DiamondRock Hospitality Co
Form 10-K
February 27, 2017

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

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR

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

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

(240) 744-1150
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of the common equity held by non-affiliates of the Registrant (assuming for these purposes, but without conceding, that all executive officers and Directors are “affiliates” of the Registrant) as of June 30, 2016, the last business day of the Registrant's most recently completed second fiscal quarter, was $1.8 billion (based on the closing sale price of the Registrant's Common Stock on that date as reported on the New York Stock Exchange).

The registrant had 200,200,902 shares of its $0.01 par value common stock outstanding as of February 24, 2017.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for its 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2016, are incorporated by reference in Part III herein.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” “endeavor,” “mission,” “goal,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in Item 1A “Risk Factors” and Item 7 “Management's Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

References in this Annual Report on Form 10-K to “we,” “our,” “us” and “the Company” refer to DiamondRock Hospitality Company, including as the context requires, DiamondRock Hospitality Limited Partnership, as well as our other direct and indirect subsidiaries.

PART I

Item 1. Business

Overview

DiamondRock Hospitality Company is a lodging-focused Maryland corporation operating as a real estate investment trust ("REIT") for federal income tax purposes. As of December 31, 2016, we owned a portfolio of 26 premium hotels and resorts that contain 9,472 guest rooms located in 17 different markets in North America and the U.S. Virgin Islands. As an owner, rather than an operator, of lodging properties, we receive all of the operating profits or losses generated by our hotels after the payment of fees due to hotel managers and hotel brands, which are calculated based on the revenues and profitability of each hotel.

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

Our primary business is to acquire, own, asset manage and renovate premium hotel properties in the United States. Our portfolio is concentrated in key gateway cities and destination resort locations. Each of our hotels is managed by a third party and a substantial number of our hotels are operated under a brand owned by Marriott International, Inc. (“Marriott”) or Hilton Worldwide (“Hilton”).

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

Our Company

We commenced operations in July 2004 and became a public reporting company in May 2005. Our common stock is traded on the New York Stock Exchange (the “NYSE”) under the symbol “DRH”. We have been successful in acquiring, financing and asset managing our hotels and complying with the complex public company accounting and legal requirements. As of December 31, 2016, we had 26 full-time employees. Since our formation, we have sought to be forthright and transparent in our communications with investors, to actively monitor our corporate overhead and to adopt sound corporate governance practices. We believe that we have among the most transparent disclosures in the industry, and we consistently follow industry best practices. For example, we provide quarterly operating performance data on each of our hotels, enabling our investors to effectively evaluate our successes and challenges. Finally, we consider our corporate governance practices to be sound in that we have a majority-

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independent board of directors elected annually by our stockholders, and our officers and directors are subject to stock ownership policies designed to ensure that these persons own a meaningful amount of stock in the Company.

Our Business Strategy

Our business strategy is to utilize disciplined capital allocation, focus on high quality lodging properties in North American markets with superior growth prospects and high barriers-to-entry, aggressively asset manage those hotels and employ conservative amounts of leverage.

We plan to strategically allocate capital in order to create value depending on our cost of capital. If our cost of capital is attractive, we expect to:

- pursue strategic acquisitions;
- consider opportunistically raising equity; and
- evaluate opportunities to dispose of non-core hotels.

If we believe our cost of capital is elevated, we expect to create value over the long term to stockholders by deploying investment capacity into share repurchases.

We prefer a relatively simple but efficient capital structure. We have not invested in joint ventures and have not issued any operating partnership units to outside limited partners or preferred stock. We structure our hotel acquisitions to be straightforward and to fit within our conservative 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.

High-Quality Urban and Destination Resort Hotels

As of December 31, 2016, we owned 26 premium hotels and resorts throughout North America and the U.S. Virgin Islands. Our hotels and resorts are primarily categorized as upper upscale as defined by Smith Travel Research and are generally located in high barrier-to-entry markets with multiple demand generators. Our properties are concentrated in key gateway cities and in resort destinations. We consider lodging properties located in gateway cities and resort destinations to be the most capable of creating dynamic cash flow growth and achieving superior long-term capital appreciation.

We have enhanced our hotel portfolio by recycling capital from non-core hotels located in slower growth markets to higher quality hotels located primarily in high-growth urban and destination resort markets. Since 2010, we have repositioned our portfolio through the acquisition of approximately $1.7 billion of urban and resort hotels that align with our strategic goals while disposing of more than $0.8 billion in non-core hotels. These acquisitions increased our urban exposure with acquisitions in cities such as San Diego, San Francisco, Boston, Denver, Washington, D.C., as well as our resort exposure with acquisitions in Key West, Fort Lauderdale and Huntington Beach, California. Over 90% of our portfolio EBITDA for the year ended December 31, 2016 is derived from core urban and resort destination hotels. Our capital recycling program over the past six years also achieved several other important strategic portfolio goals that include improving our portfolio’s geographic and brand diversity and achieving a mix of approximately 50 percent brand-managed and 50 percent third-party managed hotels in our portfolio.

We are highly sensitive to our cost of capital and may pursue acquisitions that create value in the near term. We will continue to evaluate our portfolio for opportunities to continue to upgrade our portfolio by considering opportunistic non-core hotel dispositions.

The primary focus of our acquisitions over the past six years was on hotels that we believe presented unique value-add opportunities. In addition, we have repositioned certain of our hotels through a change in brand, comprehensive renovation and/or change in third-party hotel manager to a more efficient operator. For example, in 2015, we commenced a multi-phase capital expenditure program at the Chicago Marriott Downtown and amended the management agreement to permanently reduce management and incentive fees owed. Further, we rebranded the Conrad Chicago to join Marriott's Luxury Collection as The Gwen Chicago with a multi-year renovation and a change to a third-party operator. This program has helped us achieve strategic portfolio goals of improving our portfolio's brand and management diversity.

We evaluate each hotel in our portfolio to assess the optimal branding strategy for the individual hotel and market. We leverage the leading global hotel brands at most of our hotels, which are flagged under a brand owned by Marriott or Hilton. We also maintain a small portion of our hotels as independent non-branded hotels. We believe that premier global hotel brands create significant value as a result of each brand's ability to produce incremental revenue through their strong reservation and rewards systems and sales organizations. We are also interested in owning other non-branded hotels located in premier or unique markets where we believe that the returns on such a hotel may be higher than if the hotel were operated under a globally-recognized brand.

Innovative Asset Management

We believe that we can create significant value in our portfolio through innovative asset management strategies such as rebranding, renovating and repositioning, and regularly evaluate our portfolio in order to determine if there are opportunities to employ these value-add strategies.

Our asset management team is focused on improving hotel profit margins through revenue management strategies and cost control programs. Our asset management team also focuses on identifying new and potential value creation opportunities across our portfolio, including implementing resort and other fees, creating incremental guest rooms, leasing out restaurants to more profitable third-party operators, converting under-utilized space to revenue-generating meeting space and implementing programs to reduce energy consumption.

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. We use our broad network of hotel industry contacts and relationships to maximize the value of our hotels. We strive to negotiate management agreements that give us the right to exert influence over the management of our properties, annual budgets and all capital expenditures (all, to the extent permitted under the REIT rules), and then to use those rights to continually monitor and improve the performance of our properties. We cooperatively partner with our hotel managers 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 the hotels in our portfolio that they manage.

Conservative Capital Structure

We believe that a conservative capital structure maximizes investment capacity while reducing enterprise risk. We currently employ a low-risk and straight-forward capital structure with no preferred equity or convertible bonds. We maintain significant balance sheet flexibility with existing corporate cash, no outstanding borrowings under our $300 million senior unsecured credit facility, and 17 of our 26 hotels being unencumbered by mortgage debt as of December 31, 2016. We are well positioned for potential credit market volatility and uncertainty in the lodging cycle given that we have only one near-term debt maturity and the majority of our debt is financed with long-term, fixed-rate mortgages with a laddered maturity table. We believe it is imprudent to increase the inherent risk of highly cyclical lodging fundamentals through the use of a highly leveraged capital structure.

We believe that our strategically designed capital structure is a value creation tool that can be used over the entire lodging cycle. Specifically, we believe that lower leverage benefits us in the following ways:

- provides capacity to fund attractive acquisitions;

- enhances our ability to maintain a sustainable dividend;

- enables us to opportunistically repurchase shares during periods of stock price dislocation; and

- provides capacity to fund late-cycle capital needs.

Our current outstanding debt consists of property-specific mortgage debt, with the majority of our mortgage debt bearing interest at a fixed rate, and an unsecured corporate term loan. We prefer that at least half of our portfolio remain unencumbered by debt in order to provide maximum balance sheet flexibility. We expect that our strategy will enable us to maintain a balance sheet with an appropriate amount of debt throughout all phases of the lodging cycle.

Our Corporate Structure

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our hotels are owned by subsidiaries of our operating partnership, DiamondRock Hospitality Limited Partnership. We are the sole general partner of our operating partnership and currently own, either directly or indirectly, all of the limited partnership units of our operating partnership. We have the ability to issue limited partnership units to third parties in connection with acquisitions of hotel properties. In order for the income from our hotel investments to constitute “rents from real property” for purposes of the gross income tests required

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for REIT qualification, we must lease each of our hotels to a wholly-owned subsidiary of our taxable REIT subsidiary, or TRS (each, a TRS lessee), or to an unrelated third party. We currently lease all of our domestic hotels to TRS lessees. In turn, our TRS lessees must engage a third-party management company to manage the hotels. However, we may structure our properties that are not subject to U.S. federal income tax differently from the structures that we use for our U.S. properties. For example, Frenchman's Reef is held by a U.S. Virgin Islands corporation, which we have elected to be a TRS.

The following chart shows our corporate structure as of the date of this report:

Each of our TRS lessees engage a third-party management company to manage each of our hotels for a management fee. Fifteen of our 26 hotels are managed by independent third-party managers. Twelve of our 26 hotels are operated subject to franchise agreements with global brands, including Marriott and Hilton.

Competition

The hotel industry is highly competitive and our hotels are subject to competition from other hotels for guests. Competition is based on a number of factors, including convenience of location, reputation, brand affiliation, price, range of services, guest amenities, and quality of customer service. Competition is specific to the individual markets in which our properties are located and will include competition from existing and new hotels operated under brands in the full-service, select-service and extended-stay segments. We believe that properties flagged with a Marriott or Hilton brand will enjoy the competitive advantages associated with their operations under such brand. These global brands' reservation systems and national advertising, marketing and promotional services combined with the strong management expertise they provide enable our properties to perform favorably in terms of both occupancy and room rates relative to other brands and non-branded hotels. The guest loyalty programs operated by these global brands generate repeat guest business that might otherwise go to competing hotels. Increased competition may have a material adverse effect on occupancy, Average Daily Rate (or ADR) and Revenue per Available Room (or RevPAR), or may require us to make capital improvements that we otherwise would not undertake, which may result in decreases in the profitability of our hotels.

In addition to competing with traditional hotels and lodging facilities, we compete with alternative lodging, including third-party providers of short-term rental properties and serviced apartments. We compete based on a number of factors, including room rates, quality of accommodations, service levels, convenience of location, reputation, reservation systems, brand recognition and supply and availability of alternative lodging.

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We face competition for the acquisition of hotels from institutional pension funds, private equity funds, REITs, hotel companies and others who are engaged in hotel acquisitions and investments. Some of these competitors have substantially greater financial and operational resources than we have and may have greater knowledge of the markets in which we seek to invest. This competition may reduce the number of suitable investment opportunities offered to us and increase the cost of acquiring our targeted hotel investments.

Seasonality

The periods during which our hotels experience higher revenues vary from property to property, depending principally upon location and the customer base served. Accordingly, we expect some seasonality in our business. Volatility in our financial performance from the seasonality of the lodging industry could adversely affect our financial condition and results of operations.

Regulatory Matters

Environmental Matters

In connection with the ownership of hotels, the Company is subject to various federal, state and local environmental laws and regulations relating to environmental protection. Under these laws, a current or previous owner or operator (including tenants) of real estate may be liable for the costs or removal or remediation of certain hazardous or toxic substances at, on, under or in such property. These laws typically impose liability without regard to fault or whether or not the owner or operator knew of or caused the presence of the contamination, and the liability under these laws may be joint and several. Because these laws also impose liability on the persons who owned the property at the time it became contaminated, it is possible that we could incur cleanup costs or other environmental liabilities even after we sell properties. The presence of contamination, or the failure to properly remediate contamination, on a property may adversely affect the ability of the owner or operator to sell that property or to borrow funds using such property as collateral. Under the environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or incinerator, pay for the cleanup of that facility if it becomes contaminated and threatens human health or the environment.

Our hotels are subject to various federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, asbestos, lead-based paint, mold and mildew and waste management. Some of our hotels routinely handle and use hazardous or regulated substances and wastes as part of their operations, which substances and wastes are subject to regulation (e.g., swimming pool chemicals). Our hotels incur costs to comply with these laws and regulations and could be subject to fines and penalties for non-compliance.

We believe that our hotels are in compliance, in all material respects, with all federal, state and local environmental ordinances and regulations regarding hazardous or toxic substances and other environmental matters, the violation of which could have a material adverse effect on us. We have not received written notice from any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental matters in connection with any of our present properties.

During 2015, we submitted the Company's second response to the Global Real Estate Sustainability Benchmarking survey (the “GRESB Report”), which benchmarks the Company's approach and performance on environmental, social and governance indicators against other real estate companies. We received the highest quadrant, the Green Star 2015 designation, from GRESB based on its dimensions of Management & Policy and Implementation & Measurement. The GRESB Report is accessible by our investors who are members of GRESB. The information included in, referenced to, or otherwise accessible through the GRESB Report, is not incorporated by reference in, or considered to be a part of, this report or any document unless expressly incorporated by reference therein. We expect to perform our next GRESB Report in 2017.

ADA Regulation

Our properties must comply with Title III of the Americans with Disabilities Act of 1990, or ADA, to the extent that such properties are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by individuals with disabilities in certain public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA. However, noncompliance with the ADA could result in payment of civil penalties, damages, and attorneys' fees and costs. The obligation to comply with the ADA is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this regard.

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Employees

As of December 31, 2016, we employed 26 full-time employees. We believe that our relations with our employees are good. None of our employees is a member of any union; however, the employees of our hotel managers at the Lexington Hotel New York, Courtyard Manhattan/Fifth Avenue, Hilton Garden Inn/Times Square, Frenchman's Reef & Morning Star Marriott Beach Resort, Westin Boston Waterfront, and Hilton Boston Downtown are currently represented by labor unions and are subject to collective bargaining agreements.

Insurance

We carry comprehensive liability, fire, extended coverage, earthquake, business interruption and rental loss insurance covering all of the properties in our portfolio under a blanket policy. In addition, we carry earthquake and terrorism insurance on our properties in an amount and with deductibles which we believe are commercially reasonable. We do not carry insurance for generally uninsured losses such as loss from riots, war or acts of God. Certain of the properties in our portfolio are located in areas known to be seismically active or subject to hurricanes and we believe that we have appropriate insurance for those risks, although they are subject to higher deductibles than ordinary property insurance.

Most of our hotel management agreements and mortgage agreements require that we obtain and maintain property insurance, business interruption insurance, flood insurance, earthquake insurance (if the hotel is located in an "earthquake prone zone" as determined by the U.S. Geological Survey) and other customary types of insurance related to hotels. We comply with all such requirements. In addition, either we or the hotel manager are responsible for obtaining general liability insurance, workers' compensation and employer's liability insurance.

Available Information

We maintain a website at the following address: www.drhc.com. We make our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), available on our website free of charge as soon as reasonably practicable after such reports and amendments are electronically filed with, or furnished to, the Securities and Exchange Commission (the “SEC”). Such reports are also available by accessing the EDGAR database on the SEC's website at www.sec.gov.

Our website is also a key source of important information about us. We post to the Investor Relations section of our website important information about our business, our operating results and our financial condition and prospects, including, for example, information about material acquisitions and dispositions, our earnings releases and certain supplemental financial information related or complimentary thereto. The website also has a Corporate Governance page that includes, among other things, copies of our charter, our bylaws, our Code of Business Conduct and Ethics and the charters for each standing committee of our Board of Directors: currently, the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. We intend to disclose on our website any amendment to, or waiver of, any provisions of our Code of Business Conduct and Ethics that apply to any of our directors, executive officers or senior financial officers that would otherwise be required to be disclosed under the rules of the SEC or the NYSE. Copies of our charter, our bylaws, our Code of Business Conduct and Ethics and the our SEC reports are also available in print to stockholders upon request addressed to Investor Relations, DiamondRock Hospitality Company, 3 Bethesda Metro Center, Suite 1500, Bethesda, Maryland 20814 or through the “Information Request” section on the Investor Relations page of our website.

The information included in, referenced to, or otherwise accessible through our website, is not incorporated by reference in, or considered to be a part of, this report or any document unless expressly incorporated by reference therein.

DiamondRock Hospitality Company is traded on the NYSE, under the symbol “DRH”.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones that we may face. Additional risks and uncertainties not presently known to us or that we may currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be affected adversely.

Risks Related to Our Business and Operations

Our business model, especially our concentration in premium full-service hotels, can be highly volatile.

We solely own hotels, a very different asset class from many other REITs. A typical office REIT, for example, has long-term leases with third-party tenants, which provide a relatively stable long-term stream of revenue. Our TRS lessees, on the other hand, do not enter into leases with hotel managers. Instead, the TRS lessee engages the hotel manager pursuant to a management

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agreement and pays the manager a fee for managing the hotel. The TRS lessee receives all of the operating profit or losses at the hotel. Moreover, virtually all hotel guests stay at the hotel for only a few nights, so the rate and occupancy at each of our hotels changes every day. As a result, our earnings may be highly volatile.

In addition to fluctuations related to our business model, our hotels are, and will continue to be, subject to various long-term operating risks common to the hotel industry, many of which are beyond our control, including:

- dependence on business and commercial travelers and tourism, both of which vary with consumer and business confidence in the strength of the economy;
- decreases in the frequency of business travel that may result from alternatives to in-person meetings;
- competition from other hotels and alternative lodging channels located in the markets in which we own properties;
- competition from third party internet travel intermediaries;
- an over-supply or over-building of hotels in the markets in which we own properties which could adversely affect occupancy rates, revenues and profits at our hotels;
- increases in energy and transportation costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates; and
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance.

In addition, our hotels are mostly in the premium full-service segment of the hotel business, which, historically, tends to have the strongest operating results in a growing economy and the weakest results in a contracting or slow growth economy when many travelers might curtail travel or choose lower cost hotels. In periods of weak demand, profitability is negatively affected by the relatively high fixed costs of operating premium full-service hotels as compared to other classes of hotels.

The occurrence of any of the foregoing factors could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Economic conditions and other factors beyond our control may adversely affect the lodging industry.

Our entire business is related to the lodging industry. The performance of the lodging industry is highly cyclical and has historically been linked to key macroeconomic indicators, such as U.S. gross domestic product, or GDP, growth, employment, personal discretionary spending levels, corporate earnings and investment, foreign exchange rates and travel demand. A substantial part of our business strategy is based on the belief that the lodging markets in which we own properties will continue to experience improving economic fundamentals in the future but we cannot assure you how long the growth period of the current lodging cycle will last. However, in the event conditions in the industry deteriorate or do not continue to see sustained improvement as we expect, or there is an extended period of economic weakness, our occupancy rates, revenues and profitability could be adversely affected. Furthermore, other macroeconomic factors, such as consumer confidence and conditions which negatively shape public perception of travel, may have a negative effect on the lodging industry and may adversely impact our revenues and profitability.

Our hotels are subject to significant competition.

Currently, the markets where our hotels are located are very competitive. However, a material increase in the supply of new hotel rooms to a market can quickly destabilize that market and existing hotels can experience rapidly decreasing RevPAR and profitability. If such over-building occurs in one or more of our major markets, our business, financial condition, results of operations and our ability to make distributions to our stockholders may be materially adversely affected. We expect near-term supply growth in top-25 urban markets, including New York City and Chicago, will exceed historical averages.

We own four hotels in Manhattan, representing 16% of our portfolio measured by number of rooms for the year ended December 31, 2016. The Manhattan market has experienced significant supply growth over the past several years and is anticipated to continue in 2017 and 2018. For 2017, we currently project a 7.6% increase in supply in the Manhattan market, which follows increases of 5.0%, 2.6% and 5.6% in supply in Manhattan during 2016, 2015 and 2014, respectively. This significant increase in supply has and is expected to continue to negatively impact the performance of our Manhattan hotels.

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We own two hotels located in downtown Chicago that represent approximately 16% of our portfolio measured by number of rooms for the year ended December 31, 2016. In 2016, over 1,200 new hotel rooms opened in downtown Chicago, representing an increase in supply of 3.0%. For 2017, we currently project a 2.5% increase in supply in the broader Chicago market. An increase in the number of rooms available in the downtown Chicago market could negatively impact the operating performance of our downtown Chicago hotels. In addition, Marriott has signed an agreement to manage the 1,200-room Chicago Marriott Marquis, currently under construction next to the McCormick Place Convention Center. This hotel, which is expected to open in 2017, could have a material adverse impact on the performance of our Chicago Marriott.

Our hotels are subject to seasonal volatility, which is expected to contribute to fluctuations in our financial condition and results of operations.
The periods during which our hotels experience higher revenues vary from property to property, depending principally upon location and the customer base served. This seasonality can be expected to cause periodic fluctuations in a hotel's room revenues, occupancy levels, room rates and operating expenses. We can provide no assurances that our cash flows will be sufficient to offset any shortfalls that occur as a result of these fluctuations. Volatility in our financial performance resulting from the seasonality of our hotels could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

The increase in the use of third-party internet travel intermediaries and the increase in alternative lodging channels, such as Airbnb, could adversely affect our profitability.

Many of our managers and franchisors contract with third-party internet travel intermediaries, including, but not limited to Expedia.com and Priceline.com. These internet intermediaries are generally paid commissions and transaction fees by our managers and franchisors for sales of our rooms through such agencies. These intermediaries initially focused on leisure travel, but have grown to focus on corporate travel and group meetings as well. If bookings through these intermediaries increase, these internet intermediaries may be able to negotiate higher commissions, reduced room rates or other contract concessions from us, our managers or our franchisers. In addition, internet intermediaries use extensive marketing, which could result in hotel consumers developing brand loyalties to the offered brands and such internet intermediary instead of our management or franchise brands. Further, internet intermediaries emphasize pricing and quality indicators, such as a star rating system, at the expense of brand identification. In response to these intermediaries, the brand operators and franchisors recently launched initiatives to offer discounted rates for booking on their sites, which could put downward pressure on rates and revenue.

In addition to competing with traditional hotels and lodging facilities, we compete with alternative lodging, including third-party providers of short-term rental properties and serviced apartments, such as Airbnb. We compete based on a number of factors, including room rates, quality of accommodations, service levels, convenience of location, reputation, reservation systems, brand recognition and supply and availability of alternative lodging. Increasing use of these alternative lodging facilities could materially adversely affect the occupancy at our hotels and could put downward pressure on average rates and revenues.

The rise of social media review platforms, including, but not limited to Tripadvisor.com, could impact our occupancy levels and operating results as people might be more inclined to write about dissatisfaction than satisfaction with a hotel stay.

Investments in hotels are illiquid and we may not be able to respond in a timely fashion to adverse changes in the performance of our properties.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more hotel properties or investments in our portfolio in response to changing economic, financial and investment conditions may be limited. Moreover, the Internal Revenue Code of 1986, as amended (the "Code"), imposes restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs require that we hold our hotels for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of hotels that would otherwise be in our best interests.

In addition, the real estate market is affected by many factors that are beyond our control, including:

- adverse changes in international, national, regional and local economic and market conditions;
- changes in supply of competitive hotels;
- changes in interest rates and in the availability, cost and terms of debt financing;

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- changes in tax laws and property taxes, or an increase in the assessed valuation of a property for real estate tax purposes;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of God, including earthquakes, floods, hurricanes and other natural disasters and acts of war or terrorism, including the consequences of terrorist acts such as those that occurred on September 11, 2001, which may result in uninsured losses.

It may be in the best interest of our stockholders to sell one or more of our hotels in the future. We cannot predict whether we will be able to sell any hotel property or investment at an acceptable price or otherwise on reasonable terms and conditions. We also cannot predict the length of time that will be necessary to find a willing purchaser and to close the sale of a hotel property or loan.

These facts and any others that would impede our ability to respond to adverse changes in the performance of our hotel properties could have a material adverse effect on our operating results and financial condition, as well as our ability to make distributions to our stockholders.

Due to restrictions in our hotel management agreements, franchise agreements, mortgage agreements and ground leases, we may not be able to sell our hotels at the highest possible price, or at all.

A substantial number of our current hotel management agreements are long-term.

Our current hotel management and franchise agreements contain initial terms generally ranging from five to forty years and certain agreements have renewal periods of five to forty-five years which are exercisable at the option of the property manager. Because many of our hotels would have to be sold subject to the applicable hotel management agreement, the term length of a hotel management agreement may deter some potential purchasers and could adversely impact the price realized from any such sale. To the extent that we receive lower sale proceeds, our business, financial condition, results of operations and our ability to make distributions to stockholders could be materially adversely affected.

Our mortgage agreements contain certain provisions that may limit our ability to sell our hotels.

In order to assign or transfer our rights and obligations under certain of our mortgage agreements, we generally must obtain the consent of the lender, pay a fee equal to a fixed percentage of the outstanding loan balance, and pay any costs incurred by the lender in connection with any such assignment or transfer. These provisions of our mortgage agreements may limit our ability to sell our hotels which, in turn, could adversely impact the price realized from any such sale. To the extent that we receive lower sale proceeds, our business, financial condition, results of operations and our ability to make distributions to stockholders could be materially adversely affected.

Our ground leases contain certain provisions that may limit our ability to sell our hotels.

Our ground lease agreements with respect to the Bethesda Marriott Suites, the Salt Lake City Marriott Downtown, and the Westin Boston Waterfront Hotel require the consent of the lessor for assignment or transfer. These provisions of our ground leases may limit our ability to sell our hotels which, in turn, could adversely impact the price realized from any such sale. In addition, at any given time, investors may be disinterested in buying properties subject to a ground lease, especially ground leases with less than 40 years remaining, such as the Salt Lake City Marriott Downtown, and may pay a lower price for such properties than for a comparable property owned in fee simple or they may not purchase such properties at any price. Accordingly, we may find it difficult to sell a property subject to a ground lease or may receive lower proceeds from any such sale. To the extent that we receive lower sale proceeds or are unable to sell the hotel at an opportune time or at all, our business, financial condition, results of operations and our ability to make distributions to stockholders could be materially adversely affected.

We are subject to risks associated with our ongoing need for renovations and capital improvements as well as financing for such expenditures.

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In order to remain competitive, our hotels have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. These capital improvements may give rise to the following risks:

- construction cost overruns and delays;
- a possible shortage of available cash to fund capital improvements and the related possibility that financing for these capital improvements may not be available to us on affordable terms;
- the renovation investment failing to produce the returns on investment that we expect;
- disruptions in the operations of the hotel as well as in demand for the hotel while capital improvements are underway; and
- disputes with franchisors/hotel managers regarding compliance with relevant franchise/management agreements.

The costs of these capital improvements or profit displacements during the completion of these capital improvements could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

In addition, we may not be able to fund capital improvements or acquisitions solely from cash provided from our operating activities because we generally must distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gains, each year to maintain our REIT tax status. As a result, our ability to fund capital expenditures or investments through retained earnings, is very limited. Consequently, we rely upon the availability of debt or equity capital to fund our investments and capital improvements. These sources of funds may not be available on reasonable terms or conditions.

There are several unique risks associated with the ownership of Frenchman's Reef & Morning Star Marriott Beach Resort (“Frenchman's Reef”).

Frenchman's Reef is located on the side of a cliff facing the ocean in the United States Virgin Islands, which is in the so-called “hurricane belt” in the Caribbean. It was partially destroyed by a hurricane in the mid-1990s and since then has been damaged by subsequent hurricanes, including Hurricane Earl in 2010. While we maintain insurance against wind damage in an amount that we believe is customarily obtained for or by hotel owners, Frenchman's Reef has a $6.5 million deductible if it is damaged due to a named windstorm event; therefore, we are self-insured for losses up to $6.5 million caused by a named windstorm event. While we cannot predict whether there will be another hurricane that will impact this hotel, if there is, then it could have a material adverse effect on the operations of this hotel. Further, in the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of the hotel. Should a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in Frenchman's Reef, as well as the anticipated future revenue and profits of this hotel. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate the hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position with regard to the damaged or destroyed property.

The hotel currently generates its own electricity; however, the hotel still depends on oil to generate electricity. If the price of oil were to increase, the cost to generate electricity would likely increase dramatically and this would have a significant impact on the results of operation at the hotel. Also, if the hotel's self-generation system fails, the hotel would be forced to utilize service from local utility providers which are prone to disruptions, including power outages from time to time. Such disruptions could adversely affect occupancy rates, revenues and profits at the hotel.

In the event of natural disasters, terrorist attacks, significant military actions, outbreaks of contagious diseases or other events for which we may not have adequate insurance, our operations may suffer.

Five of our hotels (The Lodge at Sonoma, Westin San Diego, Hotel Rex, Renaissance Charleston Historic District and Shorebreak Hotel) are located in areas that are seismically active. Four of our hotels (Frenchman's Reef, The Inn at Key West, Sheraton Suites Key West and Westin Fort Lauderdale Beach Resort) are located in areas that have experienced, and will continue to experience, many hurricanes. Nine of our hotels are located in metropolitan markets that have been, or may in the future be, targets of actual or threatened terrorist attacks, including New York City, Chicago, Boston, and Washington, D.C. These hotels are material to our financial results, having constituted 74% of our total revenues in 2016. Additionally, even in the absence of direct physical damage to our hotels, the occurrence of any natural disasters, terrorist attacks, significant military actions, outbreaks of diseases, such as Zika, Ebola, H1N1 or other similar viruses, or other casualty events, will likely have a material adverse effect on business and commercial travelers and tourists, the economy generally and the hotel and tourism industries in particular. While we cannot predict the impact of the occurrence of any of these events, such impact could result in a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

We have acquired and intend to maintain comprehensive insurance on each of our hotels, including liability, terrorism, fire and extended coverage, of the type and amount that we believe are customarily obtained for or by hotel owners. We cannot guarantee that such coverage will continue to be available at reasonable rates or with reasonable deductibles. Our Florida and U.S. Virgin Island hotels (Frenchman's Reef, Westin Fort Lauderdale Beach Resort, The Inn at Key West and Sheraton Suites Key West) each have a deductible of 5% of total insured value for a named storm. In addition, each of our California hotels (Westin San Diego, Hotel Rex, Shorebreak Hotel and The Lodge at Sonoma) have a deductible of 5% of total insured value for damage due to an earthquake.

Various types of catastrophic losses, like earthquakes, floods, losses from foreign terrorist activities, or losses from domestic terrorist activities may not be insurable or are generally not insured because of economic infeasibility, legal restrictions or the policies of insurers. Future lenders may require such insurance and our failure to obtain such insurance could constitute a default under loan agreements. Depending on our access to capital, liquidity and the value of the properties securing the affected loan in relation to the balance of the loan, a default could have a material adverse effect on our results of operations and ability to obtain future financing.

In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from that particular hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations secured by or related to the property. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also prevent us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position with regard to the damaged or destroyed property.

Our results of operations are highly dependent on the management of our hotel properties by third-party hotel management companies.

In order to qualify as a REIT, we cannot operate our hotel properties or control the daily operations of our hotel properties. Our TRS lessees may not operate these hotel properties and, therefore, they must enter into third-party hotel management agreements with one or more eligible independent contractors. Thus, third-party hotel management companies that enter into management contracts with our TRS lessees control the daily operations of our hotel properties.

Under the terms of the hotel management agreements that we have entered into, or that we will enter into in the future, our ability to participate in operating decisions regarding our hotel properties is limited to certain matters, including approval of the annual operating budget. We currently rely, and will continue to rely, on these hotel management companies to adequately operate our hotel properties under the terms of the hotel management agreements. While we and our TRS lessees closely monitor the performance of our hotel managers, we do not have the authority to require any hotel property to be operated in a particular manner or to govern any particular aspect of its operations (for instance, setting room rates and cost structures). Thus, even if we believe that our hotel properties are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, ADRs and operating profits, we may not have sufficient rights under our hotel management agreements to enable us to force the hotel management company to change its method of operation. We can only seek redress if a hotel management company violates the terms of the applicable hotel management agreement with the TRS lessee, and then only to the extent of the remedies provided for under the terms of the hotel management agreement. Although many of our management agreements have relatively short terms, most of our current management agreements are non-terminable, subject to certain exceptions for cause or failure to achieve certain performance targets. In the event that we need to replace any of our hotel management companies pursuant to termination for cause or performance, we may experience significant disruptions at the affected properties, which may have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

We may be unable to maintain good relationships with third-party hotel managers and franchisors.
The success of our respective hotel investments and the value of our franchised properties largely depend on our ability to establish and maintain good relationships with the third-party hotel managers and franchisors of our respective hotel management and franchise agreements. If we are unable to maintain good relationships with third-party hotel managers, we may be unable to

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renew existing management or franchise agreements or expand relationships with them. Additionally, opportunities for developing new relationships with additional third-party hotel managers or franchisors may be adversely affected. This, in turn, could have an adverse effect on our results of operations and our ability to execute our repositioning strategy through a change in brand or change in third-party hotel manager.

A substantial number of our hotels operate under a brand owned by Marriott or Hilton; therefore, we are subject to risks associated with concentrating our portfolio in two brands.

As of December 31, 2016, 23 of our 26 hotels operate under brands owned by Marriott or Hilton. As a result, our success is dependent in part on the continued success of Marriott or Hilton and their respective brands. Consequently, if market recognition or the positive perception of Marriott and/or Hilton is reduced or compromised, the goodwill associated with the Marriott- and Hilton-branded hotels in our portfolio may be adversely affected, which may have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Furthermore, if our relationship with Marriott or Hilton were to deteriorate or terminate as a result of disputes regarding the management of our hotels, or for other reasons, Marriott or Hilton, as the case may be, could, under certain circumstances, terminate our current management agreements or franchise agreements or decline to provide franchise licenses for hotels that we may acquire in the future. If any of the foregoing were to occur, it could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Several of our hotels are operated under franchise agreements and we are subject to the risks associated with the franchise brand and the costs associated with maintaining the franchise license.

Twelve of our hotels operate under Marriott or Hilton franchise agreements. The maintenance of the franchise licenses for branded hotel properties is subject to the franchisors’ operating standards and other terms and conditions set forth in the applicable franchise agreement. Franchisors periodically inspect hotel properties to ensure that we, our TRS lessees and management companies follow their brand standards.

If we fail to maintain these required standards, then the brand may terminate its agreement with us and assert a claim for damages for any liability we may have caused, which could include liquidated damages. Moreover, from time to time, we may receive notices from franchisors or the hotel brands regarding alleged non-compliance with the franchise agreements or brand standards, and we may disagree with these claims that we are not in compliance. Any disputes arising under these agreements could also lead to a termination of a franchise or management agreement and a payment of liquidated damages. For example, the Company was notified by the franchisor of one of its hotels that as a result of low guest satisfaction scores, the Company is in default under the franchise agreement for that hotel. If the franchisor of that hotel elected to terminate the franchise agreement for that hotel, such a termination may trigger a default or acceleration of our obligations under some of our mortgage loans and may result in the franchisor pursuing a claim for liquidated damages. If we were to lose a franchise or hotel brand for a particular hotel, it could harm the operation, financing, or value of that hotel due to the loss of the franchise or hotel brand name, marketing support and centralized reservation system, all or any of which could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to stockholders.

Contractual and other disagreements with third-party hotel managers and franchisors could make us liable to them or result in litigation costs or other expenses.

Our management and franchise agreements with third-party hotel managers require us and the applicable third-party hotel manager to comply with operational and performance conditions that are subject to interpretation and could result in disagreements, and we expect this will be true of any management and franchise agreements that we enter into with future third-party hotel managers or franchisors. At any given time, we may be in disputes with one or more third-party hotel managers or franchisors. For example, the Company was notified by the franchisor of one of its hotels that as a result of low guest satisfaction scores, the Company is in default under the franchise agreement for that hotel.

Any such dispute could be very expensive for us, even if the outcome is ultimately in our favor. We cannot predict the outcome of any arbitration or litigation, the effect of any negative judgment against us or the amount of any settlement that we may enter into with any franchisor other third-party hotel manager. In the event we terminate a management or franchise agreement early and the hotel manager or franchisor considers such termination to have been wrongful, they may seek damages. Additionally, we may be required to indemnify our third-party hotel managers and franchisors against disputes with third parties, pursuant to our management and franchise agreements. An adverse result in any of these proceedings could materially and adversely affect our revenues and profitability.

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If we were to lose a brand license at one or more of our hotels, the value of the affected hotels could decline significantly and we could incur significant costs to obtain new franchise licenses, which could materially and adversely affect our results of operations and profitability as well as limit or slow our future growth.
If we were to lose a brand license, the underlying value of a particular hotel could decline significantly from the loss of associated name recognition, marketing support, participation in guest loyalty programs and the centralized reservation system provided by the franchisor or brand manager, which could require us to recognize an impairment on the hotel. Furthermore, the loss of a franchise license at a particular hotel could harm our relationship with the franchisor or brand manager, which could impede our ability to operate other hotels under the same brand, limit our ability to obtain new franchise licenses or brand management agreements from the franchisor or brand in the future on favorable terms, or at all, and cause us to incur significant costs to obtain a new franchise license or brand management agreement for the particular hotel. Accordingly, if we lose one or more franchise licenses or brand management agreement, it could materially and adversely affect our results of operations and profitability as well as limit or slow our future growth.

Effects of the merger between Marriott and Starwood on our business are unknown.

During September 2016, Marriott completed its acquisition of Starwood Hotels & Resorts. As a result of the merger, our portfolio is concentrated in the Marriott brand family (20 of our 26 hotels). This could reduce our bargaining power in negotiating management agreements and franchise agreements due to decreased competition among major brand companies. We believe Marriott could use this leverage when negotiating for property improvement plans upon the acquisition of a hotel in cases where the franchisor or hotel brand requires renovations to bring the physical condition of a hotel into compliance with the specifications and standards each franchisor or hotel brand has developed.

Our ownership of properties through ground leases exposes us to the risks that we may have difficulty financing such properties, be forced to sell such properties for a lower price, are unable to extend the ground leases at maturity or lose such properties upon breach or termination of the ground leases.

We hold a leasehold interest in all or a portion of the land underlying six of our hotels (Bethesda Marriott Suites, Courtyard Manhattan/Fifth Avenue, Salt Lake City Marriott Downtown, Westin Boston Waterfront Hotel, Shorebreak Hotel, and JW Marriott Denver), and the parking lot at another of our hotels (Renaissance Worthington). We may acquire additional hotels in the future subject to ground leases. In the past, from time to time, secured lenders have been unwilling to lend, or otherwise charged higher interest rates, for loans secured by a leasehold mortgage compared to loans secured by a fee simple mortgage. In addition, at any given time, investors may be disinterested in buying properties subject to a ground lease, especially ground leases with less than 40 years remaining, such as the Salt Lake City Marriott Downtown, and may pay a lower price for such properties than for a comparable property in fee simple, or they may not purchase such properties at any price whatsoever. For these reasons, we may have a difficult time selling a property subject to a ground lease or may receive lower proceeds from a sale. Finally, as the lessee under our ground leases, we are exposed to the possibility of losing the hotel, or a portion of the hotel, upon termination, or an earlier breach by us, of the ground lease, which could result in a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Furthermore, unless we purchase a fee interest in the land and improvements subject to our ground leases, we will not have any economic interest in the land or improvements at the expiration of our ground leases and therefore we generally will not share in any increase in value of the land or improvements beyond the term of a ground lease, notwithstanding our capital outlay to purchase our interest in the hotel or fund improvements thereon, and will lose our right to use the hotel.

The failure of tenants to make rent payments under our retail and restaurant leases may adversely affect our results of operation.

On occasion, retail and restaurant tenants at our hotel properties may fail to make rent payments when due. Generally, we hold security deposits in connection with each lease which may be applied in the event that the tenant under the lease fails or is unable to make payments; however, these security deposits do not provide us with sustained cash flow to pay distributions or for other purposes. In the event that a tenant continually fails to make rent payments, the security deposits may be applied in full to the non-payment of rents, but we face the risk of being able to recover only a portion of the rents due to us or being unable to recover any amounts whatsoever. If we evict a tenant, we also face the risk of delay or inability to find a suitable tenant or replacement tenant that suits the needs of our hotel.

In addition, the employees of certain of our tenants are represented by labor unions. If unionized employees of our tenants were to engage in a strike, work stoppage or other slow-downs in the future, our tenants could experience a significant disruption of their operations which could in turn disrupt business at our hotels and affect our results of operations. We are also at risk to

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circumstances where our tenants fail to meet their obligations under their union contracts, which could result in increased liability to us.

We face competition for hotel acquisitions and investments and we may not be successful in identifying or completing hotel acquisitions and investments that meet our criteria, which may impede our growth.

One component of our long-term business strategy is expansion through hotel acquisitions and investments. However, we may not be successful in identifying or completing acquisitions or investments that are consistent with our strategy. We compete with institutional pension funds, private equity funds, REITs, hotel companies and others who are engaged in hotel acquisitions and investments. This competition for hotel investments may increase the price we pay for hotels and these competitors may succeed in acquiring those hotels that we seek to purchase. In addition, the number of entities competing for suitable hotels may increase in the future, which would increase demand for these hotels and the prices we must pay to acquire them. If we pay higher prices for hotels, our returns on investment and profitability may be reduced. Also, future acquisitions of hotels, hotel companies or hotel investments may not yield the returns we expect, especially if we cannot obtain financing without paying higher borrowing costs, and may result in stockholder dilution.

Actions by organized labor could have a material adverse effect on our business.

We believe that unions are generally becoming more aggressive about organizing workers at hotels in certain geographic locations. Potential labor activities at these hotels could significantly increase the administrative, labor and legal expenses of the third-party management companies managing these hotels and reduce the profits that we receive. If hotels in our portfolio are organized, this could have a material adverse effect on our business, financial condition, results of operation and our ability to make distributions to our stockholders.

We have entered into management agreements with third-party managers to operate our hotels. Our hotel managers are responsible for hiring and maintaining the labor force at each of our hotels. From time to time, strikes, lockouts, public demonstrations or other negative actions and publicity may disrupt hotel operations at any of our hotels, negatively impact our reputation or the reputation of our brands, or harm relationships with the labor forces at our hotels. We also may incur increased legal costs and indirect labor costs as a result of contract disputes or other events. Additionally, hotels where our managers have collective bargaining agreements with employees are more highly affected by labor force activities than others. The resolution of labor disputes or new or re-negotiated labor contracts could lead to increased labor costs, either by increases in wages or benefits or by changes in work rules that raise hotel operating costs. Furthermore, labor agreements may limit the ability of our hotel managers to reduce the size of hotel workforces during an economic downturn because collective bargaining agreements are negotiated between the hotel managers and labor unions. We do not have the ability to control the outcome of these negotiations.
We are in discussions with the union representing hospitality workers in New York regarding a collective bargaining agreement at one of our New York City hotels and it is probable that we will enter into a collective bargaining agreement for this hotel in 2017.

Actions by federal, state or local jurisdictions could have a material adverse effect on our business.

Several local jurisdictions in the United States have enacted, or considered, legislation increasing the minimum wage for workers in the jurisdiction. Some of this legislation applies to hotels only. If a jurisdiction in which the Company owns a hotel adopts such legislation, then the cost to operate the hotel may increase significantly and could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

The Department of Labor has proposed regulations that would have the effect of increasing the number of workers entitled to overtime. If these regulations are implemented, it could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Our success depends on senior executive officers whose continued service is not guaranteed.

We depend on the efforts and expertise of our senior executive officers to manage our day-to-day operations and strategic business direction. Finding suitable replacements for senior executive officers could be difficult. The loss of any of their services could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

We and our hotel managers rely on information technology in our operations and any material failures, inadequacies, interruptions, security failures or cyber-attacks could harm our business.

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We and our hotel managers rely on information technologies and systems, including the Internet, to access, store, transmit, deliver and manage information and processes. Although we and our hotel managers believe that we have taken commercially reasonable steps to protect the security of these systems, there can be no assurance that such security measures will prevent failures, inadequacies or interruptions in system services, or that system security will not be breached through physical or electronic break-ins, computer viruses and cyber-attacks. Disruptions in service, system shutdowns and security breaches in either the information technologies and systems of our hotel managers or our own information technologies and systems, including unauthorized disclosure of confidential information, could have a material adverse effect on our business operations and results, our financial and compliance reporting and our reputation.

From time to time, we may be subject to litigation, which could have a material adverse effect on our financial condition, results of operations, cash flow and trading price of our common stock.

From time to time, we may be subject to litigation. In addition, we generally indemnify third-party hotel managers for legal costs resulting from management of our hotels. Some of these claims may result in defense costs, settlements, fines or judgments against us, some of which are not covered by insurance. The outcome of these legal proceedings cannot be predicted. Payment of any such costs, settlements, fines or judgments that are not insured could have a material adverse impact on our financial position and results of operations. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured and/or adversely impact our ability to attract officers and directors.

Risks Related to the Economy and Credit Markets

The lack of availability and terms of financing could adversely impact the amounts, sources and costs of capital available to us.

The ownership of hotels is very capital intensive. We finance the acquisition of our hotels with a mixture of equity and long-term debt while we traditionally finance renovations and operating needs with cash provided from operations or with borrowings from our corporate credit facility. Our mortgage loans typically have a large balloon payment due at their maturity. Generally, we find it more efficient to place a significant amount of debt on a small number of our hotels while we try to maintain a significant number of our hotels unencumbered.

During periods of economic recession, it could be difficult for us to borrow money. In recent years, a significant percentage of hotel loans were made by lenders who sold such loans to securitized lending vehicles, such as commercial mortgage backed security (CMBS) pools. If the market for new CMBS issuances results in CMBS lenders making fewer loans, there is a risk that the debt capital available to us could be reduced.

An uncertain environment in the lodging industry and the economy generally could result in declines in our average daily room rates, occupancy and RevPAR, and thereby have a material adverse effect on our results of operations.

The performance of the lodging industry has traditionally been closely linked with the general economy. A stall in economic growth or an economic recession would have a material adverse effect on our results of operations. If a property's occupancy or room rates drop to the point where its revenues are less than its operating expenses, then we would be required to spend additional funds in order to cover that property's operating expenses.

In addition, if the operating results decline at our hotels that are secured by mortgage debt, there may not be sufficient operating profits from the hotel to fund the debt service on the mortgage. In such a case, we may be forced to choose from a number of unfavorable options, including using corporate cash, drawing on our corporate credit facility, selling a hotel on disadvantageous terms, including an unattractive price, or defaulting on the mortgage debt and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, results of operations, financial condition and ability to pay distributions to our stockholders.

Risks Related to Our Debt and Financing

Our existing indebtedness contains financial covenants that could limit our operations and our ability to make distributions to our stockholders.

Our existing property-level debt instruments contain restrictions (including cash management provisions) that may, under circumstances specified in the loan agreements, prohibit our subsidiaries that own our hotels from making distributions or paying dividends, repaying loans to us or other subsidiaries or transferring any of their assets to us or another subsidiary. Failure to meet

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our financial covenants could result from, among other things, changes in our results of operations, the incurrence of additional debt or changes in general economic conditions. In addition, this could cause one or more of our lenders to accelerate the timing of payments and could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders. The terms of our debt may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders.

Our credit facility and term loan contain financial covenants that may constrain our ability to sell assets and make distributions to our stockholders.

Our corporate credit facility and term loan contain several financial covenants, the most constraining of which limits the amount of debt that we may incur compared to the value of our hotels (our leverage covenant) and the amount of debt service we pay compared to our cash flow (our debt service coverage covenant). If we were to default under either of these covenants, the lenders may require us to repay all amounts then outstanding under our credit facility and term loan and may terminate our credit facility and term loan. These and our other financial covenants constrain us from incurring material amounts of additional debt or from selling properties that generate a material amount of income. In addition, our credit facility requires that we maintain a minimum number of our hotels as unencumbered assets.

Many of our existing mortgage debt agreements contain “cash trap” provisions that could limit our ability to make distributions to our stockholders.

Certain of our loan agreements contain cash trap provisions that may be triggered if the performance of the affected hotel or hotels declines. If the provisions in one or more of these loan agreements are triggered, substantially all of the cash flow generated by the hotel or hotels affected will be deposited directly into lockbox accounts and then swept into cash management accounts for the benefit of the lenders. Cash will be distributed to us only after certain items are paid, including deposits into leasing and maintenance reserves and the payment of debt service, insurance, taxes, operating expenses, and extraordinary capital expenditures and leasing expenses. This could affect our liquidity and our ability to make distributions to our stockholders.

There is refinancing risk associated with our debt.

Our typical debt contains limited principal amortization; therefore, the vast majority of the principal must be repaid at the maturity of the loan in a so-called “balloon payment.” In the event that we do not have sufficient funds to repay the debt at the maturity of these loans, we will need to refinance this debt. If the credit environment is constrained at the time of our debt maturities, we would have a very difficult time refinancing debt. In addition, we locked in our fixed-rate debt at a point in time when we were able to obtain favorable interest rates, principal amortization and other terms. When we refinance our debt, prevailing interest rates and other factors may result in paying a greater amount of debt service, which will adversely affect our cash flow, and, consequently, our cash available for distribution to our stockholders. If we are unable to refinance our debt on acceptable terms, we may be forced to choose from a number of unfavorable options. These options include agreeing to otherwise unfavorable financing terms on one or more of our unencumbered assets, selling one or more hotels on disadvantageous terms, including unattractive prices or defaulting on the mortgage and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

If we default on our secured debt in the future, the lenders may foreclose on our hotels.

All of our indebtedness, except our credit facility and term loan, is secured by single property first mortgages on the applicable property. If we default on any of the secured loans, the lender will be able to foreclose on the property pledged to the relevant lender under that loan. While we have maintained certain of our hotels unencumbered by mortgage debt, we have a relatively high loan-to-value on a number of our hotels which are subject to mortgage loans and, as a result, those mortgaged hotels may be at an increased risk of default and foreclosure. In addition, to the extent that we cannot meet any future debt service obligations, we will risk losing some or all of our hotels that are pledged to secure our obligations to foreclosure. This could affect our ability to make distributions to our stockholders.

In addition to losing the property, a foreclosure may result in recognition of taxable income. Under the Code, a foreclosure of property securing non-recourse debt would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure even though we did not receive any cash proceeds. As a result, we may be required to identify and utilize other sources of cash for distributions to our stockholders. If this occurs, our financial condition, cash flow and ability to satisfy our other debt obligations or ability to pay distributions may be adversely affected.

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Future debt service obligations may adversely affect our operating results, require us to liquidate our properties, jeopardize our ability to make cash distributions necessary to maintain our tax status as a REIT and limit our ability to make distributions to our stockholders.

In the future, we and our subsidiaries may incur substantial additional debt, including secured debt. Although borrowing costs have been historically low, they are expected to rise in the near-term and borrowing costs on new and refinanced debt may be more expensive. Our existing debt, and any additional debt borrowed in the future could subject us to many risks, including the risks that:

- our cash flow from operations will be insufficient to make required payments of principal and interest or to make cash distributions necessary to maintain our tax status as a REIT;

- we may be vulnerable to adverse economic and industry conditions;

- we may be required to dedicate a substantial portion of our cash flow from operations to the repayment of our debt, thereby reducing the cash available for distribution to our stockholders, operations and capital expenditures, future investment opportunities or other purposes;

- the terms of any refinancing might not be as favorable as the terms of the debt being refinanced; and

- the use of leverage could adversely affect our stock price and our ability to make distributions to our stockholders.

If we violate covenants in our future indebtedness agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on favorable terms, if at all.

Higher interest rates could increase debt service requirements on our floating rate debt, if any, and refinanced debt and could reduce the amounts available for distribution to our stockholders, as well as reduce funds available for our operations, future investment opportunities or other purposes. We may obtain in the future one or more forms of interest rate protection, in the form of swap agreements, interest rate cap contracts or similar agreements, to “hedge” against the possible negative effects of interest rate fluctuations. However, hedging is expensive, there is no perfect hedge, and we cannot assure you that any hedging will adequately mitigate the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations. In addition, we may be subject to risks of default by hedging counter-parties.

Risks Related to Regulation, Taxes and the Environment

Noncompliance with governmental regulations could adversely affect our operating results.

Environmental matters.

Our hotels are, and the hotels that we acquire in the future will be, subject to various federal, state and local environmental laws. Under these laws, courts and government agencies may have the authority to require us, as owner of a contaminated property, to clean up the property, even if we did not know of or were not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral or to sell the property. Under the environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment. A person who arranges for the disposal or treatment, or transports for disposal or treatment, a hazardous substance at a property owned by another person may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos while staying in a hotel may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. For example, certain laws require a business using chemicals (such as swimming pool chemicals at a hotel) to manage them carefully and to notify local officials that the chemicals are being used.

We could be responsible for the costs associated with a contaminated property. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect the funds available for distribution to our stockholders. We cannot assure you that future laws or regulations will not impose material environmental liabilities or that the current environmental condition of our hotels will not be affected by the condition of the properties in the vicinity of our hotels (such as the presence of leaking underground storage tanks) or by third parties unrelated to us. We may face liability regardless of our knowledge of the contamination, the timing of the contamination, the cause of the contamination, or the party responsible for the contamination of the property.

Although we have taken and will take commercially reasonable steps to assess the condition of our properties, there may be unknown environmental problems associated with our properties. If environmental contamination exists on our properties, we could become subject to strict, joint and several liability for the contamination by virtue of our ownership interest. In addition, we are obligated to indemnify our lenders for any liability they may incur in connection with a contaminated property.

The presence of hazardous substances or petroleum contamination on a property may adversely affect our ability to sell the property and could cause us to incur substantial remediation costs. The discovery of environmental liabilities attached to our properties could have a material adverse effect on our results of operations and financial condition and our ability to pay dividends to our stockholders.

Numerous treaties, laws and regulations have been enacted to regulate or limit carbon emissions. Changes in the regulations and legislation relating to climate change, and complying with such laws and regulations, may require us to make significant investments in our hotels and could result in increased energy costs at our properties which could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

Americans with Disabilities Act and other changes in governmental rules and regulations.

Under the ADA, all public accommodations must meet various federal non-discrimination requirements related to access and use by individuals with disabilities. Compliance with the ADA's requirements could require removal of architectural barriers to access and non-compliance could result in the payment of civil penalties, damages, and attorneys' fees and costs. If we are required to make substantial modifications to our hotels, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations and ability to make distributions to our stockholders could be adversely affected.

Our hotel properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic reactions. As a result, the presence of mold to which our hotel guests or employees could be exposed at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property, which would reduce our cash available for distribution. In addition, exposure to mold by our guests or employees, management company employees or others could expose us to liability if property damage or adverse health concerns arise.

Risks Related to Our Status as a REIT

We cannot assure you that we will remain qualified as a REIT.

We believe that we are qualified to be taxed as a REIT for federal income tax purposes for our taxable year ended December 31, 2016, and we expect to continue to qualify as a REIT for future taxable years, but we cannot assure you that we have qualified, or will remain qualified, as a REIT. The REIT qualification requirements are extremely complex and official interpretations of the federal income tax laws governing qualification as a REIT are limited. Certain aspects of our REIT qualification are beyond our control. Accordingly, we cannot be certain that we will be successful in operating so that we can remain qualified as a REIT. At any time, new laws, interpretations or court decisions may change the federal tax laws or the federal income tax consequences of our qualification as a REIT. Moreover, our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT.

If we fail to qualify as a REIT and do not qualify for certain statutory relief provisions, or otherwise cease to be a REIT, we will be subject to federal income tax on our taxable income at corporate rates. We might need to borrow money or sell assets in order to pay any such tax. Also, we would not be allowed a deduction for dividends paid to our stockholders in computing our taxable income and we would no longer be compelled to make distributions under the Code. Unless we were entitled to relief

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under certain federal income tax laws, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT. If we fail to qualify as a REIT but are eligible for certain relief provisions, then we may retain our status as a REIT, but we may be required to pay a penalty tax, which could be substantial.

Maintaining our REIT qualification contains certain restrictions and drawbacks.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To remain qualified as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forgo attractive business or investment opportunities. For example, we may not lease to our TRS any hotel which contains gaming. Thus, compliance with the REIT requirements may hinder our ability to operate solely to maximize profits.

To qualify as a REIT, we must meet annual distribution requirements.

In order to remain qualified as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gains, each year to our stockholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. As a result of differences between cash flow and the accrual of income and expenses for tax purposes, or nondeductible expenditures, for example, our REIT taxable income in any given year could exceed our cash available for distribution. Accordingly, we may be required to borrow money or sell assets to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the distribution requirement and to avoid federal corporate income tax and the 4% nondeductible excise tax in a particular year.

The formation of our TRSs and TRS lessees increases our overall tax liability.

Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more TRSs (and 20% in taxable years beginning after December 31, 2017). Our domestic TRSs are subject to federal and state income tax on their taxable income. The taxable income of our TRS lessees currently consists and generally will continue to consist of revenues from the hotels leased by our TRS lessees plus, in certain cases, key money payments (amounts paid to us by a hotel management company in exchange for the right to manage a hotel we acquire) and yield support payments, net of the operating expenses for such properties and rent payments to us. Such taxes could be substantial. Our non-U.S. TRSs also may be subject to tax in jurisdictions where they operate.

We will be subject to a 100% excise tax to the extent that transactions with our TRSs are not conducted on an arm's-length basis. For example, to the extent that the rent paid by one of our TRS lessees exceeds an arm's-length rental amount, such excess is potentially subject to this excise tax. While we believe that we structure all of our leases on an arm's-length basis, upon an audit, the IRS might disagree with our conclusion.

If the leases of our hotels to our TRS lessees are not respected as true leases for U.S. federal income tax purposes, we will fail to qualify as a REIT.
To qualify as a REIT, we must annually satisfy two gross income tests, under which specified percentages of our gross income must be derived from certain sources, such as "rents from real property." Rents paid to us by our TRS lessees

pursuant to the leases of our hotels will constitute substantially all of our gross income. In order for such rent to qualify as “rents from real property” for purposes of the gross income tests, the leases must be respected as true leases for U.S. federal income tax purposes and not be treated as service contracts, financing arrangements, joint ventures or some other type of arrangement. If our leases are not respected as true leases for U.S. federal income tax purposes, we will fail to qualify as a REIT.

You may be restricted from transferring our common stock.

In order to maintain our REIT qualification, among other requirements, no more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal income tax laws to include certain entities) during the last half of any taxable year. In addition, the REIT rules generally prohibit a manager of one of our hotels from owning, directly or indirectly, more than 35% of our stock and a person who holds 35% or more of our stock from also holding, directly or indirectly, more than 35% of any such hotel management company. To qualify for and preserve REIT status, our charter

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contains an aggregate share ownership limit and a common share ownership limit. Generally, any shares of our stock owned by affiliated owners will be added together for purposes of the aggregate share ownership limit, and any shares of common stock owned by affiliated owners will be added together for purposes of the common share ownership limit.

If anyone transfers or owns shares in a way that would violate the aggregate share ownership limit or the common share ownership limit (unless such ownership limits have been waived by our board of directors), or would prevent us from continuing to qualify as a REIT under the federal income tax laws, those shares instead will be transferred to a trust for the benefit of a charitable beneficiary and will be either redeemed by us or sold to a person whose ownership of the shares will not violate the aggregate share ownership limit or the common share ownership limit. If this transfer to a trust would not be effective to prevent a violation of the ownership restrictions in our charter, then the initial intended transfer or ownership will be null and void from the outset. The intended transferee or owner of those shares will be deemed never to have owned the shares. Anyone who acquires or owns shares in violation of the aggregate share ownership limit, the common share ownership limit (unless such ownership limits have been waived by our board of directors) or the other restrictions on transfer or ownership in our charter bears the risk of a financial loss when the shares are redeemed or sold if the market price of our stock falls between the date of purchase and the date of redemption or sale.

Even if we maintain our status as a REIT, in certain circumstances, we may be subject to federal and state income taxes, which would reduce our cash available for distribution to our stockholders.

Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes or state taxes in various circumstances. For example, net income from a “prohibited transaction” will be subject to a 100% tax. In addition, we may not be able to distribute all of our income in any given year, which would result in corporate level taxes, and we may not make sufficient distributions to avoid excise taxes. We may also decide to retain certain gains from the sale or other disposition of our property and pay income tax directly on such gains. In that event, our stockholders would be required to include such gains in income and would receive a corresponding credit for their share of taxes paid by us. We may also be subject to U.S. state and local and non-U.S. taxes on our income or properties, either directly or at the level of our operating partnership or the other companies through which we indirectly own our assets. In addition, we may be subject to federal, state, local or non-U.S. taxes in other various circumstances. Any federal or state taxes that we pay will reduce our cash available for distribution to our stockholders.

Dividends payable by REITs generally do not qualify for reduced tax rates.

A maximum 20% tax rate applies to “qualified” dividends payable to individual U.S. stockholders. Dividends payable by REITs, however, are generally not qualified dividends eligible for the reduced rates and are taxed at normal ordinary income tax rates. However, to the extent that such dividends are attributable to certain dividends that we receive from a taxable REIT subsidiary, such dividends generally will be eligible for the reduced rates that apply to qualified dividends. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

Legislative or regulatory action could adversely affect our stockholders.

In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to applicable tax laws are likely to continue to occur in the future, and we cannot assure our stockholders that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our common stock. All stockholders are urged to consult with their tax advisors with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our common stock.

Risks Related to Our Organization and Structure

Provisions of our charter may limit the ability of a third party to acquire control of our company.

Our charter provides that no person may beneficially own more than 9.8% of the aggregate outstanding shares of our common stock or more than 9.8% of the value of the aggregate outstanding shares of our capital stock, except certain “look-through entities,” such as mutual funds, which may beneficially own up to 15% of the aggregate outstanding shares of our common stock or up to 15% of the value of the aggregate outstanding shares of our capital stock. Our board of directors has waived this ownership limitation for certain investors in the past. Our bylaws waive this ownership limitation for certain other classes of investors. These ownership limitations may prevent an acquisition of control of our company by a third party without our board of directors' approval, even if our stockholders believe the change of control is in their best interests.

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Our charter also authorizes our board of directors to issue up to 400,000,000 shares of common stock and up to 10,000,000 shares of preferred stock, to classify or reclassify any unissued shares of common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares. Furthermore, our board of directors may, without any action by the stockholders, amend our charter from time to time to increase or decrease the aggregate number of shares of stock of any class or series that we have authority to issue. Issuances of additional shares of stock may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium to the market price of our common stock or otherwise be in our stockholders' best interests.

Certain advance notice provisions of our bylaws may limit the ability of a third party to acquire control of our company.

Our bylaws provide that (a) with respect to an annual meeting of stockholders, nominations of individuals for election to our board of directors and the proposal of other business to be considered by stockholders may be made only (i) pursuant to our notice of the meeting, (ii) by the board of directors or (iii) by a stockholder who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in the bylaws and (b) with respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting of stockholders and nominations of individuals for election to the board of directors may be made only (A) by the board of directors or (B) provided that the board of directors has determined that directors shall be elected at such meeting by a stockholder who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in the bylaws. These advance notice provisions may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium to the market price of our common stock or otherwise be in our stockholders' best interests.

Provisions of Maryland law may limit the ability of a third party to acquire control of our company.

The Maryland General Corporation Law, or the MGCL, has certain restrictions on a “business combination” and “control share acquisition” which we have opted out of. If an affirmative majority of votes cast by a majority of stockholders entitled to vote approve it, our board of directors may opt in to such provisions of the MGCL. If we opt in, and the stockholders approve it, these provisions may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interests.

In addition, provisions of Maryland law permit the board of a corporation with a class of equity securities registered under the Exchange Act and at least three independent directors, without stockholder approval, to implement possible takeover defenses, such as a classified board or a two-thirds vote requirement for removal of a director. These provisions, if implemented, may make it more difficult for a third party to affect a takeover. In February 2014, however, we amended our charter to prohibit us from dividing directors into classes unless such action is first approved by the affirmative vote of a majority of the votes cast on the matter by stockholders entitled to vote generally in the election of directors.

We have entered into an agreement with each of our senior executive officers that provides each of them benefits in the event that his employment is terminated by us without cause, by him for good reason or under certain circumstances following a change of control of our company.

We have entered into an agreement with each of our senior executive officers that provides each of them with severance benefits if his employment is terminated under certain circumstances following a change of control of our company. Certain of these benefits and the related tax indemnity in the case of certain executive officers could prevent or deter a change of control of our company that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

You have limited control as a stockholder regarding any changes that we make to our policies.

Our board of directors determines our major policies, including policies related to our investment objectives, leverage, financing, growth and distributions to our stockholders. Our board of directors may amend or revise these policies without a vote of our stockholders. This means that our stockholders will have limited control over changes in our policies and those changes could adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.

We may be unable to generate sufficient cash flows from our operations to make distributions to our stockholders at expected levels, and we cannot assure you of our ability to make distributions in the future.

We intend to pay quarterly dividends that represents at least 90% of our REIT taxable income. Our ability to make these intended distributions may be adversely affected by the factors, risks and uncertainties described in this Annual Report on Form

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10-K and other reports that we file from time to time with the SEC. In addition, our board of directors has the sole discretion to determine the timing, form and amount of any distribution to our stockholders. Our board of directors will make determinations regarding distributions based upon many facts, including our financial performance, our debt service obligations, our debt covenants, our capital expenditure requirements, the requirements for qualification as a REIT and other factors that our board of directors may deem relevant from time to time. As a result, no assurance can be given that we will be able to make distributions to our stockholders at expected levels, or at all, or that distributions will increase or even be maintained over time, any of which could materially and adversely affect the market price of our common stock.

Changes in market conditions could adversely affect the market price of our common stock.

As with other publicly traded equity securities, the value of our common stock depends on various market conditions that may change from time to time. Among the market conditions that may affect the value of our common stock are the following:

- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- the underlying asset value of our hotels;
- investor confidence in the stock and bond markets, generally;
- national and local economic conditions;
- changes in tax laws;
- our financial performance; and
- general stock and bond market conditions.

The market value of our common stock is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash distributions. Consequently, our common stock may trade at prices that are greater or less than our net asset value per share of common stock. If our future earnings or cash distributions are less than expected, it is likely that the market price of our common stock will diminish.

In addition, interest rates have been at historically low levels for an extended period of time. The market for common shares of publicly traded REITs may be influenced by the distribution yield on their common shares (i.e., the amount of annual distributions as a percentage of the market price of their common shares) relative to market interest rates. Although current market interest rates remain low compared to historical levels, interest rates have recently risen and some market forecasts predict additional increases in the near term. If market interest rates increase, prospective purchasers of REIT common shares may seek to achieve a higher distribution yield, which we may not be able to, or may choose not to, provide. Thus, higher market interest rates could cause the market price of our common stock to decline. Additionally, higher market interest rates may adversely impact the market values of our hotels.

The market price of our common stock could be volatile and could decline, resulting in a substantial or complete loss on our common stockholders' investment.

The market price of our common stock has been highly volatile in the past, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources.

Future issuances or sales of our common stock may depress the market price of our common stock and have a dilutive effect on our existing stockholders.

We cannot predict whether future issuances of our common stock or the availability of shares for resale in the open market may depress the market price of our common stock. Future issuances or sales of a substantial number of shares of our common stock in the public market, or the issuance of our common stock in connection with future property, portfolio or business acquisitions, or the perception that such issuances or sales might occur, may cause the market price of our shares to decline. In addition, future issuances or sales of our common stock may be dilutive to existing stockholders.

Future offerings of debt securities or preferred stock, which would be senior to our common stock upon liquidation and for the purpose of distributions, may cause the market price of our common stock to decline.

In the future, we may increase our capital resources by making additional offerings of debt or equity securities, which may include senior or subordinated notes, classes of preferred stock and/or common stock. We will be able to issue additional shares of common stock or preferred stock without stockholder approval, unless stockholder approval is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings could significantly dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Preferred stock and debt, if issued, could have a preference on liquidating distributions or a preference on dividend or interest payments that could limit our ability to make distributions to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their interest.

Our growth strategy may not achieve the anticipated results.

Our future success will depend on our ability to grow our business, including through capital investments to acquire and renovate full-service hotel properties. Our growth and innovation strategies require significant commitments of management resources and capital investments and may not grow our revenues at the rate we expect or at all. As a result, we may not be able to recover the costs incurred in acquiring or renovating new hotel properties or to realize their intended or projected benefits, which could materially adversely affect our business, financial condition or results of operations.

We cannot guarantee that we will repurchase our common stock pursuant to our share repurchase program or that our share repurchase program will enhance long-term stockholder value. Share repurchases could also increase the volatility of the price of our common stock and could diminish our cash reserves.

Our board of directors approved a share repurchase program that authorizes us to repurchase up to $150 million in shares of our common stock. Although our board of directors has approved our share repurchase program, our share repurchase program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The timing and amount of repurchases, if any, will depend upon several factors, including market and business conditions, the trading price of our common stock, our cost of capital and the nature of other investment opportunities. Our share repurchase program may be limited, suspended or discontinued at any time without prior notice. In addition, repurchases of our common stock pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of our share repurchase program could cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our share repurchase program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. There can be no assurance that any share repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of stock. Although our share repurchase program is intended to enhance long-term stockholder value, there is no assurance that it will do so and short-term stock price fluctuations could reduce the program's effectiveness. Currently, we do not expect to utilize our share repurchase program unless we believe our cost of capital is elevated. Our share repurchase program may be suspended or terminated at any time without notice.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The following table sets forth certain information for each of our hotels owned as of December 31, 2016.

Hotel	City	State	Chain Scale Segment (1)	Service Category	Rooms	Manager
Chicago Marriott	Chicago	Illinois	Upper Upscale	Full Service	1,200	Marriott
Westin Boston Waterfront Hotel	Boston	Massachusetts	Upper Upscale	Full Service	793	Marriott
Lexington Hotel New York	New York	New York	Upper Upscale	Full Service	725	Highgate Hotels
Salt Lake City Marriott Downtown	Salt Lake City	Utah	Upper Upscale	Full Service	510	Marriott
Renaissance Worthington	Fort Worth	Texas	Upper Upscale	Full Service	504	Marriott
Frenchman’s Reef & Morning Star Marriott Beach Resort	St. Thomas	U.S. Virgin Islands	Upper Upscale	Full Service	502	Marriott
Westin San Diego	San Diego	California	Upper Upscale	Full Service	436	Interstate Hotels & Resorts
Westin Fort Lauderdale Beach Resort	Fort Lauderdale	Florida	Upper Upscale	Full Service	432	HEI Hotels & Resorts
Westin Washington, D.C. City Center	Washington	District of Columbia	Upper Upscale	Full Service	410	HEI Hotels & Resorts
Hilton Boston Downtown	Boston	Massachusetts	Upper Upscale	Full Service	403	Davidson Hotels & Resorts
Vail Marriott Mountain Resort & Spa	Vail	Colorado	Upper Upscale	Full Service	344	Vail Resorts
Marriott Atlanta Alpharetta	Atlanta	Georgia	Upper Upscale	Full Service	318	Marriott
Courtyard Manhattan/Midtown East	New York	New York	Upscale	Select Service	321	Marriott
The Gwen Chicago	Chicago	Illinois	Luxury	Full Service	311	HEI Hotels & Resorts
Hilton Garden Inn Times Square Central	New York	New York	Upscale	Select Service	282	Highgate Hotels
Bethesda Marriott Suites	Bethesda	Maryland	Upper Upscale	Full Service	272	Marriott
Hilton Burlington	Burlington	Vermont	Upper Upscale	Full Service	258	Interstate Hotels & Resorts
JW Marriott Denver at Cherry Creek	Denver	Colorado	Luxury	Full Service	196	Sage Hospitality
Courtyard Manhattan/Fifth Avenue	New York	New York	Upscale	Select Service	189	Marriott
Sheraton Suites Key West	Key West	Florida	Upper Upscale	Full Service	184	Ocean Properties
	Sonoma	California		Full Service	182	Marriott

The Lodge at Sonoma, a Renaissance Resort & Spa			Upper Upscale			
Courtyard Denver Downtown	Denver	Colorado	Upscale	Select Service	177	Sage Hospitality
Renaissance Charleston	Charleston	South Carolina	Upper Upscale	Full Service	166	Marriott
Shorebreak Hotel	Huntington Beach	California	Upper Upscale	Full Service	157	Kimpton Hotels & Restaurants
Inn at Key West	Key West	Florida	Upscale	Select Service	106	Ocean Properties
Hotel Rex	San Francisco	California	Upper Upscale	Full Service	94	Joie de Vivre Hotels
Total					9,472	

(1) As defined by Smith Travel Research

We are party to hotel management agreements for each of our hotels and franchise agreements for twelve of our hotels. Additional information regarding our hotel management and franchise agreements can be found in Note 12 to our accompanying consolidated financial statements.

Seven of our hotels are subject to ground lease agreements. Additional information regarding our hotels that are subject to ground leases can be found in Note 13 to our accompanying consolidated financial statements.

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Item 3. Legal Proceedings

Litigation

We are subject to various claims, lawsuits and legal proceedings, including routine litigation arising in the ordinary course of business, regarding the operation of our hotels and Company matters. While it is not possible to ascertain the ultimate outcome of such matters, management believes that the aggregate amount of such liabilities, if any, in excess of amounts covered by insurance, will not have a material adverse impact on our financial condition or results of operations. The outcome of claims, lawsuits and legal proceedings brought against the Company, however, is subject to significant uncertainties.

Other Matters

As previously reported, in February 2016, the Company was notified by the franchisor of one of its hotels that as a result of low guest satisfaction scores, the Company is in default under the franchise agreement for that hotel. The Company continues to proactively work with the franchisor and the manager of the hotel and developed and executed a plan aimed to improve guest satisfaction scores. To date, however, although guest satisfaction scores have improved, the franchisor has notified the Company that such improvement was not sufficient under the franchise agreement and the Company continues to be in default. While the franchisor has reserved all of its rights under the franchise agreement, including the right to terminate the franchise agreement in the future, no action to terminate the franchise agreement has been taken by the franchisor.

In addition, the lender that holds the mortgage on this hotel received notice of the foregoing. The lender has provided written notice to the Company that although it has the right to call an event of default under the loan agreement after a notice and cure period has elapsed, the lender is not doing so but reserves all of its rights under the loan agreement. If the lender seeks to declare an event of default under the loan agreement, such event of default could result in a material adverse effect on the Company's business, financial condition or results of operation.

While the Company continues to work diligently with the franchisor and manager to resolve the matter, no assurance can be given that the Company will be successful. If the Company is not successful resolving the matter, the franchisor may seek to terminate the franchise agreement and assert a claim it is owed a termination fee, including a payment for liquidated damages, which could result in a material adverse effect on the Company's business, financial condition or results of operation.

Item 4. Mine Safety Disclosures

Not applicable.

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Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on the NYSE under the symbol “DRH”. The following table sets forth, for the indicated period, the high and low sales prices for the common stock, as reported on the NYSE:

	Price Range	
	High	Low
Year Ended December 31, 2015:		
First Quarter	$16.01	$13.33
Second Quarter	14.45	12.66
Third Quarter	13.86	10.72
Fourth Quarter	12.84	9.65
Year Ended December 31, 2016:		
First Quarter	$10.23	$7.28
Second Quarter	10.03	8.22
Third Quarter	10.87	8.76
Fourth Quarter	11.61	8.73

The closing price of our common stock on the NYSE on December 31, 2016 was $11.53 per share.

Stock Performance Graph

The following graph compares the five-year cumulative total stockholder return on our common stock against the cumulative total returns of the Standard & Poor's 500 Index (the “S&P 500 Total Return”) and the Dow Jones U.S. Hotels & Lodging REITs Index (the "Dow Jones U.S. Hotels Total Return"). We believe the Dow Jones U.S. Hotels & Lodging REITs Index's total return provides a relevant industry sector comparison to our common stock's total stockholder return given the index is based on REITs that primarily invest in lodging real estate. Previously, we used the Morgan Stanley REIT Index (the “RMZ Total Return”), which includes REITs invested in real estate other than lodging. The following graph includes both the RMZ Total Return and the Dow Jones U.S. Hotels Total Return.

The graph assumes an initial investment on December 31, 2011 of $100 in our common stock in each of the indexes and also assumes the reinvestment of dividends. The total return values do not include dividends declared, but not paid, during the period.

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	December 31,					
	2011	2012	2013	2014	2015	2016
DiamondRock Hospitality Company Total Return	$100.00	$96.47	$128.08	$170.13	$115.16	$144.90
RMZ Total Return	$100.00	$117.77	$120.68	$157.34	$161.30	$175.17
S&P 500 Total Return	$100.00	$116.00	$153.57	$174.60	$177.01	$198.18
Dow Jones U.S. Hotels Total Return	$100.00	$110.12	$140.63	$182.01	$132.18	$164.25

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing by us under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

Dividend Information

In order to maintain our qualification as a REIT, we must make distributions to our stockholders each year in an amount equal to at least:

- 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gains, plus

- 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Code, minus

- any excess non-cash income.

We generally pay quarterly cash dividends to common stockholders at the discretion of our board of directors. The following table sets forth the dividends declared on our shares of common stock during the years ended December 31, 2016 and 2015.

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Payment Date	Record Date	Dividend per Share
April 10, 2015	March 31, 2015	$0.125
July 14, 2015	June 30, 2015	$0.125
October 13, 2015	September 30, 2015	$0.125
January 12, 2016	December 31, 2015	$0.125
April 12, 2016	March 31, 2016	$0.125
July 12, 2016	June 30, 2016	$0.125
October 12, 2016	September 30, 2016	$0.125
January 12, 2017	December 30, 2016	$0.125

Stockholder Information

As of February 24, 2017, there were 14 record holders of our common stock and we believe we have more than one thousand beneficial holders. In order to comply with certain requirements related to our qualification as a REIT, our charter, subject to certain exceptions, limits the number of common shares that may be owned by any single person or affiliated group to 9.8% of the outstanding common shares.

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Equity Compensation Plan Information

The following table provides information as of December 31, 2016 regarding shares of common stock that may be issued under the Company's equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,083,773 (1)	$12.59 (2)	6,014,817
Equity compensation plans not approved by security holders	—	—	—
Total	1,083,773	$12.59	6,014,817

(1) Includes 20,770 shares of common stock issuable upon the exercise of outstanding stock appreciation rights, 376,279 shares of common stock issuable pursuant to our deferred compensation plan and 686,684 shares of common stock issuable upon the achievement of certain performance conditions.

(2) Since performance stock units and deferred stock units do not have any exercise price, such units are not included in the weighted average exercise price calculation.

Fourth Quarter 2016 Repurchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs (in thousands)
October 1 - October 31, 2016	218,550	$8.93	218,550	$147,224
November 1 - November 30, 2016	417,087	$8.92	417,087	$143,503
December 1 - December 31, 2016	—	$—	—	$143,503

(1) Reflects shares purchased under our share repurchase program. To facilitate repurchases, we make purchases, if any, pursuant to a trading plan under Rule 10b5-1 of the Exchange Act, which allows us to repurchase shares during periods when we otherwise may be prevented from doing so under insider trading laws or because of self-imposed blackout periods. Our share repurchase program may be suspended or terminated at any time without notice. For more information about our share repurchase program, see Note 5 to the accompanying consolidated financial statements.

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Item 6. Selected Financial Data

The selected historical financial information as of and for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 has been derived from our audited historical financial statements. The selected historical financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the consolidated financial statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014, and the related notes contained elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Revenues:					
Rooms	$650,624	$673,578	$628,870	$558,751	$509,902
Food and beverage	194,756	208,173	195,077	193,043	174,963
Other	51,178	49,239	48,915	47,894	42,022
Total revenues	896,558	930,990	872,862	799,688	726,887
Operating expenses:					
Rooms	159,151	163,549	162,870	151,040	135,437
Food and beverage	125,916	137,297	135,402	136,454	124,890
Management fees	30,143	30,633	30,027	25,546	24,307
Other hotel expenses	302,805	317,623	295,826	284,523	254,265
Impairment losses	—	10,461	—	—	30,844
Hotel acquisition costs	—	949	2,177	—	10,591
Corporate expenses (1)	23,629	24,061	22,267	23,072	21,095
Depreciation and amortization	97,444	101,143	99,650	103,895	97,004
Gain on insurance proceeds	—	—	(1,825)	—	—
Gain on litigation settlement, net	—	—	(10,999)	—	—
Total operating expenses	739,088	785,716	735,395	724,530	698,433
Operating income	157,470	145,274	137,467	75,158	28,454
Interest and other income, net	(762)	(688)	(3,027)	(6,328)	(305)
Interest expense	41,735	52,684	58,278	57,279	53,771
Gain on repayments of notes receivable	—	(3,927)	(13,550)	—	—
Gain on sales of hotel properties, net	(10,698)	—	(50,969)	—	—
Gain on hotel property acquisition	—	—	(23,894)	—	—
Loss (gain) on early extinguishment of debt	—	—	1,616	1,492	(144)
Income (loss) from continuing operations before income taxes	127,195	97,205	169,013	22,715	(24,868)
Income tax (expense) benefit	(12,399)	(11,575)	(5,636)	1,113	6,793
Income (loss) from continuing operations	114,796	85,630	163,377	23,828	(18,075)
Income from discontinued operations, net of income taxes	—	—	—	25,237	1,483
Net income (loss)	$114,796	$85,630	$163,377	$49,065	$(16,592)

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	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except for per share data)				
Earnings (loss) per share:					
Continuing operations	$0.57	$0.43	$0.83	$0.12	$(0.10)
Discontinued operations	—	—	—	0.13	0.01
Basic earnings (loss) per share	$0.57	$0.43	$0.83	$0.25	$(0.09)
Diluted earnings (loss) per share	$0.57	$0.43	$0.83	$0.25	$(0.09)
Other data:					
Dividends declared per common share	$0.50	$0.50	$0.41	$0.34	$0.32
FFO (2)	$203,122	$197,234	$212,058	$131,987	$120,961
Adjusted FFO (2)	$206,337	$203,352	$171,507	$139,301	$140,163
EBITDA (3)	$266,374	$251,032	$326,941	$211,983	$134,928
Adjusted EBITDA (3)	$258,872	$265,876	$235,776	$196,862	$189,714

	As of December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Balance sheet data:					
Property and equipment, net	$2,646,676	$2,882,176	$2,764,393	$2,567,533	$2,611,454
Cash and cash equivalents	243,095	213,584	144,365	144,584	9,623
Total assets	3,069,463	3,312,510	3,151,687	3,042,115	2,937,044
Total debt	920,539	1,169,749	1,031,666	1,086,203	981,734
Total liabilities	1,232,676	1,487,905	1,322,700	1,361,424	1,241,931
Stockholders' equity	1,836,787	1,824,605	1,828,987	1,680,691	1,695,113

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(1) Corporate expenses for the year ended December 31, 2016 include the reversal of approximately $0.7 million of previously recognized compensation expense resulting from the forfeiture of equity awards related to the resignation of our former Executive Vice President and Chief Operating Officer. Corporate expenses for the year ended December 31, 2014 include reimbursement of $1.8 million of previously incurred legal fees and other costs from the proceeds of the Westin Boston Waterfront litigation settlement in 2014. Corporate expenses for the year ended December 31, 2013 include approximately $3.1 million of costs related to the departure of our former President and Chief Operating Officer. Corporate expenses for the year ended December 31, 2012 include legal fees of approximately $2.5 million related to the Allerton bankruptcy proceedings.

(2) See "Non-GAAP Financial Measures" below in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a detailed description of FFO and Adjusted FFO and a discussion of why we believe that they are useful supplemental measures of our operating performance.

(3) See "Non-GAAP Financial Measures" below in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a detailed description of EBITDA and Adjusted EBITDA and why we believe that they are useful supplemental measures of our operating performance.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this report. This discussion contains forward-looking statements about our business. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Special Note About Forward-Looking Statements" and "Risk Factors" contained in this Annual Report on Form 10-K and in our other reports that we file from time to time with the SEC.

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Overview

DiamondRock Hospitality Company is a lodging-focused real estate company operating as a REIT for federal income tax purposes that owns a portfolio of premium hotels and resorts. As of December 31, 2016, we owned a portfolio of 26 premium hotels and resorts that contain 9,472 guest rooms located in 17 different markets in North America and the U.S. Virgin Islands. As an owner, rather than an operator, of lodging properties, we receive all of the operating profits or losses generated by our hotels after the payment of fees due to hotel managers, which are calculated based on the revenues and profitability of each hotel.

Key Indicators of Financial Condition and Operating Performance

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

- Occupancy percentage;
- Average Daily Rate (or ADR);
- Revenue per Available Room (or RevPAR);
- Earnings Before Interest, Income Taxes, Depreciation and Amortization (or EBITDA) and Adjusted EBITDA; and
- Funds From Operations (or FFO) and Adjusted FFO.

Occupancy, ADR and RevPAR are commonly used measures within the hotel industry to evaluate operating performance. RevPAR, which is calculated as the product of ADR and occupancy percentage, is an important statistic for monitoring operating performance at the individual hotel level and across our business as a whole. We evaluate individual hotel RevPAR performance on an absolute basis with comparisons to budget and prior periods, as well as on a company-wide and regional basis. ADR and RevPAR include only room revenue. Room revenue comprised approximately 73% of our total revenues for the year ended December 31, 2016 and is dictated by demand, as measured by occupancy percentage, pricing, as measured by ADR, and our available supply of hotel rooms.

Our ADR, occupancy percentage and RevPAR performance may be impacted by macroeconomic factors such as U.S. economic conditions generally, regional and local employment growth, personal income and corporate earnings, office vacancy rates and business relocation decisions, airport and other business and leisure travel, 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 our hotels' global brands.

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

Overview of 2016

During 2016, we executed on our asset management initiatives to improve our portfolio's operating results. We improved our portfolio quality and lowered our financial leverage through the disposition of three non-core hotels and improved our financial flexibility through increasing and extending our corporate credit facility and entering into a new unsecured term loan. Key highlights for 2016 include the following:

Mortgage Loan Repayments. On January 11, 2016, we repaid the $201.7 million mortgage loan secured by the Chicago Marriott Downtown. On May 11, 2016, we repaid the $48.1 million mortgage loan secured by the Courtyard Manhattan Fifth Avenue.

Amended Credit Facility and New Term Loan. During 2016, we amended and restated our senior unsecured credit facility to increase the capacity to $300 million, decrease the pricing and extend the maturity date to May 2020. We also closed on a new five-year $100 million senior unsecured term loan in 2016.

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Hotel Dispositions. In June 2016, we sold the 485-room Orlando Airport Marriott for a contractual sales price of $63 million and the 821-room Hilton Minneapolis for a contractual sales price of $140 million. In July 2016, we sold the 169-room Hilton Garden Inn Chelsea/New York City for a contractual sales price of $65 million.

Share Repurchases. We repurchased 728,237 shares of our common stock at an average price of $8.92 per share for a total purchase price of $6.5 million during the second half of 2016.

Outlook for 2017

We believe the economic growth outlook for 2017 has recently improved modestly based on the potential for national tax reform, deregulation, and other economic stimulus. We believe that this improved economic growth outlook will support lodging fundamentals. Unemployment continues to remain low and consumer confidence has increased in recent months.

We expect 2017 will be the U.S. lodging industry's eighth year of consecutive growth, albeit moderate growth. Supply increases, particularly in urban markets, will likely hamper rate growth. Our portfolio is weighted towards urban markets, specifically New York City and Chicago, which are two markets with recent and expected supply increases in excess of national averages.

We enter 2017 with several favorable factors, including: (1) ownership of a high-quality portfolio concentrated in urban and resort locations; (2) increased internal growth from the continuation of our asset management initiatives and recent hotel renovations; (3) low leveraged capital structure and only one near-term debt maturity; and (4) an unrestricted cash balance of $243 million and no outstanding borrowings on our $300 million senior unsecured credit facility as of December 31, 2016.

Results of Operations

The following table sets forth certain operating information for the year ended December 31, 2016 for each of the hotels we owned during 2016.

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Property	Location	Number of Rooms	Occupancy (%)	ADR($)	RevPAR($)	% Change from 2015 RevPAR (1)
Chicago Marriott	Chicago, Illinois	1,200	70.0 %	$ 223.39	$ 156.26	(4.7)%
Hilton Minneapolis (2)	Minneapolis, Minnesota	821	69.8 %	149.38	104.32	(2.1)%
Westin Boston Waterfront Hotel	Boston, Massachusetts	793	78.0 %	245.09	191.11	0.3 %
Lexington Hotel New York	New York, New York	725	91.9 %	243.23	223.48	(3.5)%
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	69.1 %	159.85	110.39	(1.3)%
Renaissance Worthington	Fort Worth, Texas	504	61.7 %	178.05	109.89	(12.9)%
Frenchman's Reef & Morning Star Marriott Beach Resort	St. Thomas, U.S. Virgin Islands	502	84.0 %	252.96	212.59	1.5 %
Orlando Airport Marriott (3)	Orlando, Florida	485	86.8 %	129.43	112.29	3.2 %
Westin San Diego	San Diego, California	436	85.1 %	186.43	158.58	0.1 %
Westin Fort Lauderdale Beach Resort	Fort Lauderdale, Florida	432	88.2 %	192.44	169.72	8.8 %
Westin Washington, D.C. City Center	Washington, D.C.	410	85.4 %	220.48	188.25	6.3 %
Hilton Boston Downtown	Boston, Massachusetts	403	86.8 %	279.94	242.86	2.0 %
Vail Marriott Mountain Resort & Spa	Vail, Colorado	344	69.4 %	276.25	191.73	8.5 %
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	72.2 %	172.88	124.74	3.6 %
Courtyard Manhattan/Midtown East	New York, New York	321	92.5 %	263.37	243.49	(0.4)%
The Gwen Chicago	Chicago, Illinois	311	79.2 %	206.84	163.71	0.4 %
Hilton Garden Inn New York City/Times Square Central	New York, New York	282	96.8 %	249.60	241.63	(3.3)%
Bethesda Marriott Suites	Bethesda, Maryland	272	72.1 %	170.47	122.85	10.4 %
Hilton Burlington	Burlington, Vermont	258	80.4 %	175.99	141.54	5.7 %
JW Marriott Denver at Cherry Creek	Denver, Colorado	196	81.5 %	265.96	216.66	(0.9)%

Courtyard Manhattan/Fifth Avenue	New York, New York	189	89.5 %	260.10	232.86	(3.2)%
Sheraton Suites Key West	Key West, Florida	184	85.8 %	256.93	220.55	(1.9)%
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	79.4 %	293.15	232.88	0.6 %
Courtyard Denver Downtown	Denver, Colorado	177	79.9 %	201.53	161.01	(0.5)%
Hilton Garden Inn Chelsea/New York City (4)	New York, New York	169	98.1 %	201.66	197.74	3.5 %
Renaissance Charleston	Charleston, South Carolina	166	85.8 %	222.73	191.08	0.8 %
Shorebreak Hotel	Huntington Beach, California	157	79.0 %	225.01	177.80	(0.5)%
Inn at Key West	Key West, Florida	106	82.4 %	205.26	169.10	(9.2)%
Hotel Rex	San Francisco, California	94	82.1 %	230.96	189.59	(3.2)%
Total/Weighted Average		10,947	79.6 %	$ 220.33	$ 175.43	(0.2)%

(1) The percentage change from 2015 RevPAR reflects the comparable period in 2015 to our 2016 ownership period for all hotels.
(2) The hotel was sold on June 30, 2016. The operating statistics reflect the period from January 1, 2016 to June 29, 2016.
(3) The hotel was sold on June 8, 2016. The operating statistics reflect the period from January 1, 2016 to June 7, 2016.
(4) The hotel was sold on July 7, 2016. The operating statistics reflect the period from January 1, 2016 to July 6, 2016.

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

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

	Year Ended December 31,		
	2016	2015	% Change
Rooms	$650.6	$673.6	(3.4)%
Food and beverage	194.8	208.2	(6.4)
Other	51.2	49.2	4.1
Total revenues	$896.6	$931.0	(3.7)%

Our total revenues decreased $34.4 million from $931.0 million for the year ended December 31, 2015 to $896.6 million for the year ended December 31, 2016. Our total revenues include amounts that are not comparable year-over-year as follows:

•$1.3 million increase from the Shorebreak Hotel, which was purchased on February 6, 2015.

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•$10.6 million increase from the Sheraton Suites Key West, which was purchased on June 30, 2015.
•$13.5 million decrease from the Orlando Airport Marriott, which was sold on June 8, 2016.
•$29.8 million decrease from the Minneapolis Hilton, which was sold on June 30, 2016.
•$7.6 million decrease from the Hilton Garden Inn Chelsea/New York City, which was sold on July 7, 2016.

Excluding these non-comparable amounts our total revenues increased $4.6 million, or 0.5%.

The following are key hotel operating statistics for the years ended December 31, 2016 and 2015. The 2015 amounts reflect the period in 2015 comparable to our ownership period in 2016 for our acquisitions of the Shorebreak Hotel and the Sheraton Suites Key West, and our dispositions of the Orlando Airport Marriott, Hilton Minneapolis, and Hilton Garden Inn Chelsea/New York City.

	Year Ended December 31,		
	2016	2015	% Change
Occupancy %	79.6 %	80.3 %	(0.7) percentage points
ADR	$220.33	$218.82	0.7 %
RevPAR	$175.43	$175.76	(0.2)%

Excluding non-comparable amounts, our rooms revenues increased $1.9 million. The increase in room revenues is primarily a result of a 30.3% increase in contract business and a 0.3% increase in the business transient segment, partially offset by a 2.3% decrease in group business.

Food and beverage revenues decreased $13.4 million from the year ended December 31, 2015, which includes amounts that are not comparable period-over-period as follows:

•$0.3 million increase from the Shorebreak Hotel, which was purchased on February 6, 2015.
•$1.1 million increase from the Sheraton Suites Key West, which was purchased on June 30, 2015.
•$4.5 million decrease from the Orlando Airport Marriott, which was sold on June 8, 2016.
•$10.6 million decrease from the Minneapolis Hilton, which was sold on June 30, 2016.
•$0.1 million decrease from the Hilton Garden Inn Chelsea/New York City, which was sold on July 7, 2016.

Excluding these non-comparable amounts, food and beverage revenues increased $0.4 million, or 0.2%.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by $2.0 million. Excluding non-comparable amounts, our other revenues increased $2.3 million, driven primarily by higher resort fees and attrition and cancellation fees.

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

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	Year Ended December 31,		
	2016	2015	% Change
Rooms departmental expenses	$159.2	$163.5	(2.6)%
Food and beverage departmental expenses	125.9	137.3	(8.3)
Other departmental expenses	11.4	17.1	(33.3)
General and administrative	76.5	73.8	3.7
Utilities	25.9	27.1	(4.4)
Repairs and maintenance	35.6	36.9	(3.5)
Sales and marketing	62.0	64.5	(3.9)
Franchise fees	21.8	22.0	(0.9)
Base management fees	22.3	23.2	(3.9)
Incentive management fees	7.8	7.4	5.4
Property taxes	46.4	46.9	(1.1)
Other fixed charges	10.6	12.6	(15.9)
Hotel pre-opening and transition costs	—	1.7	(100.0)
Ground rent—Contractual	6.9	9.4	(26.6)
Ground rent—Non-cash	5.7	5.7	—
Total hotel operating expenses	$618.0	$649.1	(4.8)%

Our hotel operating expenses decreased $31.1 million from $649.1 million for the year ended December 31, 2015 to $618.0 million for the year ended December 31, 2016. The decrease in hotel operating expenses includes amounts that are not comparable quarter-over-quarter as follows:

•$1.0 million increase from the Shorebreak Hotel, which was purchased on February 6, 2015.
•$5.5 million increase from the Sheraton Suites Key West, which was purchased on June 30, 2015.
•$10.5 million decrease from the Orlando Airport Marriott, which was sold on June 8, 2016.
•$21.2 million decrease from the Minneapolis Hilton, which was sold on June 30, 2016.
•$4.5 million decrease from the Hilton Garden Inn Chelsea/New York City, which was sold on July 7, 2016.

Excluding the non-comparable amounts, hotel operating expenses decreased $1.4 million, or 0.2%, from the year ended December 31, 2015. Other departmental expenses decreased primarily due to reclassifications of certain expenses in 2016 to comply with the 11th Edition of the Uniform System of Accounts for the Lodging Industry.

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 decreased $3.7 million from the year ended December 31, 2015, primarily due to our 2016 hotel dispositions, partially offset by increased depreciation from our recent hotel renovations.

Impairment losses. During the year ended December 31, 2015, we recorded impairment losses of $0.8 million on the favorable lease asset related to a tenant lease at the Lexington Hotel New York and $9.6 million on the option to acquire a leasehold interest in a parcel of land adjacent to the Westin Boston Waterfront Hotel for the development of a new hotel. We did not recognize any impairment losses during the year ended December 31, 2016.

Hotel acquisition costs. We incurred $0.9 million of hotel acquisition costs during the year ended December 31, 2015 due to our acquisitions of the Shorebreak Hotel and Sheraton Suites Key West, as well as additional transfer taxes on an acquired hotel. We had no hotel acquisitions during the year ended December 31, 2016.

Corporate expenses. 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. Our corporate expenses decreased $0.5 million, from $24.1 million for the year ended December 31, 2015 to $23.6 million for the year ended December 31, 2016. The decrease is primarily due to a decrease in bonus expense and the reversal of $0.7 million of previously recognized compensation expense resulting from the forfeiture of equity awards related to the resignation of our former Executive Vice President and Chief Operating Officer, partially offset by an increase in other employee compensation and audit fees in 2016.

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Interest expense. Our interest expense was $41.7 million and $52.7 million for the years ended December 31, 2016 and December 31, 2015, respectively, and is comprised of the following (in millions):

	Year Ended December 31,	
	2016	2015
Mortgage debt interest	$36.8	$49.0
Term loan interest	1.3	—
Credit facility interest and unused fees	1.3	1.1
Amortization of deferred financing costs and debt premium	2.3	2.1
Interest rate cap fair value adjustment	—	0.5
	$41.7	$52.7

The decrease in mortgage debt interest expense is related to the refinancing of a portion of our total debt at lower interest rates. The weighted-average interest rate for our debt decreased from 4.5% as of December 31, 2015 to 3.8% as of December 31, 2016.

Gain on repayments of notes receivable. In November 2015, we received $3.9 million for the repayment of the fully reserved loan we provided to the buyer of the Oak Brook Hills Resort upon sale of the hotel in 2014. As a result of the repayment, we recorded a gain of $3.9 million during the year ended December 31, 2015.

Income taxes. We recorded income tax expense of $12.4 million in 2016 and $11.6 million in 2015. The 2016 income tax expense includes $12.4 million of income tax expense incurred on the $29.4 million pre-tax income of our TRS. There was no foreign income tax expense incurred on the TRS that owns Frenchman's Reef. The 2015 income tax expense includes $11.3 million of income tax expense incurred on the $29.1 million pre-tax income of our TRS, $0.3 million of foreign income tax expense incurred on the $7.2 million pre-tax income of the TRS that owns Frenchman's Reef.

Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014.

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

	Year Ended December 31,			
	2015	2014	% Change	
Rooms	$673.6	$628.9	7.1	%
Food and beverage	208.2	195.1	6.7	
Other	49.2	48.9	0.6	
Total revenues	$931.0	$872.9	6.7	%

Our total revenues from continuing operations increased $58.1 million from $872.9 million for the year ended December 31, 2014 to $931.0 million for the year ended December 31, 2015. This increase includes amounts that are not comparable year-over-year as follows:

•$2.3 million decrease from the Oak Brook Hills Resort, which was sold on April 14, 2014.
•$51.4 million decrease from the Los Angeles Airport Marriott, which was sold on December 18, 2014.

•$5.9 million increase from the Inn at Key West, which was purchased on August 15, 2014.
•$16.2 million increase from the Hilton Garden Inn Times Square Central, which opened on September 1, 2014.
•$40.6 million increase from the Westin Fort Lauderdale Beach Resort, which was purchased on December 3, 2014.
•$13.0 million increase from the Shorebreak Hotel, which was purchased on February 6, 2015.
•$7.8 million increase from the Sheraton Suites Key West, which was purchased on June 30, 2015.

Excluding these non-comparable amounts our total revenues increased $28.3 million, or 3.5%.

The following pro forma key hotel operating statistics for the years ended December 31, 2015 and 2014 assume we owned each of our 29 hotels since January 1, 2014 and excludes the Hilton Garden Inn Times Square Central for the period from January 1, 2014 to August 31, 2014 since the hotel opened on September 1, 2014.

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	Year Ended December 31, 2015	Year Ended December 31, 2014	% Change
Occupancy %	79.9 %	79.0 %	0.9 percentage points
ADR	$213.74	$206.58	3.5 %
RevPAR	$170.87	$163.26	4.7 %

Room revenue increased across each of our three major customer segments. Revenue from the leisure transient segment experienced the highest growth at 9.8%. Business transient revenue increased 3.9%, and group revenue increased 2.5%. The growth in the group and business transient segments was driven by increases in ADR, offset by slight declines in occupancy. The leisure transient segment growth was the result of a 7% increase in demand and a 2.6% increase in ADR.

Food and beverage revenues increased $13.1 million from the year ended December 31, 2014, which includes amounts that are not comparable year-over-year as follows:

- $1.2 million decrease from the Oak Brook Hills Resort, which was sold on April 14, 2014.
- $14.3 million decrease from the Los Angeles Airport Marriott, which was sold on December 18, 2014.
- $0.5 million increase from the Inn at Key West, which was purchased on August 15, 2014.
- $14.1 million increase from the Westin Fort Lauderdale Beach Resort, which was purchased on December 3, 2014.
- $2.9 million increase from the Shorebreak Hotel, which was purchased on February 6, 2015.
- $0.8 million increase from the Sheraton Suites Key West, which was purchased on June 30, 2015.

Excluding these non-comparable amounts, food and beverage revenues increased $10.3 million, or 5.7%, driven primarily by increased banquet and catering revenues, which included an over 10% increase in banquet and group contribution per room.

Other revenues, which primarily represent spa, parking, resort fees and attrition and cancellation fees, increased by $0.3 million from the year ended December 31, 2014, primarily due to the implementation of resort fees at certain hotels, partially offset by a decrease due to hotels sold in 2014.

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

	Year Ended December 31, 2015	Year Ended December 31, 2014	% Change
Rooms departmental expenses	$163.5	$162.9	0.4 %
Food and beverage departmental expenses	137.3	135.4	1.4
Other departmental expenses	17.1	20.1	(14.9)
General and administrative	73.8	68.5	7.7
Utilities	27.1	27.8	(2.5)
Repairs and maintenance	36.9	36.7	0.5
Sales and marketing	64.5	60.4	6.8
Franchise fees	22.0	15.3	43.8
Base management fees	23.2	21.5	7.9
Incentive management fees	7.4	8.5	(12.9)

Property taxes	46.9	39.8	17.8
Other fixed charges	12.6	11.2	12.5
Hotel pre-opening costs	1.7	1.0	70.0
Ground rent—Contractual	9.4	8.9	5.6
Ground rent—Non-cash	5.7	6.1	(6.6)
Total hotel operating expenses	$649.1	$624.1	4.0 %

Our hotel operating expenses increased $25.0 million from the year ended December 31, 2014. The increase in hotel operating expenses includes amounts that are not comparable year-over-year as follows:

•$3.8 million decrease from the Oak Brook Hills Resort, which was sold on April 14, 2014.

•$39.6 million decrease from the Los Angeles Airport Marriott, which was sold on December 18, 2014.
•$2.7 million increase from the Inn at Key West, which was purchased on August 15, 2014.
•$9.8 million increase from the Hilton Garden Inn Times Square Central, which opened on September 1, 2014.
•$27.3 million increase from the Westin Fort Lauderdale Beach Resort, which was purchased on December 3, 2014.
•$8.6 million increase from the Shorebreak Hotel, which was purchased on February 6, 2015.
•$4.8 million increase from the Sheraton Suites Key West, which was purchased on June 30, 2015.

Excluding the non-comparable amounts, hotel operating expenses increased $15.2 million, or 2.6%, from the year ended December 31, 2014. Franchise fees increased $6.7 million, or 43.8%, primarily due to the opening of the Hilton Garden Inn Times Square Central, higher franchise fees at the Lexington Hotel New York and the acquisitions of the Westin Fort Lauderdale Beach Resort and Sheraton Suites Key West. Property taxes increased $7.1 million, or 17.8%, primarily due to property tax reassessments at our properties, particularly our Chicago hotels, as well as newly acquired hotels. Incentive management fees decreased $1.1 million, or 12.9%, primarily due to an amendment to the management agreement at the Chicago Marriott Downtown, which reduced management fees beginning in April 2015. Hotel pre-opening and transition costs increased $0.7 million, or 70%, primarily due to the rebranding of the hotel formerly known as the Conrad Chicago to The Gwen, a Luxury Collection Hotel, in 2015.

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 $1.5 million from the year ended December 31, 2014. The increase is primarily due to depreciation on capital expenditures from our recent hotel renovations, partially offset by an increase in fully depreciated furniture, fixtures and equipment.

Impairment losses. During the year ended December 31, 2015, we recorded impairment losses of $0.8 million on the favorable lease asset related to a tenant lease at the Lexington Hotel New York and $9.6 million on the option to acquire a leasehold interest in a parcel of land adjacent to the Westin Boston Waterfront Hotel for the development of a new hotel.

Hotel acquisition costs. We incurred $0.9 million of hotel acquisition costs during the year ended December 31, 2015 due to our acquisitions of the Shorebreak Hotel and Sheraton Suites Key West, as well as additional transfer taxes on an acquired hotel. We incurred $2.1 million of hotel acquisition costs during the year ended December 31, 2014 associated with the acquisitions of the Inn at Key West, Hilton Garden Inn Times Square Central and Westin Fort Lauderdale Beach Resort.

Corporate expenses. 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. Our corporate expenses increased $1.8 million year over year. The increase is due primarily to the reimbursement of $1.8 million of previously incurred legal and other costs from the proceeds of the Westin Boston Waterfront litigation settlement recorded in 2014, as well as higher employee-related costs in 2015.

Gain on insurance proceeds. The gain on insurance proceeds of $1.8 million during the year ended December 31, 2014 relates to proceeds received to recover property damage losses under our property insurance policy related to an electrical fire at the Lexington Hotel New York.

Gain on litigation settlement. In May 2014, we settled a legal action alleging certain issues related to the original construction of the Westin Boston Waterfront Hotel with the contractors and their insurers for $14.0 million in full and complete satisfaction of our claims against the contractors. The settlement resulted in a net gain of $11.0 million. We recorded the settlement net of a $1.2 million contingency fee paid to our legal counsel and $1.8 million of legal fees and other costs incurred over the course of the legal proceedings, which were previously recorded as corporate expenses.

Interest and other income, net. Interest and other income, net decreased $2.3 million from $3.0 million for the year ended December 31, 2014 to $0.7 million for the year ended December 31, 2015. The decrease is primarily due to our not recording interest income on the Allerton loan during the year ended December 31, 2015, since the loan was prepaid on May 21, 2014.

Interest expense. Our interest expense was $52.7 million and $58.3 million for the years ended December 31, 2015 and December 31, 2014, respectively, and is comprised of the following (in millions):

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	Year Ended December 31,	
	2015	2014
Mortgage debt interest	$49.0	$55.7
Credit facility interest and unused fees	1.1	0.9
Amortization of deferred financing costs and debt premium	2.1	2.6
Capitalized interest	—	(0.9)
Interest rate cap fair value adjustment	0.5	—
	$52.7	$58.3

The decrease in mortgage debt interest expense is related to the repayment of the mortgage loan secured by the Los Angeles Airport Marriott in connection with the sale of the hotel in December 2014, the prepayments of the mortgage loan secured by Frenchman's Reef in May 2015, the mortgage loan secured by the Orlando Airport Marriott in October 2015, the amendment to the mortgage loan secured by the Lexington Hotel New York in October 2014, which reduced the interest rate, and lower interest rates on our refinanced mortgage loans.

Gain on repayments of notes receivable. In November 2015, we received $3.9 million for the repayment of the fully reserved loan we provided to the buyer of the Oak Brook Hills Resort upon sale of the hotel in 2014. As a result of the repayment, we recorded a gain of $3.9 million during the year ended December 31, 2015. In May 2014, we received $58.5 million for the prepayment of the senior mortgage loan secured by Allerton Hotel. As a result of the prepayment, we recorded a gain of $13.6 million during the year ended December 31, 2014.

Gain on sale of hotel properties, net. On April 14, 2014, we sold the Oak Brook Hills Resort for $30.1 million, which resulted in a net gain of $1.3 million. On December 18, 2014, we sold the Los Angeles Airport Marriott for total proceeds of approximately $160 million and recognized a gain of $49.7 million.

Gain on hotel property acquisition. During the year ended December 31, 2014, we recorded a gain of $23.9 million related to our purchase of the Hilton Garden Inn Times Square Central in New York as the fair value of the hotel increased from our contractual purchase price at the time we entered into the purchase and sale agreement in 2011 to the fair value at the closing date of August 29, 2014.

Loss on early extinguishment of debt. We prepaid the $82.6 million mortgage loan previously secured by the Los Angeles Airport Marriott in connection with the sale of the hotel in December 2014 and recognized a loss on early extinguishment of debt of approximately $1.6 million.

Income taxes. We recorded income tax expense of $11.6 million in 2015 and $5.6 million in 2014. The 2015 income tax expense includes $11.3 million of income tax expense incurred on the $29.1 million pre-tax income of our taxable REIT subsidiary, or TRS, and foreign income tax expense of $0.3 million incurred on the $7.2 million pre-tax income of the TRS that owns Frenchman's Reef. The 2014 income tax expense includes $5.3 million of income tax expense incurred on the $11.9 million pre-tax income of our TRS, and foreign income tax expense of $0.3 million incurred on the $5.5 million pre-tax income of the TRS that owns Frenchman's Reef.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds necessary to fund distributions to our stockholders to maintain our REIT status as well as to pay for operating expenses and capital expenditures directly associated with our hotels, funding of share repurchases, if any, under our share repurchase program, funding potential hotel acquisitions, debt repayments upon maturity and scheduled debt payments of interest and principal. We currently expect that our available cash flows, which are generally provided through net cash from hotel operations, existing cash balances, equity issuances, proceeds from new financings and refinancings of maturing debt, proceeds from potential property dispositions, and, if necessary, short-term borrowings under our senior unsecured credit facility, will be sufficient to meet our short-term liquidity requirements.

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

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

ATM Program

We have equity distribution agreements, as amended, with a number of sales agents (the “ATM Program") to issue and sell, from time to time, shares of our common stock, par value $0.01 per share, having an aggregate offering price of up to $ 200 million (the “ATM Shares”). Sales of the ATM Shares can be made in privately negotiated transactions and/or any other method permitted by law, including sales deemed to be an “at the market” offering, which includes sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange.
We have not sold any shares under the ATM Program since January 2015. As of December 31, 2016, $128.3 million of the ATM Shares were available to be sold under the ATM Program. Actual future sales of the ATM Shares depend upon a variety of factors including but not limited to market conditions, the trading price of the Company's common stock and the Company's capital needs. We have no obligation to sell the ATM Shares under the ATM Program.

Our Financing Strategy

Since our formation in 2004, we have been committed to a conservative capital structure with prudent leverage. The majority of our outstanding debt is fixed interest rate mortgage debt. We have a preference to maintain a significant portion of our portfolio as unencumbered assets in order to provide balance sheet flexibility. We expect that our strategy will enable us to maintain a balance sheet with an appropriate amount of debt throughout all phases of the lodging cycle. We believe that it is not prudent to increase the inherent risk of highly cyclical lodging fundamentals through the use of a highly leveraged capital structure.

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

We believe that we maintain a reasonable amount of debt. As of December 31, 2016, we had $920.5 million of debt outstanding with a weighted average interest rate of 3.8% and a weighted average maturity date of approximately 5.9 years. We maintain one of the most durable and lowest levered balance sheets among our lodging REIT peers. We maintain balance sheet flexibility with limited near-term debt maturities, capacity under our senior unsecured credit facility and 17 of our 26 hotels unencumbered by mortgage debt. We remain committed to our core strategy of maintaining a simple capital structure with conservative leverage.

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

Share Repurchase Program

Our board of directors has approved a $150 million share repurchase program authorizing us to repurchase shares of our common stock. Information about our share repurchase program is found in Note 5 to the accompanying consolidated financial statements. During the year ended December 31, 2016, we repurchased 728,237 shares of our common stock at an average price of $8.92 per share for a total purchase price of $6.5 million. We have not repurchased any additional shares subsequent to December 31, 2016 and through February 27, 2017. We retired all repurchased shares on their respective settlement dates. As of February 27, 2017, we have $143.5 million of authorized capacity remaining under our share repurchase program. Currently, we do not expect to utilize our share repurchase program unless we believe our cost of capital is elevated.

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Short-Term Borrowings

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

Senior Unsecured Credit Facility

We are party to a $300 million senior unsecured credit facility expiring in May 2020. Information about our senior unsecured credit facility is found in Note 8 to the accompanying consolidated financial statements. As of December 31, 2016, we had no outstanding borrowings on our senior unsecured credit facility.

Senior Unsecured Term Loan

We are party to a $100 million senior unsecured term loan expiring in May 2021. Information about our senior unsecured term loan is found in Note 9 to the accompanying consolidated financial statements.

Sources and Uses of Cash

Our principal sources of cash are net cash flow from hotel operations and borrowings under mortgage debt, term loans, our senior unsecured credit facility and proceeds from hotel dispositions. Our principal uses of cash are acquisitions of hotel properties, debt service, debt maturities, capital expenditures, operating costs, corporate expenses and dividends. As of December 31, 2016, we had $243.1 million of unrestricted corporate cash and $46.1 million of restricted cash, as well as no outstanding borrowings under our credit facility.

Our net cash provided by operations was $215.6 million for the year ended December 31, 2016. Our cash from operations generally consists of the net cash flow from hotel operations offset by cash paid for corporate expenses and other working capital changes.

Our net cash provided by investing activities was $85.7 million for the year ended December 31, 2016, which consisted of $183.9 million of ne