2007, twelve of our twenty-one hotel properties were secured by mortgage debt. The Company's mortgage debt contains certain property specific covenants and restrictions, including minimum debt service coverage ratios that trigger cash management provisions as well as restrictions on incurring additional debt without lender consent. As of June 15, 2007, the Company was in compliance with the financial covenants of our mortgage debt.

The following table sets forth information regarding the Company's debt as of June 15, 2007 (unaudited), in thousands:

Property	Principal Balance	Interest Rate
Courtyard Manhattan / Midtown East	$ 42,735	5.195%
Marriott Salt Lake City Downtown	36,293	5.50%
Courtyard Manhattan / Fifth Avenue	51,000	6.48%
Marriott Griffin Gate Resort	29,473	5.11%
Bethesda Marriott Suites	18,443	7.69%
Renaissance Worthington	57,400	5.40%
Frenchman's Reef & Morning Star Marriott Beach Resort	62,500	5.44%
Marriott Los Angeles Airport	82,600	5.30%
Orlando Airport Marriott	59,000	5.68%
Chicago Marriott Downtown Magnificent Mile	220,000	5.975%
Renaissance Austin	83,000	5.507%
Renaissance Waverly	97,000	5.503%
Senior unsecured credit facility	26,500	)

			LIBOR + 0.95 (6.27% as of June 15, 2007
Total	$	865,944	
Weighted-Average Interest Rate			5.7%

The Company was party to a three-year, $75.0 million senior secured revolving credit facility from Wachovia Bank, National Association, as administrative agent under the credit facility, and Citicorp North America, Inc. and Bank of America, N.A., as co-syndication agents under the credit facility (the "Former Facility"). On February 28, 2007, the Company amended and restated the Former Facility to expand it into a $200.0 million unsecured credit facility (the "New Facility").

Interest was paid on the periodic advances under the Former Facility at varying rates, based upon either LIBOR or the applicable prime rate, plus an agreed upon additional margin amount. The interest rate depended upon our level of outstanding indebtedness in relation to the value of our assets from time to time, as follows:

	Leverage Ratio		
	70% or greater	**65% to 70%**	**less than 65%**
Prime rate margin	1.25%	1.00%	0.75%
LIBOR margin	2.00%	1.75%	1.45%

In addition to the interest payable on amounts outstanding under the Former Facility, the Company was required to pay an annual fee equal to 0.35% of the unused portion of the Former Facility.

The New Facility has a term of 48 months. The Company may extend the maturity date of the New Facility for an additional year upon the payment of applicable fees and the satisfaction of certain other customary conditions. The Company also has the right to increase the amount of the New Facility to $500.0 million with the lenders' approval.

Interest is paid on the periodic advances under the New 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:

	Leverage Ratio			
	60% or greater	**55% to 60%**	**50% to 55%**	**less than 50%**
Alternate base rate margin	0.65%	0.45%	0.25%	0.00%
LIBOR margin	1.55%	1.45%	1.25%	0.95%

In addition to the interest payable on amounts outstanding under the New Facility, the Company is required to pay a fee equal to 0.20% of the unused portion of the New Facility if the unused portion of the New Facility is greater than 50% and 0.125% if the unused portion of the new Facility is less than 50%. As of June 15, 2007, the Company had $26.5 million outstanding under the New Facility with a capacity to borrow an additional $173.5 million. On June 21, 2007, the Company drew an additional $11.5 million under the New Facility. On July 23, 2007, the Company repaid $3.0 million on the New Facility. As of June 15, 2007, the Company was in compliance with all financial covenants of the New Facility.

8. Acquisition

On January 31, 2007, the Company acquired a leasehold interest in the 793 room Westin Boston Waterfront Hotel. In addition to the Westin Boston Waterfront Hotel, the acquisition, which closed on February 8, 2007, included a leasehold interest in 100,000 square feet of retail space, and an option to acquire a leasehold interest in a parcel of land with development rights to build a 320 to 350 room hotel. The contractual purchase price for the Westin Boston Waterfront Hotel, the leasehold interest in the retail space and the option to acquire a leasehold interest in a parcel of land was $330.3 million. The Company allotted purchase consideration to favorable lease assets related to the favorable lease terms of the hotel ground lease and the option to assume the current lease terms under the land option. The hotel and retail space are subject to a favorable ground lease that expires in 2099. The Company reviewed the terms of the ground leases in conjunction with the hotel purchase accounting and concluded that the terms of both

ground leases were below current market and recorded a $20.0 million favorable lease asset for the ground lease related to the land under the existing hotel and a $12.8 million favorable lease asset for the ground lease related to the undeveloped parcel of land at the acquisition date. The hotel remains a Westin-branded property and continues to be managed by Starwood under a twenty-year management agreement. The management agreement provides for a base management fee of 2.5% of the hotel's gross revenues and an incentive fee of 20% of hotel operating profits above an owner's priority defined in the management agreement.

The preliminary purchase price allocation, including transaction costs, of the Westin Boston Waterfront Hotel to the acquired assets and liabilities, which may be adjusted if any of the assumptions underlying the purchase accounting change and when additional information is obtained, is as follows (in thousands):

Land improvements	$	2,706
Building		273,755
Furniture, fixtures and equipment		21,400
Total fixed assets		297,861
Favorable lease assets		32,750
Other assets, net		714
Purchase Price	$	331,325

Acquired properties are included in the Company's results of operations from the date of acquisition. The following unaudited pro forma results of operations reflect the Company's acquisitions as if they had occurred on the first day of the fiscal period presented. In the Company's opinion, all significant adjustments necessary to reflect the effects of the acquisitions have been made; however, a preliminary allocation of the purchase price to land improvements and buildings was made, and the Company will finalize the allocation after all information is obtained.

	Fiscal Quarter Ended June 15, 2007	Fiscal Quarter Ended June 16, 2006	Period from January 1, 2007 to June 15, 2007	Period from January 1, 2006 to June 16, 2006
		(in thousands)		
Revenues	$ 179,544	$ 150,213	$ 316,366	$ 270,936
Net income	20,513	16,510	26,276	17,221
Earnings per share - Basic and Diluted	$ 0.21	$ 0.17	$ 0.28	$ 0.18

9. Dividends

During the first fiscal quarter of 2007, the Company's board of directors declared a cash dividend of $0.24 per share of the Company common stock. The dividend was paid on April 2, 2007 to all stockholders of record as of March 23, 2007. During the second fiscal quarter of 2007, the Company's board of directors declared a cash dividend of $0.24 per share of the Company common stock. The dividend was paid on June 22, 2007 to all stockholders of record as of June 15, 2007.

10. Commitments and Contingencies

Litigation

The Company is not involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company. The Company is 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 its financial condition or results of operations.

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. We are committed to maximizing shareholder value through investing in premium full-service hotels and, to a lesser extent, premium urban select-service hotels. As of June 15, 2007, we owned twenty-one hotels comprising 9,804 rooms. These hotels are geographically diversified across major markets in the United States.

We adhere to three basic principles:

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

High Quality Urban and Resort Focused Real Estate

We own and seek to acquire premium hotels and resorts in North America. Since our formation in May 2004, we have acquired 21 properties, with purchase prices aggregating over $2 billion. These hotels and resorts are all 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 resorts (such as the U.S. Virgin Islands and Vail, Colorado). We believe that these gateway cities and destination resorts are high growth markets 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 and expensive construction costs.

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

Conservative Capital Structure

We are committed to maintaining a conservative and flexible capital structure with prudent leverage levels. We have taken advantage of the low interest rate environment by fixing our debt rates for an extended period of time. Depending on the outlook for interest rates in the future we maintain the flexibility to modify these strategies.

As of June 15, 2007, 96.9% of our debt carried fixed interest rates, with a weighted-average interest rate of 5.7%, and a weighted-average maturity of 8.2 years. As of June 15, 2007, we had $865.9 million of debt outstanding, representing a net debt-to-enterprise value ratio of 32.3%. Enterprise value is calculated as our market capitalization plus net debt.

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.

Thoughtful Asset Management

We believe that we are able to create significant value in our portfolio by utilizing our management's extensive experience and our innovative asset management strategies.

Our senior management team has established a broad network of hotel industry contacts and relationships, including relationships with hotel owners, financiers, operators, project managers and contractors and other key industry participants.

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, 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. During 2006 and the period from January 1, 2007 to June 15, 2007, we completed a significant amount of capital reinvestment in our hotels - completing projects that ranged from room renovations (Courtyard Manhattan/Midtown East, Los Angeles Airport Marriott, Bethesda Marriott Suites, Orlando Airport Marriott and Frenchman's Reef & Morning Star Marriott Beach Resort) to total renovation and repositioning of the hotel (Torrance Marriott and the Oak Brook Hills Marriott Resort). In connection with our planned renovations and repositionings, our senior management team and our asset managers are committed to completing our renovations on time, on budget and with minimum disruption at our hotels. We are optimistic that, when completed, our renovations will enable us to achieve higher rates and greater demand for our hotels.

A core of our asset management strategy is to leverage national hotel brands. We strongly believe in the value of powerful national brands because we believe that they are able to produce incremental revenue and profits compared to similar unbranded hotels. Dominant national hotel brands typically have very strong reservation and reward systems and sales organizations, as a result, all of our hotels are operated under a brand owned by one of the top three national brand companies (Marriott, Starwood or Hilton) and all but two of the hotels are operated by the brand company directly. Generally, we are interested in acquiring only those hotels that are operated under a nationally recognized brand or can be converted into a branded hotel.

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;
- ADR;
- RevPAR;
- EBITDA and
- 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 June 15, 2007, 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."

Our Hotels

The following table sets forth certain operating information for each of our hotels for the period from January 1, 2007 to June 15, 2007. This information includes periods prior to our acquisition of theses hotels unless otherwise indicated:

Property	Location	Number of Rooms	Average Occupancy (%)	ADR($)	RevPAR($)	% Change from 2006 RevPAR
Chicago Marriott	Chicago, Illinois	1,198	76.3%	$ 199.89	$ 152.57	9.8%
Los Angeles Airport Marriott	Los Angeles, California	1,004	79.7	119.18	94.97	3.0
Westin Boston Waterfront Hotel (2)	Boston, Massachusetts	793	67.6	195.77	132.29	N/A
Renaissance Waverly Hotel	Atlanta, Georgia	521	70.7	147.01	103.97	(2.9)
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	71.9	134.05	96.35	5.2
Renaissance Worthington	Fort Worth, Texas	504	78.9	175.79	138.75	3.6
Frenchman's Reef & Morning Star Marriott Beach Resort (1)	St. Thomas, U.S. Virgin Islands	502	86.8	277.77	241.18	8.3
Renaissance Austin Hotel	Austin, Texas	492	80.9	159.63	129.10	19.6
Torrance Marriott	Los Angeles County, California	487	75.7	120.50	91.23	3.8
Orlando Airport Marriott	Orlando, Florida	486	81.1	128.81	104.53	10.1
Marriott Griffin Gate Resort	Lexington, Kentucky	408	62.5	134.58	84.16	10.4
Oak Brook Hills Marriott Resort	Oak Brook, Illinois	384	52.1	134.69	70.24	8.0
Westin Atlanta North at Perimeter (1)	Atlanta, Georgia	369	71.0	139.36	99.00	6.8
Vail Marriott Mountain Resort & Spa (1)	Vail, Colorado	346	65.8	312.25	205.36	10.2
	Atlanta, Georgia	318	62.4	155.63	97.09	5.5

Marriott Atlanta Alpharetta						
Courtyard Manhattan/Midtown East	New York, New York	312	88.0	267.44	235.39	29.0
Conrad Chicago (1)	Chicago, Illinois	311	66.0	218.13	144.00	25.8
Bethesda Marriott Suites	Bethesda, Maryland	272	73.3	187.99	137.85	8.6
SpringHill Suites Atlanta Buckhead	Atlanta, Georgia	220	65.0	117.59	76.40	(5.8)
Courtyard Manhattan/Fifth Avenue	New York, New York	185	90.9	255.36	232.23	17.1
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	64.2	203.97	130.94	(0.7)
TOTAL/WEIGHTED AVERAGE (3)		9,804	74.3%	$ 173.44	$ 128.81	9.1%

(1) The Frenchman's Reef & Morning Star Marriott Beach Resort, Vail Marriott Mountain Resort & Spa, Westin Atlanta North at Perimeter and Conrad Chicago report operations on a calendar month and year basis. The period from January 1, 2007 to June 15, 2007 includes the operations for the period from January 1, 2007 to May 31, 2007 for these four hotels.

(2) The Westin Boston Waterfront Hotel reports operations on a calendar month and year basis. The period from January 1, 2007 to June 15, 2007 includes the operations for the period from January 31, 2007 (date of acquisition) to May 31, 2007.

(3) Total hotel statistics exclude the Westin Boston Waterfront Hotel. This hotel was newly built in 2006 and there are no comparable statistics for the period from January 1, 2006 to June 16, 2006.

Results of Operations

As of June 15, 2007, we owned twenty-one hotels. Our total assets were $2.2 billion as of June 15, 2007. Total liabilities were $1.1 billion as of June 15, 2007, including $868.5 million of debt. Shareholders' equity was approximately $1.1 billion as of June 15, 2007. Our total assets were $1.8 billion as of December 31, 2006. Total liabilities were $1.0 billion as of December 31, 2006, including $843.8 million of debt. Shareholders’ equity was approximately $784.9 million as of December 31, 2006.

Comparison of the Fiscal Quarter Ended June 15, 2007 to the Fiscal Quarter Ended June 16, 2006

Our net income for the fiscal quarter ended June 15, 2007 was $20.5 million compared to $13.9 million for the fiscal quarter ended June 16, 2006. We acquired five of our twenty-one hotels during and after the second fiscal quarter of 2006. Accordingly, the current period results are not comparable to the results for the corresponding period in 2006.

Revenue. Revenue consists primarily of the room, food and beverage and other operating revenues from our hotels. Revenues for the fiscal quarters ended June 15, 2007 and June 16, 2006, respectively, consist of the following (in thousands):

	Fiscal Quarter Ended June 15, 2007	Fiscal Quarter Ended June 16, 2006
Rooms	$ 115,681	$ 81,273
Food and beverage	54,340	36,676
Other	9,523	7,018
Total revenues	$ 179,544	$ 124,967

Our total revenues increased $54.5 million, from $125.0 million for the fiscal quarter ended June 16, 2006 to $179.5 million for the fiscal quarter ended June 15, 2007. This increase includes amounts that are not comparable year-over-year as follows:

- $19.6 million increase from the Westin Boston Waterfront Hotel, which was newly built in 2006 and purchased in January 2007;
- $9.0 million increase from the Renaissance Austin Hotel, which was purchased in December 2006;
- $8.4 million increase from the Renaissance Waverly Hotel, which was purchased in December 2006;
- $6.6 million increase from the Conrad Chicago, which was purchased in November 2006;
- $3.8 million increase from the Westin Atlanta North at Perimeter, which was purchased in May 2006.

The remaining increase of $7.1 million is attributable to a $6.6 million increase in room revenue and a $0.5 million increase in food and beverage and other operating revenue at the comparable hotels. The increase in room revenue was a result of an 8.1% increase in RevPAR which was primarily due to an 8.0% increase in ADR at the comparable hotels.

Individual hotel revenues for the fiscal quarters ended June 15, 2007 and June 16, 2006, respectively, consist of the following (in millions):

	Fiscal Quarter Ended June 15, 2007	Fiscal Quarter Ended June 16, 2006
Chicago Marriott	$ 26.9	$ 24.3
Westin Boston Waterfront Hotel (2) (3)	19.6	-
Frenchman's Reef & Morning Star Marriott Beach Resort (1)	16.3	16.5
Los Angeles Airport Marriott	12.9	12.7

Renaissance Worthington		9.5		9.7
Renaissance Austin Hotel (3)		9.0		-
Renaissance Waverly Hotel (3)		8.4		-
Marriott Griffin Gate Resort		7.5		7.0
Courtyard Manhattan/Midtown East		7.5		6.2
Oak Brook Hills Marriott Resort		7.0		6.3
Vail Marriott Mountain Resort & Spa (1)		6.9		6.3
Conrad Chicago (1)(3)		6.6		-
Orlando Airport Marriott		6.2		5.7
Torrance Marriott		5.8		5.3
Salt Lake City Marriott Downtown		5.5		5.3
Westin Atlanta North at Perimeter (1)		5.3		1.5
Bethesda Marriott Suites		4.7		4.5
The Lodge at Sonoma, a Renaissance Resort & Spa		4.4		4.6
Courtyard Manhattan/Fifth Avenue		4.1		3.6
Marriott Atlanta Alpharetta		3.8		3.8
SpringHill Suites Atlanta Buckhead		1.6		1.7
Total	$	179.5	$	125.0

(1) The Frenchman's Reef & Morning Star Marriott Beach Resort, Vail Marriott Mountain Resort & Spa, Westin Atlanta North at Perimeter and Conrad Chicago report operations on a calendar month and year basis. The fiscal quarter ended June 15, 2007 includes the operations for the period from March 1, 2007 to May 31, 2007 for these four hotels. The fiscal quarter ended June 16, 2006 includes the operations for the period from March 1, 2006 to May 31, 2006 for the Frenchman’s Reef & Morning Star Marriott Beach Resort and Vail Marriott Mountain Resort & Spa and the period from May 3, 2006 (date of acquisition) to May 31, 2006 for the Westin Atlanta North at Perimeter.

(2) The Westin Boston Waterfront Hotel reports operations on a calendar month and year basis. The fiscal quarter ended June 15, 2007, includes the operations for the period from March 1, 2007 to May 31, 2007. This hotel was newly built in 2006.

(3) The Company acquired this hotel subsequent to June 16, 2006. Accordingly, there are no revenues recorded for the fiscal quarter ended June 16, 2006.

The following are the pro forma key hotel operating statistics for our hotels for the fiscal quarters ended June 15, 2007 and June 16, 2006. The pro forma hotel operating statistics presented below include the results of operations of the hotels under previous ownership for the comparable period to our ownership period. The operating statistics for the fiscal quarters ended June 15, 2007 and June 16, 2006 exclude the Westin Boston Waterfront Hotel due to the fact that this hotel was newly built in 2006 and there are no comparable statistics for the fiscal quarter ended June 16, 2006.

	Fiscal Quarter Ended June 15, 2007	Fiscal Quarter Ended June 16, 2006	% Change
Occupancy %	76.4%	75.5%	0.9 percentage points
ADR	$ 179.47	$ 167.30	7.3%
RevPAR	$ 137.10	$ 126.24	8.6%

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 June 15, 2007 and June 16, 2006, respectively, consist of the following (in millions):

	Fiscal Quarter Ended June 15, 2007	Fiscal Quarter Ended June 16, 2006
Rooms departmental expenses	$ 25.5	$ 18.1
Food and beverage departmental expenses	35.8	23.4
Other hotel expenses	46.8	33.4
Base management fees	5.0	3.5
Yield support	(0.1)	(1.4)
Incentive management fees	3.0	2.7
Property taxes	5.5	4.7
Ground rent—Contractual	0.4	0.5
Ground rent—Non-cash	1.9	1.5
Total hotel operating expenses	$ 123.8	$ 86.4

Our hotel operating expenses increased $37.4 million from $86.4 million for the fiscal quarter ended June 16, 2006 to $123.8 million for the fiscal quarter ended June 15, 2007. This increase includes amounts that are not comparable year-over-year as follows:

· $13.4 million increase from the Westin Boston Waterfront Hotel, which was newly built in 2006 and purchased in January 2007;

· $6.3 million increase from the Renaissance Austin Hotel, which was purchased in December 2006;

· $6.0 million increase from the Renaissance Waverly Hotel, which was purchased in December 2006;

- $4.5 million increase from the Conrad Chicago, which was purchased in November 2006;
- $2.5 million increase from the Westin Atlanta North at Perimeter, which was purchased in May 2006.

The remaining increase of $4.7 million is attributable to increases in departmental expenses and other operating expenses at the comparable hotels as well as lower yield support recognized in the fiscal quarter ended June 15, 2007 compared to the corresponding period in 2006.

In connection with entering into certain management agreements with Marriott, Marriott provided the Company with limited operating cash flow guarantees ("yield support") for those hotels. The yield support is designed to protect us from the disruption often associated with changing the hotel's brand or manager or undergoing significant renovations. Across our portfolio, we are entitled to up to $0.8 million of yield support in 2007 for the Oak Brook Hills Marriott and $100,000 in 2007 for the Buckhead SpringHill Suites. We currently anticipate that we will recognize $0.5 million of yield support in 2007. We recorded yield support of $0.1 million during the fiscal quarter ended June 15, 2007. We recorded $1.4 million of yield support during the fiscal quarter ended June 16, 2006.

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 $5.5 million from $12.1 million for the fiscal quarter ended June 16, 2006 to $17.6 million for the fiscal quarter ended June 15, 2007. This increase includes amounts that are not comparable year-over-year as follows:

- $2.4 million increase from the Westin Boston Waterfront Hotel, which was newly built in 2006 and purchased in January 2007;
- $0.9 million increase from the Renaissance Waverly Hotel, which was purchased in December 2006;
- $0.8 million increase from the Conrad Chicago, which was purchased in November 2006;
- $0.7 million increase from the Renaissance Austin Hotel, which was purchased in December 2006;
- $0.4 million increase from the Westin Atlanta North at Perimeter, which was purchased in May 2006.

Corporate expenses. Our corporate expenses increased from $2.6 million for the fiscal quarter ended June 16, 2006 to $3.3 million for the fiscal quarter ended June 15, 2007, due primarily to an increase in stock-based compensation expense. 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.

Interest expense. Our interest expense totaled $11.9 million and $9.3 million for the fiscal quarters ended June 15, 2007 and June 16, 2006, respectively. The 2007 interest expense is related to mortgage debt ($11.2 million), amortization of deferred financing costs ($0.1 million) and interest and unused facility fees on our credit facility ($0.6 million). The 2006 interest expense is related to mortgage debt ($8.8 million), amortization and write off of deferred financing costs ($0.3 million) and interest and unused facility fees on our credit facility ($0.2 million). As of June 15, 2007, we had property-specific mortgage debt outstanding on twelve of our hotels. On all twelve of the hotels, we have fixed-rate secured debt, which bears interest at rates ranging from 5.11% to 7.69% per year. Amounts drawn under the credit facility bear interest at a variable rate that fluctuates based on the level of outstanding indebtedness in relation to the value of our assets from time to time. The interest rate as of June 15, 2007 on the credit facility was 6.27%. The Company had $26.5 million drawn on the credit facility as of June 15, 2007. Our weighted-average interest rate on all debt as of June 15, 2007 was 5.7%.

Interest income. Interest income decreased $0.5 million from $1.2 million for the fiscal quarter ended June 16, 2006 to $0.7 million for the fiscal quarter ended June 15, 2007. The decrease is a result of interest income earned on higher levels of corporate cash in the corresponding period of 2006 related to our April 2006 equity offering.

Income taxes. We recorded an income tax expense of $3.1 million and $1.8 million for the fiscal quarters ended June 15, 2007 and June 16, 2006, respectively. The second quarter 2007 income tax expense was incurred on

the $7.2 million pre-tax income of our TRS for the fiscal quarter ended June 15, 2007, together with foreign income tax expense of $0.2 million related to the taxable REIT subsidiary that owns the Frenchman's Reef & MorningStar Marriott Beach Resort. The 2006 income tax expense was incurred on the $4.0 million pre-tax income of our TRS for the fiscal quarter ended June 16, 2006.

Comparison of the Period from January 1, 2007 to June 15, 2007 to the Period from January 1, 2006 to June 16, 2006

Our net income for the period from January 1, 2007 to June 15, 2007 was $27.3 million compared to $18.3 million for the period from January 1, 2006 to June 16, 2006. We acquired six of our twenty-one hotels after January 1, 2006. Accordingly, the current period results are not comparable to the results for the corresponding period in 2006.

Revenue. Revenue consists primarily of the room, food and beverage and other revenues from our hotels. Revenues for the periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006, respectively, consist of the following (in thousands):

	Period from January 1, 2007 to June 15, 2007	Period from January 1, 2006 to June 16, 2006
Rooms	$ 201,796	$ 135,788
Food and beverage	95,843	60,745
Other	15,640	11,556
Total revenues	$ 313,279	$ 208,089

Our total revenues increased $105.2 million, from $208.1 million for the period from January 1, 2006 to June 16, 2006 to $313.3 million for the period from January 1, 2007 to June 15, 2007. This increase includes amounts that are not comparable year-over-year as follows:

- $23.6 million increase from the Westin Boston Waterfront Hotel, which was newly built in 2006 and purchased in January 2007;
- $19.9 million increase from the Chicago Marriott, which was purchased in March 2006.
- $17.7 million increase from the Renaissance Austin Hotel, which was purchased in December 2006;
- $17.5 million increase from the Renaissance Waverly Hotel, which was purchased in December 2006;
- $9.0 million increase from the Conrad Chicago, which was purchased in November 2006;
- $7.2 million increase from the Westin Atlanta North at Perimeter, which was purchased in May 2006.

The remaining increase of $10.3 million is attributable to a $9.4 million increase in room revenue and a $0.9 million increase in food and beverage and other operating revenue at the comparable hotels. The increase in room revenue was a result of an 8.4% increase in RevPAR which was primarily due to an 8.6% increase in ADR at the comparable hotels.

Individual hotel revenues for the periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006, respectively, consist of the following (in millions):

	Period from January 1, 2007 to June 15, 2007	Period from January 1, 2006 to June 16, 2006
Chicago Marriott	$ 44.3	$ 24.3
Los Angeles Airport Marriott	27.2	26.6
Frenchman's Reef & Morning Star Marriott Beach Resort (1)	27.1	26.3
Westin Boston Waterfront Hotel (2) (3)	23.6	-
Renaissance Worthington	19.2	18.9
Renaissance Austin Hotel (3)	17.7	-
Renaissance Waverly Hotel (3)	17.5	-
Vail Marriott Mountain Resort & Spa (1)	14.6	13.5
Orlando Airport Marriott	13.3	12.1

Courtyard Manhattan/Midtown East		12.7		9.8
Salt Lake City Marriott Downtown		12.3		11.8
Marriott Griffin Gate Resort		11.5		10.7
Torrance Marriott		10.8		10.3
Oak Brook Hills Marriott Resort		10.5		10.1
Conrad Chicago (1)(3)		9.0		-
Westin Atlanta North at Perimeter (1)		8.7		1.5
Bethesda Marriott Suites		8.2		7.7
Marriott Atlanta Alpharetta		7.4		7.4
The Lodge at Sonoma, a Renaissance Resort & Spa		7.4		7.4
Courtyard Manhattan/Fifth Avenue		7.2		6.3
SpringHill Suites Atlanta Buckhead		3.1		3.4
Total	$	313.3	$	208.1

(1) The Frenchman's Reef & Morning Star Marriott Beach Resort, Vail Marriott Mountain Resort & Spa, Westin Atlanta North at Perimeter and Conrad Chicago report operations on a calendar month and year basis. The period from January 1, 2007 to June 15, 2007 includes the operations for the period from January 1, 2007 to May 31, 2007 for these four hotels. The period from January 1, 2006 to June 16, 2006 includes the operations for the period from January 1, 2006 to May 31, 2006 for the Frenchman’s Reef & Morning Star Marriott Beach Resort and Vail Marriott Mountain Resort & Spa and the period from May 3, 2006 (date of acquisition) to May 31, 2006 for the Westin Atlanta North at Perimeter.

(2) The Westin Boston Waterfront Hotel reports operations on a calendar month and year basis. The period from January 1, 2007 to June 15, 2007, includes the operations for the period from January 31, 2007 (date of acquisition) to May 31, 2007. This hotel was newly built in 2006.

(3) The Company acquired this hotel subsequent to June 16, 2006. Accordingly, there are no revenues recorded for the period from January 1, 2006 to June 16, 2006.

The following are the pro forma key hotel operating statistics for our hotels for the period from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006. The pro forma hotel operating statistics presented below include the results of operations of the hotels under previous ownership for the comparable period to our ownership period. The operating statistics for the period from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006 exclude the Westin Boston Waterfront Hotel due to the fact that this hotel was newly built in 2006 and there are no comparable statistics for the period from January 1, 2006 to June 16, 2006.

	Period from January 1, 2007 to June 15, 2007	Period from January 1, 2006 to June 16, 2006	% Change
Occupancy %	74.3%	73.1%	1.2 percentage points
ADR	$ 173.44	$ 161.40	7.5%
RevPAR	$ 128.81	$ 118.06	9.1%

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 periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006, respectively, consist of the following (in millions):

	Period from January 1, 2007 to June 15, 2007	Period from January 1, 2006 to June 16, 2006
Rooms departmental expenses	$ 45.8	$ 31.0
Food and beverage departmental expenses	64.3	40.3
Other hotel expenses	84.1	58.0
Base management fees	8.7	6.1
Yield support	(0.2)	(1.6)
Incentive management fees	4.7	3.2
Property taxes	10.5	6.8
Ground rent—Contractual	0.8	0.9
Ground rent—Non-cash	3.6	3.2
Total hotel operating expenses	$ 222.3	$ 147.9

Our hotel operating expenses increased $74.4 million from $147.9 million for the period from January 1, 2006 to June 16, 2006 to $222.3 million for the period from January 1, 2007 to June 15, 2007. This increase includes amounts that are not comparable year-over-year as follows:

· $16.7 million increase from the Westin Boston Waterfront Hotel, which was newly built in 2006 and purchased in January 2007;

· $16.1 million increase from the Chicago Marriott, which was purchased in March 2006.

- $12.4 million increase from the Renaissance Waverly Hotel, which was purchased in December 2006;
- $12.3 million increase from the Renaissance Austin Hotel, which was purchased in December 2006;
- $7.1 million increase from the Conrad Chicago, which was purchased in November 2006;
- $4.7 million increase from the Westin Atlanta North at Perimeter, which was purchased in May 2006.

The remaining increase of $5.1 million is attributable to increases in departmental expenses and other operating expenses at the comparable hotels as well as lower yield support recognized for the period from January 1, 2007 to June 15, 2007 compared to the corresponding period in 2006.

In connection with entering into certain management agreements with Marriott, Marriott provided the Company with limited operating cash flow guarantees (“yield support”) for those hotels. The yield support is designed to protect us from the disruption often associated with changing the hotel’s brand or manager or undergoing significant renovations. Across our portfolio, we are entitled to up to $0.8 million of yield support in 2007 for the Oak Brook Hills Marriott and $100,000 in 2007 for the Buckhead SpringHill Suites. We currently anticipate that we will recognize $0.5 million of yield support in 2007. We recorded yield support of $0.2 million for the period from January 1, 2007 to June 15, 2007. We recorded $1.6 million of yield support for the period from January 1, 2006 to June 16, 2006.

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 $12.6 million from $21.1 million for the period from January 1, 2006 to June 16, 2006 to $33.7 million for the period from January 1, 2007 to June 15, 2007. This increase includes amounts that are not comparable year-over-year as follows:

- $4.4 million increase from the Westin Boston Waterfront Hotel, which was newly built in 2006 and purchased in January 2007;
- $2.3 million increase from the Chicago Marriott, which was purchased in March 2006.
- $1.7 million increase from the Renaissance Waverly Hotel, which was purchased in December 2006;
- $1.7 million increase from the Conrad Chicago, which was purchased in November 2006;
- $1.5 million increase from the Renaissance Austin Hotel, which was purchased in December 2006;
- $0.9 million increase from the Westin Atlanta North at Perimeter, which was purchased in May 2006.

Corporate expenses. Our corporate expenses increased $1.2 million from $5.2 million for the period from January 1, 2006 to June 16, 2006 to $6.4 million for the period from January 1, 2007 to June 15, 2007. The increase is primarily due to a $0.9 million increase in stock-based compensation expense and a $0.5 million increase in other employee-related costs offset by a $0.2 million decrease in other corporate operating costs. 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.

Interest expense. Our interest expense totaled $23.4 million and $15.1 million for the periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006, respectively. The 2007 interest expense is related to mortgage debt ($22.1 million), amortization of deferred financing costs ($0.3 million) and interest and unused facility fees on our credit facility ($1.0 million). The 2006 interest expense is related to mortgage debt ($14.0 million), amortization and write off of deferred financing costs ($0.5 million) and interest and unused facility fees on our credit facility ($0.6 million). As of June 15, 2007, we had property-specific mortgage debt outstanding on twelve of our hotels. On all twelve of the hotels, we have fixed-rate secured debt, which bears interest at rates ranging from 5.11% to 7.69% per year. Amounts drawn under the credit facility bear interest at a variable rate that fluctuates based on the level of outstanding indebtedness in relation to the value of our assets from time to time. The interest rate as of June 15, 2007 on the credit facility was 6.27%. The Company had $26.5 million drawn on the credit facility as of June 15, 2007. Our weighted-average interest rate on all debt as of June 15, 2007 was 5.7%.

Interest income. We recorded interest income of $1.3 million and $1.4 million for the periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006, respectively.

Income taxes. We recorded income tax expense of $1.4 million and $1.8 million for the periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006, respectively. The 2007 income tax expense was incurred on the $2.7 million pre-tax income of our TRS for the period from January 1, 2007 to June 15, 2007, and foreign income tax expense of $0.4 million related to the taxable REIT subsidiary that owns the Frenchman's Reef & MorningStar Marriott Beach Resort. The 2006 income tax expense was incurred on the $4.0 million pre-tax income of our TRS for the period from January 1, 2006 to June 16, 2006.

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 maintenance and recurring capital expenditures as well as payments of interest and principal. We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our credit facility.

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, existing cash balances, and borrowings as well as through the issuances of additional equity or debt securities. Our ability to incur additional debt is dependent upon a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions imposed by existing lenders. Our ability to raise funds through the issuance of debt and equity securities is dependent upon, among other things, general market conditions for REITs and market perceptions about us. We have an effective shelf registration statement that allows us to issue public securities on an expedited basis, but does not assure that there will be buyers for such securities.

Our Financing Strategy

We are committed to maintaining a conservative capital structure with aggregate leverage weighted towards long-term fixed-rate debt. However, we maintain the flexibility to modify these strategies if we believe fundamental changes have occurred in the capital or lodging markets.

As of June 15, 2007, 96.9% of our debt carries fixed interest rates, with a weighted-average interest rate of 5.7%, and a weighted-average maturity of 8.2 years. As of June 15, 2007, we had $865.9 million of debt outstanding.

In the current market, we have a preference towards fixed-rate, long-term, limited recourse, single property specific debt. When possible and desirable, we will seek to replace short-term sources of capital with long-term financing. In addition to property-specific debt and our credit facility, we intend to use other financing methods as necessary, including obtaining funds from banks, institutional investors or other lenders, bridge loans, letters of credit and other arrangements, any of which may be unsecured or may be secured by mortgages or other interests in our investments. In addition, we may issue publicly or privately placed debt instruments.

Credit Facilities

On July 8, 2005, the Company entered into a three-year, $75.0 million senior secured revolving credit facility from Wachovia Bank, National Association, as administrative agent under the credit facility, and Citicorp North America, Inc. and Bank of America, N.A., as co-syndication agents under the credit facility (the “Former Facility”). The Company amended and restated the Former Facility to expand it into a $200.0 million unsecured credit facility on February 28, 2007 (the “New Facility”).

The New Facility has a term of 48 months. The Company may extend the maturity date of the New Facility for an additional year upon the payment of applicable fees and the satisfaction of certain other customary conditions. The Company also has the right to increase the amount of the New Facility to $500.0 million with the lenders’ approval.

Interest is paid on the periodic advances under the New 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:

	Leverage Ratio			
	60% or greater	**55% to 60%**	**50% to 55%**	**Less than 50%**
Alternate base rate margin	0.65%	0.45%	0.25%	0.00%
LIBOR margin	1.55%	1.45%	1.25%	0.95%

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

	Covenant	Value at June 15, 2007
Maximum leverage ratio	65%	36.9%
Minimum fixed charge coverage ratio	1.6x	3.85x
Minimum tangible net worth	$ 738.4 million	$ 1.2 billion
Unhedged floating rate debt as a percentage of total indebtedness	35%	3.1%

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

- A minimum of four properties with an unencumbered borrowing base value, as defined, of not less than $150 million.
- No single borrowing base asset shall contribute more than 40% of the adjusted net operating income, as defined, of the unencumbered borrowing base.
- Not more than 40% of the adjusted net operating income, as defined, of the unencumbered borrowing base shall be located in one MSA.
- The minimum implied debt service ratio of the unencumbered borrowing base assets shall be greater than 1.50x.
- Total unsecured indebtedness shall not exceed 65% of the unencumbered borrowing base asset value, as defined.

In addition to the interest payable on amounts outstanding under the New Facility, the Company is required to pay an amount equal to 0.20% of the unused portion of the New Facility if the unused portion of the New Facility is greater than 50% and 0.125% if the unused portion of the new Facility is less than 50%. The Company incurred interest and unused credit facility fees of $1.0 million for the period from January 1, 2007 to June 15, 2007 on the credit facilities. As of June 15, 2007, the Company had $26.5 million outstanding on the New Facility with a capacity to borrow an additional $173.5 million. On June 21, 2007, the Company drew an additional $11.5 million under the New Facility. On July 23, 2007, the Company repaid $3.0 million on the New Facility. As of June 15, 2007, the Company was in compliance with all financial covenants of the New Facility.

Sources and Uses of Cash

Our principal sources of cash are revenues from operations, borrowing under mortgage financings, draws on our credit facility and the proceeds from our equity offerings. Our principal uses of cash are debt service, asset acquisitions, capital expenditures, operating costs, corporate expenses and dividends.

Cash Provided by Operating Activities. Our cash provided by operating activities was $53.4 million for the period from January 1, 2007 to June 15, 2007, which is the result of our $27.3 million net income and $1.7 million of cash received from yield support, adjusted for the impact of several non-cash charges, including $33.7 million of depreciation, $3.6 million of non-cash straight line ground rent, $0.3 million of amortization of deferred financing costs, and $2.1 million of stock compensation, offset by $0.9 million of amortization of debt premium and unfavorable agreements, and unfavorable working capital changes of $14.2 million. Our cash provided by operating activities was $34.4 million for the period from January 1, 2006 to June 16, 2006, which is the result of our $18.3 million net income, adjusted for the impact of several non-cash charges, including $21.1 million of depreciation, $3.4 million of non-cash straight line ground rent, $0.5 million of amortization of deferred financing costs and loan repayment losses, $1.2 million of stock compensation, $1.6 million of non-cash yield support, offset by an unfavorable working capital changes of $7.9 million.

Cash Used In Investing Activities. Our cash used in investing activities was $354.4 million and $167.9 million for the periods from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006, respectively. During the period from January 1, 2007 to June 15, 2007, we utilized $331.3 million for the acquisition of the Westin Boston Waterfront Hotel and incurred capital expenditures at our other hotels of $22.5 million. During the period from January 1, 2006 to June 16, 2006, we utilized $145.6 million of cash for the acquisitions of the Chicago Marriott Downtown Magnificent Mile and Westin Atlanta North at Perimeter and incurred capital expenditures at our other hotels of $26.0 million.

Cash Provided by Financing Activities. Our cash provided by financing activities was $304.6 million and $233.0 million for the period from January 1, 2007 to June 15, 2007 and January 1, 2006 to June 16, 2006, respectively. The cash provided by financing activities for the period from January 1, 2007 to June 15, 2007, primarily consists of $317.6 million of net proceeds from sales of our common stock and $61.5 million in draws under our credit facilities. The cash provided by financing activities for the period from January 1, 2007 to June 15, 2007 was offset by the $35.0 million in repayments of the credit facilities, $1.7 million of scheduled debt principal payments, $1.1 million payment of financing costs, and $36.7 million of dividend payments. The cash provided by financing activities for the period from January 1, 2006 to June 16, 2006, primarily consists of $79.5 million of proceeds from a short-term loan in conjunction with the acquisition of the Chicago Marriott Downtown Magnificent Mile, $271.0 million of proceeds from the mortgage debt of the Chicago Marriott ($220.0 million) and the Courtyard Manhattan/Fifth Avenue ($51.0 million), $238.2 million of net proceeds from our secondary offering of our common stock, and $24.0 million in draws under our senior secured credit facility. The cash provided by financing activities for the period from January 1, 2006 to June 16, 2006 was offset by the $325.5 repayment of debt, including the $220.0 variable-rate mortgage assumed in the acquisition of the Chicago Marriott, the $23.0 million variable-rate mortgage debt on the Courtyard Manhattan/Fifth Avenue, and the $79.5 million short-term loan incurred in conjunction with the acquisition of the Chicago Marriott, a $33.0 million repayment of our senior secured credit facility, $1.6 million of scheduled debt principal payments, $1.3 million payment of financing costs, and $18.3 million of dividend payments.

The following table summarizes our significant financing activities since the beginning of 2007:

Transaction Date	Description of Transaction	Amount
January 3, 2007	Draw under Former Facility	$ 5.0 million
January 4, 2007	Payment of fourth quarter dividends	(13.8 million)
January 9, 2007	Draw under Former Facility	15.0 million
January 23, 2007	Proceeds from follow-on offering	317.9 million
February 28, 2007	Repayment of Former Facility	(20.0 million)
February 28, 2007	Draw under New Facility	21.5 million
March 29, 2007	Draw under New Facility	20.0 million
April 2, 2007	Payment of first quarter dividends	(22.9 million)
April 30, 2007	Repayment of New Facility	(12.0 million)
May 30, 2007	Repayment of New Facility	(3.0 million)
June 21, 2007	Draw under New Facility	11.5 million
June 22, 2007	Payment of second quarter dividends	(22.8 million)
July 23, 2007	Repayment of New Facility	(3.0 million)

Dividend Policy

Generally, we intend to continue to distribute to our stockholders each year on a regular quarterly basis sufficient amounts of our REIT taxable income so as to avoid paying corporate income tax and excise tax on our earnings (other than the earnings of our TRS and TRS lessees, which are all subject to tax at regular corporate rates) and to qualify for the tax benefits afforded to REITs under the Internal Revenue Code of 1986, as amended (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.

During the first fiscal quarter of 2007, the Company's board of directors declared a cash dividend of $0.24 per share of common stock. The dividend was paid on April 2, 2007 to all stockholders of record as of March 23, 2007. During the second fiscal quarter of 2007, the Company's board of directors declared a cash dividend of $0.24 per share of common stock. The dividend was paid on June 22, 2007 to all stockholders of record as of June 15, 2007.

Capital Expenditures

The management 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 the hotel. Contributions to the property improvement fund are calculated as a percentage of hotel sales. 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 agreement. As of June 15, 2007, the Company had set aside $28.6 million for capital projects in property improvement funds ($25.7 million) and lender held restricted cash ($2.9 million). Funds held in property improvement funds for one hotel are typically not permitted to be applied to any other property.

The Company has and continues to make significant capital investments in the Company's hotels. In 2007, the Company expects to incur approximately $70 to $80 million of capital improvements at the Company's hotels. The Company incurred $13.2 million of capital projects in the fiscal quarter ended June 15, 2007. The most significant projects are as follows:

- *Chicago Marriott Downtown:* The Company is currently in the planning stages of a $35 million renovation of the hotel. The renovation includes a complete redo of all the meeting and ballrooms, adding 17,000 square feet of new meeting space, reconcepting and relocating the restaurant, expanding the lobby bar and creating a Marriott "great room" in the lobby. The work will begin in the second half of 2007 and be completed in the first half of 2008. The estimated disruption, mainly associated with the ballroom renovations, will occur primarily in the first quarter of 2008.

- *Westin Boston Waterfront*: The Company is currently planning the construction of approximately $15 million of tenant improvements to the unfinished shell space attached to the hotel. The improvements include the creation of over 37,000 square feet to meeting/exhibit space as well as 20,000 square feet for restaurant outlets. The project will be completed in the first quarter of 2008.

- *Oak Brook Hills Marriott Resort*: The Company completed the significant renovation of the hotel. The renovation included the guestrooms and bathrooms, the main ballroom and meeting rooms and the lobby.

- *Los Angeles Airport Marriott*: The Company renovated 19 suites during the second quarter of 2007 and plans to renovate certain breakout meeting rooms during the fourth quarter of 2007.

- *Griffin Gate Marriott Resort*: The Company added a spa, repositioned and reconcepted the hotel restaurants as well as added meeting space to the hotel. These projects were completed during the second quarter of 2007.

- *Westin Atlanta North*: The Company plans to renovate the guestrooms during the third quarter of 2007.

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 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.

	Fiscal Quarter Ended June 15, 2007	Fiscal Quarter Ended June 16, 2006	Period from January 1, 2007 to June 15, 2007	Period from January 1, 2006 to June 16, 2006
		(in thousands)		
Net income	$ 20,513	$ 13,897	$ 27,303	$ 18,263
Interest expense	11,884	9,324	23,379	15,132
Income tax expense	3,095	1,829	1,440	1,799
Real estate related depreciation and amortization	17,643	12,078	33,704	21,125
EBITDA	$ 53,135	$ 37,128	$ 85,826	$ 56,319

We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, which defines FFO as net income (determined in accordance with GAAP), excluding gains (losses) from sales of property, plus depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures (which are calculated to reflect FFO on the same basis). 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 determining our results after taking into account the impact of our capital structure.

	Fiscal Quarter Ended June 15, 2007	Fiscal Quarter Ended June 16, 2006	Period from January 1, 2007 to June 15, 2007	Period from January 1, 2006 to June 16, 2006
	(in thousands)			
Net income	$ 20,513	$ 13,897	$ 27,303	$ 18,263
Real estate related depreciation and amortization	17,643	12,078	33,704	21,125
FFO	$ 38,156	$ 25,975	$ 61,007	$ 39,388

Critical Accounting Policies

Our consolidated financial statements include the accounts of DiamondRock Hospitality Company and all consolidated subsidiaries. The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 recorded at fair value in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*. 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. The Company accounts for stock-based employee compensation using the fair value based method of accounting under Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS 123R"), *Share-Based Payment*. The Company records the cost of awards with service conditions based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. No awards with performance-based or market-based conditions have been issued.

Accounting for Key Money. Marriott has contributed to us certain amounts, which we refer to as “key money”, in exchange for the right to manage certain of our hotels. We defer key money received from a hotel manager in conjunction with entering into a long-term hotel management agreement and amortize the amount received against management fees over the term of the management agreement.

Accounting for Yield Support. Marriott has provided us with operating cash flow guarantees for certain hotels and will fund shortfalls of actual hotel operating income, which is net of management fees, compared to a negotiated target net operating income. We refer to these guarantees as “yield support”. Yield support received is recognized over the period earned if the yield support is not refundable and there is reasonable uncertainty of receipt at inception of the management agreement. Yield support is recorded as an offset to base management fees.

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 quarters.

New Accounting Pronouncements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements (*“SFAS 157”), defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. We will adopt the provisions of SFAS 157 effective January 1, 2008. We do not expect SFAS 157 to have a material impact on our results of operations, financial position or cash flows.

Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”), provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159’s objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. We will adopt the provisions of SFAS 159 effective January 1, 2008. We do not expect SFAS 159 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 which we expect to be exposed in the future, is interest rate risk. The face amount of our outstanding debt at June 15, 2007 was approximately $865.9 million, of which $26.5 million or 3.1% was variable rate debt. If market rates of interest on our variable rate debt were to increase by 1.0%, or approximately 100 basis points, the increase in interest expense on our variable rate debt would decrease future earnings and cash flows by approximately $0.3 million annually. On the other hand, if market rates of interest on our variable rate were to decrease by one percentage point, or approximately 100 basis points, the decrease in interest expense on our variable rate debt would increase future earnings and cash flow by approximately $0.3 million annually. If market rates of interest were to increase by 1.0%, or approximately 100 basis points, the decrease in the fair value of our fixed-rate debt would be $49.1 million. On the other hand, if market rates of interest were to decrease by one percentage point, or approximately 100 basis points, the increase in the fair value of our fixed-rate debt would be $49.1 million. As of June 15, 2007, the fair value of the $865.9 million of debt was approximately $872.6 million.

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.

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, 2006.

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

None.

Item 3. ***Defaults Upon Senior Securities***

Not applicable.

Item 4. ***Submission of Matters to a Vote of Security Holders***

(a) The Company held its Annual Meeting of Stockholders on April 26, 2007. The proposals in front of our stockholders and the results of voting on such proposals were as noted below.

(b) Not applicable.

(c) Election of Directors: the following persons were elected as directors for a one-year term expiring at the Annual Meeting to be held in 2008.

	VOTES FOR	VOTES WITHHELD
William W. McCarten	83,273,126	658,338
John L. Williams	84,767,723	1,163,741
Daniel Altobello	81,423,594	4,507,870
W. Robert Grafton	85,163,966	767,498
Maureen L. McAvey	85,164,565	766,898
Gilbert T. Ray	84,636,237	1,295,227

Amendments to the 2004 Stock Option and Incentive Plan were approved. The voting results were as follows:

VOTES FOR	VOTES AGAINST	VOTES ABSTAINED	BROKER NON-VOTES
73,745,527	7,119,052	13,754	5,053,131

(d) Ratification of Independent Auditors: the selection of KPMG LLP as our independent auditors for fiscal year ending December 31, 2007 was ratified. The voting results were as follows:

VOTES FOR	VOTES AGAINST	VOTES ABSTAINED

85,202,856	724,416	4,191

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 dated January 9, 2007*)
3.2.1	Second Amended and Restated Bylaws 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)*)
3.2.2	Amendment No. 1 to Second 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 March 7, 2006*)
4.1	Form of Certificate for Common Stock for 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)*)
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.

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.

July 25, 2007

DiamondRock Hospitality Company

/s/ Sean M. Mahoney

Sean M. Mahoney
Senior Vice President,
Chief Accounting Officer
and Corporate Controller

/s/ Michael D. Schecter

Michael D. Schecter
Executive Vice President,
General Counsel and Corporate Secretary

-30-