LIVEPERSON INC
Form 4
May 03, 2017

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Mossler Fred

(Last) (First) (Middle)

C/O LIVEPERSON, INC.,, 475 TENTH AVE, 5TH FLOOR

(Street)

NEW YORK, NY 10018

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LIVEPERSON INC [LPSN]

3. Date of Earliest Transaction (Month/Day/Year)
05/01/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. D S

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					(I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option (Right to Buy)	$ 7.45	05/01/2017		A		35,000		(1)	04/30/2027	Common Stock	35,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Mossler Fred C/O LIVEPERSON, INC., 475 TENTH AVE, 5TH FLOOR NEW YORK, NY 10018	X			

Signatures

/s/ Monica L. Greenberg, Attorney-in-Fact	05/03/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The option is immediately exercisable.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. DE> **Par Value**

Total

Balance at December 31, 2004 21,020,100 $210 $197,495 $(2,118)$195,587 Sale of common stock in initial public offering, less placement fees and expenses of $3,354 29,785,764 298 288,148 288,446 Dividends of $0.38 per common share (19,617) (19,617)Issuance and amortization of stock grants 14,000 6,308 6,308 Net loss (7,336) (7,336)

Balance at December 31, 2005 50,819,864 508 491,951 (29,071) 463,388

Sale of common stock in secondary offerings, less placement fees and expenses of $1,361 25,070,000 251 334,792 335,043 Dividends of $0.72 per common share 216 (48,892) (48,676)Issuance and amortization of stock grants, net 301,768 3 (41) (38)Net income 35,211 35,211

Balance at December 31, 2006 76,191,632 762 826,918 (42,752) 784,928

Sales of common stock in secondary offering, less placement fees and expenses of $380 18,342,500 183 317,372 317,555 Dividends of $0.96 per common share 358 (91,733) (91,375)Issuance and vesting of common stock grants, net 196,681 2 863 865 Net income 68,309 68,309

Balance at December 31, 2007 94,730,813 $947 $1,145,511 $(66,176)$1,080,282

Explanation of Responses:

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

DIAMONDROCK HOSPITALITY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007, 2006 and 2005

(in thousands)

	2007	2006	2005
Cash flows from operating activities:			
Net income (loss)	$ 68,309	$ 35,211	$ (7,336)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Real estate depreciation	75,477	52,362	27,590
Corporate asset depreciation as corporate expenses	172	165	73
Non-cash financing costs as interest	779	874	1,344
Non-cash ground rent	7,823	7,403	7,120
Gain on disposal of asset, net of taxes	(3,783)		
Gain on early extinguishment of debt, net	(359)		
Amortization of debt premium and unfavorable contract liabilities	(1,807)	(1,516)	(302)
Amortization of deferred income	(392)	(316)	(188)
Yield support received	1,803		
Non-cash yield support recognized	(894)	(1,804)	
Stock-based compensation	3,584	3,037	6,308
Deferred income tax expense (benefit)	2,952	2,084	(1,842)
Changes in assets and liabilities:			
Prepaid expenses and other assets	(347)	815	(841)
Due to/from hotel managers	(6,795)	(5,231)	(15,915)
Restricted cash	1,217	(1,007)	
Accounts payable and accrued expenses	959	723	3,815
Net cash provided by operating activities	148,698	92,800	19,826
Cash flows from investing activities:			
Hotel acquisitions	(331,325)	(500,736)	(611,604)
Proceeds from sale of asset, net	35,405		
Hotel capital expenditures	(56,412)	(64,260)	(18,008)
Receipt of deferred key money	5,250	1,500	8,009
Change in restricted cash	(4,210)	1,724	1,727
Net cash used in investing activities	(351,292)	(561,772)	(619,876)
Cash flows from financing activities:			
Proceeds from mortgage debt	5,000	530,500	305,500
Repayments of mortgage debt	(18,392)	(322,500)	(56,949)
Repayments of credit facilities	(108,000)	(36,000)	
Draws on credit facilities	108,000	24,000	12,000
Scheduled mortgage debt principal payments	(3,233)	(3,244)	(2,933)
Prepayment penalty on early extinguishment of debt	(1,972)		
Payment of financing costs	(1,237)	(1,791)	(2,846)
Proceeds from sale of common stock	317,935	336,405	291,800
Payment of costs related to sale of common stock	(380)	(1,361)	(3,354)
Repurchase of shares	(2,720)	(3,077)	
Payment of dividends	(82,325)	(43,701)	(10,719)
Net cash provided by financing activities	212,676	479,231	532,499

	2007	2006	2005
Net increase (decrease) in cash and cash equivalents	10,082	10,259	(67,551)
Cash and cash equivalents, beginning of period	19,691	9,432	76,983
Cash and cash equivalents, end of period	$ 29,773	$ 19,691	$ 9,432
Supplemental Disclosure of Cash Flow Information:			
Cash paid for interest	$ 50,560	$ 34,863	$ 15,601
Capitalized interest	$ 50	$ 604	$ 128
Cash paid for income taxes	$ 1,867	$ 2,384	$ 1,006
Non-cash Investing and Financing Activities:			
Repayment of mortgage debt with restricted cash held in escrow	$	$	$ 7,051
Unpaid dividends	$ 22,922	$ 13,871	$ 8,896
Assumption of mortgage debt	$	$ 220,000	$

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

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DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

1. Organization

DiamondRock Hospitality Company (the "Company") is a lodging focused real estate company that owns, as of February 28, 2008, twenty hotels and resorts. The Company is committed to maximizing shareholder value through investing in premium full service hotels and, to a lesser extent, premium urban limited service hotels located throughout the United States. The Company's hotels are concentrated in key gateway cities and in destination resort locations and are all operated under a brand owned by one of the top three national brand companies (Marriott International, Inc. ("Marriott"), Starwood Hotels & Resorts Worldwide, Inc. ("Starwood") or Hilton Hotels Corporation ("Hilton")).

The Company owns, as opposed to operates, its hotels. As an owner, the Company receives all of the operating profits or losses generated by its hotels, after paying the hotel managers a fee based on the revenues and profitability of the hotels and reimbursing all of the their direct and indirect operating costs.

As an owner, the Company creates value by acquiring the right hotels with the right brands in the right markets, prudently financing its hotels, thoughtfully re-investing capital in its hotels, implementing profitable operating strategies and approving the annual operating and capital budgets for its hotels, closely monitoring the performance of its hotels, and deciding if and when to sell its hotels. In addition, the Company is committed to enhancing the value of its operating platform by being open and transparent in communications with investors, monitoring corporate overhead and following corporate governance best practice.

The Company differentiates itself from its competitors because of its adherence to three basic principles:

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

As of December 31, 2007, the Company owned twenty hotels, comprising 9,586 rooms, located in the following markets: Atlanta, Georgia (3); Austin, Texas; Boston, Massachusetts; Chicago, Illinois (2); Fort Worth, Texas; Lexington, Kentucky; Los Angeles, California (2); New York, New York (2); Northern California; Oak Brook, Illinois; Orlando, Florida; Salt Lake City, Utah; Washington D.C.; St. Thomas, U.S. Virgin Islands; and Vail, Colorado.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts payable, accrued expenses and due to/from hotel manager. Due to their short maturities, the carrying amounts of cash and cash equivalents and accounts payable and accrued expenses approximate fair value. See Note 14 for disclosures on the fair value of mortgage debt.

Property and Equipment

Investments in hotel properties, land, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets are recorded at fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*. Property and equipment purchased after the hotel acquisition date is recorded at cost. Replacements and improvements are capitalized, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of a fixed asset, the cost and related accumulated depreciation is removed from the Company's accounts and any resulting gain or loss is included in the statements of operations.

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

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

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

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (Continued)

classify the loss, together with the related operating results, as discontinued operations on the statements of operations and classify the assets and related liabilities as held for sale on the balance sheets.

Goodwill

Goodwill represents the excess of the Company's cost to acquire a business over the net amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but is evaluated for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company's goodwill is classified within other assets in the accompanying consolidated balance sheets.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

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

Income Taxes

The Company accounts for income taxes using the asset and liability method prescribed in SFAS 109, *Accounting for Income Taxes.* Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted.

The Company has elected, effective January 1, 2005, to be treated as a REIT under the provisions of the Internal Revenue Code provided that the Company distributes all taxable income annually to the Company's shareholders and complies with certain other requirements. In addition to paying federal and state taxes on any retained income, the Company may be subject to taxes on "built in gains" on sales of certain assets. The Company's taxable REIT subsidiaries will generally be subject to federal and state income taxes.

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

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (Continued)

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48) on January 1, 2007. FIN 48 did not have a material impact on the Company's results of operations, financial position, or cash flows. The Company had no accruals for tax uncertainties as of December 31, 2007 and 2006.

Earnings (Loss) Per Share

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

Stock-based Compensation

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

Comprehensive Income (Loss)

Comprehensive income includes net income (loss) as currently reported by the Company on the consolidated statement of operations adjusted for other comprehensive income items. The Company does not have any items of comprehensive income (loss) other than net income (loss).

Segment Information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131"), requires public entities to report certain information about operating segments. See Note 15.

Restricted Cash

Restricted cash primarily consists of reserves for replacement of furniture and fixtures held by our hotel managers and cash held in escrow pursuant to lender requirements.

Deferred Financing Costs

Financing costs are recorded at cost and consist of loan fees and other costs incurred in connection with the issuance of debt. Amortization of deferred financing costs is computed using a method, which approximates the effective interest method over the remaining life of the debt, and is included in interest expense in the accompanying statements of operations.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (Continued)

Hotel Working Capital

The due from hotel managers consists of hotel level accounts receivable, periodic hotel operating distributions due to owner and prepaid and other assets held by the hotel managers on the Company's behalf. The liabilities incurred by the hotel managers are comprised of liabilities incurred on behalf of the Company in conjunction with the operation of the hotels which are legal obligations of the Company.

Key Money

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

Debt Premiums

Debt premiums are recorded to adjust the stated value of assumed debt to fair value at the acquisition date of a hotel. Debt premiums are amortized over the remaining life of the debt to interest expense on the accompanying consolidated statements of operations.

Derivative Instruments

The Company may be party to interest rate swaps in the future, which are considered derivative instruments. The fair value of the interest rate swaps and interest rate caps are recorded on the Company's consolidated balance sheets and gains or losses from the changes in the market value of the contracts are recorded in other income or expense.

Straight-Line Rent

The Company records rent expense on leases that provide for minimum rental payments that increase in pre-established amounts over the remaining term of the lease on a straight-line basis.

Concentration of Credit Risk

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

Yield Support

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

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements (*"SFAS 157"), defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. On February 12, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 157-2, which delays the effective date of SFAS 157 for certain nonfinancial assets and liabilities. The Company does not expect SFAS 157 to have a material impact on the Company's results of operations, financial position, or cash flows.

Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"), provides companies with an option to report selected financial assets and liabilities at fair value. The Standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company has elected not to report these selected financial assets and liabilities at fair value.

Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"), significantly changes how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. The Company is currently evaluating the impact of the adoption of SFAS 141R, which includes the expensing of transaction costs incurred to acquire assets. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008.

Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS 160"), changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company currently does not have any minority interests and, as such, does not expect SFAS 160 to have a material impact on our results of operations, financial position or cash flows.

Reclassifications

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

3. Property and Equipment

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

	December 31, 2007	December 31, 2006
Land	$ 219,590	$ 223,490
Land improvements	7,994	5,594
Buildings	1,630,793	1,375,143
Furniture, fixtures and equipment	213,348	149,842
Corporate office equipment and construction in progress	15,208	7,679
	2,086,933	1,761,748
Less: accumulated depreciation	(148,101)	(75,322)
	$ 1,938,832	$ 1,686,426

As of December 31, 2007 and 2006, the Company had accrued capital expenditures of $10.8 million and $2.6 million, respectively.

4. Capital Stock

Common Shares

The Company is authorized to issue up to 200,000,000 shares of common stock, $.01 par value per share. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Holders of the Company's common stock are entitled to receive dividends when authorized by the Company's board of directors out of assets legally available for the payment of dividends. As of December 31, 2007 and 2006, the Company had 94,730,813 and 76,191,632 shares of common stock outstanding, respectively.

On January 17, 2007, the Company completed an additional follow-on offering of its common stock. The Company sold 18,342,500 shares of common stock, including the underwriters' over-allotment of 2,392,500 shares, at an offering price of $18.15 per share. The net proceeds to the Company, after the deduction of offering costs, were $317.6 million. The Company used the net proceeds of this offering to complete the acquisition of the Westin Boston Waterfront Hotel.

Share Repurchase Program

On February 27, 2008, our Board of Directors authorized a program to repurchase up to 4.8 million shares of our common stock. The common stock may be purchased in the open market or through private transactions, dependent upon market conditions. The plan does not obligate us to repurchase any specific number of shares and may be suspended at any time at our discretion. We have approximately 94.8 million shares outstanding as of February 28, 2008.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

4. Capital Stock (Continued)

Preferred Shares

The Company is authorized to issue up to 10,000,000 shares of preferred stock, $.01 par value per share. The Company's board of directors is required to set for each class or series of preferred stock the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption. As of December 31, 2007 and 2006, there were no shares of preferred stock outstanding.

Operating Partnership Units

Holders of Operating Partnership units have certain redemption rights, which enable them to cause the Operating Partnership to redeem their units in exchange for cash per unit equal to the market price of the Company's common stock, at the time of redemption, or, at the option of the Company for shares of the Company's common stock on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or the stockholders of the Company. As of December 31, 2007 and 2006, respectively, there were no Operating Partnership units held by unaffiliated third parties.

5. Stock Incentive Plan

As of December 31, 2007, the Company has issued or committed to issue 1,308,724 shares of our common stock under our 2004 Stock Option and Incentive Plan, as amended, including 346,625 shares of unvested restricted common stock and a commitment to issue 429,650 units of deferred common stock.

As of December 31, 2007, the Company's officers and employees have been awarded 1,144,245 shares of restricted common stock. The aggregate fair value of these awards on the respective grants dates was $14.2 million. The weighted- average grant date fair value of these awards was $12.44 per share. As of December 31, 2007, 797,620 of these awards have vested. The remaining share awards will vest as follows: 147,582 shares during 2008, 132,415 shares during 2009 and 66,628 shares during 2010. None of the recipients was required to pay for such shares of common stock. As of December 31, 2007, the Company's directors have been awarded 52,320 shares of common stock. Shares issued to our directors were fully vested upon issuance. Shares issued to our officers and employees vest over a three-year period from the date of the grant. As of December 31, 2007, the unrecognized compensation cost related to the share awards was $4.3 million and the weighted- average period over which the unrecognized compensation expense will be recorded is approximately 23 months.

At the time of the Company's initial public offering, the Company made a commitment to issue 382,500 shares of deferred stock units to the Company's senior executive officers. These deferred stock units are fully vested and represent the promise of the Company to issue a number of shares of the Company's common stock to each senior executive officer upon the earlier of (i) a change of control or (ii) five years after the date of grant, which was the initial public offering completion date (the "Deferral Period"). However, if an executive's service with the Company is terminated for "cause" prior to the expiration of the Deferral Period, all deferred stock unit awards will be forfeited. The executive officers are restricted from transferring these shares until the fifth anniversary of the initial

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

5. Stock Incentive Plan (Continued)

public offering completion date. As of December 31, 2007, the Company has a commitment to issue 429,650 shares under this plan. The share commitment increased from 382,500 to 429,650 since the Company's initial public offering because current dividends are not paid out but instead are effectively reinvested at the dividend payment date's closing price of our common stock. No expense has been recognized during the years ended December 31, 2007 or 2006 for these awards. During 2005, the Company recorded $3.7 million of stock based compensation expense related to these awards.

In total, for the years ended December 31, 2007, 2006 and 2005, the Company recorded $3.6 million, $3.0 million and $6.3 million, respectively, of stock-based compensation expense related to stock-based awards, which is included in corporate expenses in the accompanying consolidated statements of operations.

6. Earnings Per Share

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

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

6. Earnings Per Share (Continued)

The following is a reconciliation of the calculation of basic and diluted earnings (loss) per share for the years ended December 31, 2007, 2006 and 2005 (in thousands, except share and per share data):

	2007	2006	2005
Basic Earnings per Share Calculation:			
Numerator:			
Net income (loss)	$ 68,309	$ 35,211	$ (7,336)
Less: dividends on unvested restricted common stock	(483)	(481)	(280)
Net income (loss) after dividends on unvested restricted common stock	67,826	34,730	(7,616)
Less: discontinued operations	(5,412)	(1,508)	(736)
Net income (loss) from continuing operations after dividends on unvested restricted common stock	$ 62,414	$ 33,222	$ (8,352)
Weighted-average number of common shares outstanding basic	94,199,814	67,534,851	39,145,789
Basic earnings (loss) per share:			
Continuing operations	$ 0.66	$ 0.49	$ (0.21)
Discontinued operations	0.06	0.02	0.02
Total	$ 0.72	$ 0.51	$ (0.19)
Diluted Earnings per Share Calculation:			
Numerator:			
Net income (loss)	$ 68,309	$ 35,211	$ (7,336)
Less: dividends on unvested restricted common stock	(483)	(481)	(280)
Net income (loss) after dividends on unvested restricted common stock	67,826	34,730	(7,616)
Less: discontinued operations	(5,412)	(1,508)	(736)
Net income (loss) from continuing operations after dividends on unvested restricted common stock	$ 62,414	$ 33,222	$ (8,352)
Weighted-average number of common shares outstanding basic	94,199,814	67,534,851	39,145,789
Unvested restricted common stock	65,431	180,810	
Weighted-average number of common shares outstanding diluted	94,265,245	67,715,661	39,145,789
Diluted earnings (loss) per share:			
Continuing operations	$ 0.66	$ 0.49	$ (0.21)
Discontinued operations	0.06	0.02	0.02
Total	$ 0.72	$ 0.51	$ (0.19)

7. Debt

The Company has incurred property specific mortgage debt on certain of its hotels. The mortgage debt is recourse solely to specific assets, except for fraud, misapplication of funds and other customary recourse provisions. As of December 31, 2007, twelve of the Company's twenty hotel properties were secured by mortgage debt. The Company's mortgage debt contains certain property specific covenants and restrictions, including minimum debt service coverage ratios as well as restrictions to incur additional debt without lender consent.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

7. Debt (Continued)

As of December 31, 2007, the Company had approximately $824.5 million of outstanding mortgage debt. The following table sets forth the Company's mortgage debt obligations on our hotels.

Property		Principal Balance	Interest Rate	Maturity Date	Amortization Provisions
		(in thousands)			
Bethesda Marriott Suites	$	5,000	LIBOR + 0.95 (5.76% as of December 31, 2007)	7/2010	Interest Only
Frenchman's Reef & Morning Star Marriott Beach Resort		62,500	5.44%	8/2015	30 years(1)
Marriott Griffin Gate Resort		29,081	5.11%	1/2010	25 years
Los Angeles Airport Marriott		82,600	5.30%	7/2015	Interest Only
Courtyard Manhattan/Fifth Avenue		51,000	6.48%	6/2016	Interest Only
Courtyard Manhattan/Midtown East		42,249	5.195%	12/2009	25 years
Orlando Airport Marriott		59,000	5.68%	1/2016	30 years(2)
Salt Lake City Marriott Downtown		35,696	5.50%	1/2015	20 years(3)
Renaissance Worthington		57,400	5.40%	7/2015	30 years(4)
Chicago Marriott		220,000	5.975%	4/2016	30 years(5)
Austin Renaissance		83,000	5.507%	12/2016	Interest Only
Waverly Renaissance		97,000	5.503%	12/2016	Interest Only
Senior unsecured credit facility			LIBOR + 0.95 (5.73% as of December 31, 2007)		
Total	$	824,526			

(1) The debt has a three-year interest only period that commenced in August 2005. After the expiration of that period, the debt will amortize based on a thirty-year schedule.

(2) The debt has a five-year interest only period that commenced in December 2005. After the expiration of that period, the debt will amortize based on a thirty-year schedule.

(3) There is an accelerated amortization provision based on a predetermined formula of available cash flow.

(4) The debt has a four-year interest only period that commenced in July 2005. After the expiration of that period, the debt will amortize based on a thirty-year schedule.

(5) The debt has a 3.5 year interest only period that commenced in April 2006. After the expiration of that period, the debt will amortize based on a thirty-year schedule.

On July 31, 2007, the Company repaid its $18.4 million fixed-rate mortgage debt on the Bethesda Marriott Suites and replaced it with a $5.0 million variable-rate mortgage. In connection with this transaction, the Company recognized a gain on the early extinguishment of

$0.4 million, which is comprised of the write-off of the related debt premium of $2.5 million offset by a prepayment penalty of $2.0 million and the write-off of deferred financing costs of $0.1 million. The new $5.0 million mortgage loan has a three-year term and bears a floating rate of interest based on LIBOR plus 95 basis points. The new mortgage loan can be repaid at any time during the three-year term with no prepayment penalty.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

7. Debt (Continued)

The aggregate debt maturities as of December 31, 2007 are as follows (in thousands):

2008	$ 3,191
2009	44,888
2010	38,336
2011	6,973
2012	7,627
Thereafter	723,511
	$ 824,526

Credit Facility

On February 28, 2007, the Company amended its existing credit facility and entered into a four-year, $200.0 million unsecured credit facility (the "Facility"). The Company may extend the maturity date of the Facility for an additional year upon the payment of applicable fees and the satisfaction of certain other customary conditions. The Company may also increase the amount of the Facility to $500.0 million with the lenders' approval.

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

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

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

	Covenant	Actual at December 31, 2007
Maximum leverage ratio	65%	33.6%
Minimum fixed charge coverage ratio	1.6x	3.66x
Minimum tangible net worth	$738.4 million	$1.2 billion
Unhedged floating rate debt as a percentage of total indebtedness	35%	0.6%

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

7. Debt (Continued)

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

	Covenant	Actual at December 31, 2007
Minimum implied debt service ratio	1.5x	Not material
Maximum unencumbered leverage ratio	65%	0.6%
Minimum number of unencumbered borrowing base properties	4	8
Minimum unencumbered borrowing base value	$150 million	$874.2 million
Percentage of total asset value owned by borrowers or guarantors	90%	100%

In addition to the interest payable on amounts outstanding under the Facility, the Company is required to pay an amount equal to 0.20% of the unused portion of the Facility if the unused portion of the Facility is greater than 50% and 0.125% if the unused portion of the Facility is less than 50%. The Company incurred interest and unused credit facility fees of $2.7 million, $0.8 million and $0.3 million for the years ended 2007, 2006 and 2005, respectively, on the credit facilities. As of December 31, 2007, the Company did not have an outstanding balance on the Facility. Subsequent to December 31, 2007, the Company drew $8.0 million under the Facility.

8. Acquisitions

2006 Acquisitions

On March 24, 2006, the Company acquired the 1,192-room Chicago Marriott Downtown Magnificent Mile for a purchase price of $295 million plus approximately $11 million of net consideration in the form of an assumed property tax liability and other adjustments. A subsidiary of Marriott manages the hotel under a management agreement. The agreement provides for a base management fee of 3% of the hotel's gross revenues, and an incentive management fee of 20% of hotel operating profits. The calculation of incentive management fee is based on 20% of net house profit without an owner's priority. In addition, base management fees are not deducted from net house profit in the incentive management fee calculation. The Company reviewed the terms of the management agreement in conjunction with the hotel purchase accounting and concluded that the terms of the management agreement are more favorable to the manager than a typical current market management agreement and recorded an $83.8 million unfavorable contract liability at the acquisition date. The terms of the management agreement were built into the Company's underwriting economics of the acquisition.

On May 2, 2006, the Company acquired the 369-room Westin Atlanta North at Perimeter Center in Atlanta, Georgia, for total contractual consideration of $61.5 million. The hotel remains a Westin-branded property under a franchise agreement and is managed by Noble Management Group, LLC under a ten-year management agreement. We own 100% of the fee interest in the hotel. The management agreement provides for a base management fee of 3% of the hotel's gross revenues and

8. Acquisitions (Continued)

an incentive management fee of 10% of hotel operating profits above an owner's priority defined in the management agreement.

On November 8, 2006, the Company acquired the 311-room Conrad Chicago Hotel. The hotel was acquired for a contractual purchase price of $117.5 million. The hotel remains a Conrad-branded property under a franchise agreement and continues to be managed by Conrad Hotels USA, Inc., a subsidiary of Hilton Hotels Corporation, under a ten-year management agreement. The management agreement provides for a base management fee of 2% of the hotel's gross revenues and an incentive management fee of 15% of hotel operating profits above an owner's priority defined in the management agreement.

On December 8, 2006, the Company acquired the Renaissance Waverly, a 521-room hotel located in Atlanta, Georgia and the Renaissance Austin, a 492-room hotel located in Austin, Texas for contractual consideration of $130.0 million and $107.5 million, respectively. The hotels continue to be managed by a subsidiary of Marriott under the existing 20 year management agreements. The management agreements provide for a base management fee of 3% of each hotel's gross revenues and an incentive management fee of 20% of each hotel's operating profits above an owner's priority defined in the management agreements.

The acquisition allocations of the purchase prices of the hotels to the acquired assets and liabilities are as follows (in thousands):

	Chicago Marriott	Westin Atlanta	Conrad Chicago	Renaissance Waverly	Renaissance Austin
Land	$ 36,900	$ 7,490	$ 31,650	$ 12,701	$ 9,283
Building	347,921	51,124	76,961	110,461	93,815
Furniture, fixtures and equipment	7,152	3,400	8,168	5,559	4,305
Total property and equipment	391,973	62,014	116,779	128,721	107,403
Unfavorable contract liability	(83,812)				
FF&E escrow and restricted cash	2,217		1,742	1,740	504
Accrued liabilities and other assets, net	(4,462)	(2,364)	(1,135)	(353)	(232)
Purchase Price	$ 305,916	$ 59,650	$ 117,386	$ 130,108	$ 107,675

2007 Acquisition

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

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

8. Acquisitions (Continued)

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

The purchase price allocation, including transaction costs, of the Westin Boston Waterfront Hotel to the acquired assets and liabilities is as follows (in thousands):

Land improvements	$	2,400
Building		271,296
Furniture, fixtures and equipment		21,400
Total fixed assets		295,096
Favorable lease assets		33,556
Other assets, net		2,673
Purchase Price	$	331,325

The acquired properties are included in our results of operations from the respective dates of acquisition. The following unaudited pro forma results of operations reflect these transactions as if each had occurred on the first day of the fiscal year presented. In our opinion, all significant adjustments necessary to reflect the effects of the acquisitions have been made.

	Year Ended			
	December 31, 2007		December 31, 2006	
	(in thousands, except per share data)			
Revenues	$	714,019	$	624,328
Income from continuing operations		61,871		35,151
Net income		67,283		36,659
Earnings per share basic and diluted	$	0.71	$	0.39

9. Discontinued Operations

On December 21, 2007, the Company sold the SpringHill Suites Atlanta Buckhead for $36.0 million, resulting in a gain of approximately $3.8 million, net of $0.1 million of income taxes. The gain is recorded in discontinued operations on the accompanying consolidated statements of operations.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

9. Discontinued Operations (Continued)

The following table summarizes the components of discontinued operations in the condensed consolidated statements of operations for the periods presented (in thousands):

	Year Ended		
	December 31, 2007	December 31, 2006	December 31, 2005
Revenues	$ 6,483	$ 6,389	$ 2,665
Pre-tax income from operations	1,284	1,141	583
Gain on disposal, net of tax	3,783		
Income tax benefit	345	367	153
Income from discontinued operations	$ 5,412	$ 1,508	$ 736

10. Dividends

The Company declared dividends on common shares during the years ended December 31, 2007 and 2006 as follows:

Payment Date	Record Date	Dividend per Share
April 11, 2006	March 24, 2006	$ 0.18
June 22, 2006	June 16, 2006	$ 0.18
September 19, 2006	September 8, 2006	$ 0.18
January 4, 2007	December 21, 2006	$ 0.18
April 2, 2007	March 23, 2007	$ 0.24
June 22, 2007	June 15, 2007	$ 0.24
September 18, 2007	September 7, 2007	$ 0.24
January 10, 2008	December 31, 2007	$ 0.24

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

11. Income Taxes

The Company's provision (benefit) for income taxes consists of the following (in thousands):

		Year Ended		
		December 31, 2007	**December 31, 2006**	**December 31, 2005**
Current	Federal	$ 901	$ 978	$ 355
	State	752	86	134
	Foreign	314	235	
		1,967	1,299	489
Deferred	Federal	1,803	2,040	(1,347)
	State	426	387	(448)
	Foreign	723	(343)	(47)
		2,952	2,084	(1,842)
	Income tax provision (benefit)(1)	$ 4,919	$ 3,383	$ (1,353)

(1) Amounts for the years ended December 31, 2007, 2006, and 2005 include $0.3 million, $0.4 million and $0.2 million, respectively, of income tax benefit included in discontinued operations.

A reconciliation of the statutory Federal tax provision (benefit) to our income tax provision (benefit) is as follows (in thousands):

	Year Ended		
	December 31, 2007	**December 31, 2006**	**December 31, 2005**
Statutory Federal tax provision (benefit) (35%)	$ 23,856	$ 13,109	$ (3,245)
Tax impact of REIT election	(20,353)	(9,724)	963
State income tax provision (benefit), net of Federal tax benefit	766	417	(378)
REIT election deferred tax asset write off			1,404
Foreign income taxes	1,037	(108)	
Other	(42)	56	56
Income tax provision (benefit) from continuing operations	$ 5,264	$ 3,750	$ (1,200)

The Company is required to pay franchise taxes in certain jurisdictions. The Company accrued approximately $0.1 million, $0.2 million and $0.1 million of franchise taxes during the years ended December 31, 2007, 2006 and 2005, respectively, which are classified as corporate expenses in the accompanying consolidated statements of operations.

Deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards based on enacted tax rates expected to be in effect when such amounts are paid.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

11. Income Taxes (Continued)

However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realizable based on consideration of available evidence, including future reversals of existing taxable temporary differences, projected future taxable income and tax planning strategies. The total deferred tax assets and liabilities are as follows (in thousands):

	December 31, 2007	December 31, 2006
Deferred income related to key money	$ 6,298	$ 4,580
Net operating loss carryforwards	3,727	2,245
Building and FF&E basis differences	63	766
Alternative minimum tax credit carryforwards	2,458	1,345
Other		8
Deferred tax assets	12,546	8,944
Land basis difference recorded in purchase accounting	(4,260)	(4,260)
Depreciation and amortization	(12,063)	(5,415)
Deferred tax liabilities	(16,323)	(9,675)
Deferred tax liability, net	$ (3,777)	$ (731)

The Company believes that it will have sufficient future taxable income, including future reversals of existing taxable temporary differences, projected future taxable income and tax planning strategies to realize existing deferred tax assets.

The Company elected REIT status effective January 1, 2005. As a REIT, the Company generally will not be subject to federal income tax on that portion of its ordinary income or net capital gain that it currently distributes to its stockholders. Bloodstone TRS, Inc., the Company's taxable REIT subsidiary, will continue to be subject to federal and state income taxes. The Company recorded a charge of $1.4 million to reverse the deferred tax assets that are not realizable by the Company in the first quarter of 2005 as a result of its REIT election. The deferred tax assets related to Bloodstone TRS, Inc. were not reversed. In addition, the Company distributed $2.3 million through dividends during 2005 to eliminate 2004 non-REIT earnings and profits, regardless of the Company's 2005 REIT taxable income.

The Frenchman's Reef & Morning Star Marriott Beach Resort is owned by a subsidiary that has elected to be treated as a taxable REIT subsidiary, and is subject to USVI income taxes. The Company is party to a tax agreement with the USVI that reduces the income tax rate to approximately 4%. This arrangement expires in February 2010. If the arrangement is not extended, the Company will be subject to an income tax rate of 37.4%. The Company believes that this agreement will be extended. In addition, the Company recorded a $1 million deferred tax asset and corresponding adjustment to goodwill in 2006 to recognize the net operating loss carry forwards acquired in 2005.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

12. Relationships with Managers

Our Hotel Management Agreements

We are a party to hotel management agreements with Marriott for sixteen of the twenty properties owned as of December 31, 2007. The Vail Marriott Mountain Resort & Spa, is managed by an affiliate of Vail Resorts and is under a long-term franchise agreement with Marriott, the Westin Atlanta North at Perimeter is managed by Noble Management Group LLC, the Conrad Chicago is managed by Conrad Hotels USA, Inc., a subsidiary of Hilton Hotels Corporation and the Westin Boston Waterfront Hotel is managed by Starwood Hotels and Resorts Worldwide, Inc.

The following table sets forth the agreement date, initial term and number of renewal terms under the respective hotel management agreements for each of our hotels. Generally, the term of the hotel management agreements renew automatically for a negotiated number of consecutive periods upon the expiration of the initial term unless the property manager gives notice to us of its election not to renew the hotel management agreement.

	Date of Agreement	Initial Term	Number of Renewal Terms
Austin Renaissance	6/2005	20 years	Three ten-year periods
Atlanta Alpharetta Marriott	9/2000	30 years	Two ten-year periods
Atlanta Westin North at Perimeter	5/2006	10 years	Two five-year periods
Bethesda Marriott Suites	12/2004	21 years	Two ten-year periods
Boston Westin Waterfront	5/2004	20 years	Four ten-year periods
Chicago Marriott Downtown	3/2006	32 years	Two ten-year periods
Conrad Chicago	11/2005	10 years	Two five-year periods
Courtyard Manhattan/Fifth Avenue	12/2004	30 years	None
Courtyard Manhattan/Midtown East	11/2004	30 years	Two ten-year periods
Frenchman's Reef & Morning Star Marriott Beach Resort	9/2000	30 years	Two ten-year periods
Los Angeles Airport Marriott	9/2000	30 years	Two ten-year periods
Marriott Griffin Gate Resort	12/2004	20 years	One ten-year period
Oak Brook Hills Marriott Resort	7/2005	30 years	None
Orlando Airport Marriott	11/2005	30 years	None
Renaissance Worthington	9/2000	30 years	Two ten-year periods
Salt Lake City Marriott Downtown	12/2001	30 years	Three fifteen-year periods
The Lodge at Sonoma, a Renaissance Resort & Spa	10/2004	20 years	One ten-year period
Torrance Marriott South Bay	1/2005	40 years	None
Waverly Renaissance	6/2005	20 years	Three ten-year periods
Vail Marriott Mountain Resort & Spa	6/2005	$15^1/_2$ years	None

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

12. Relationships with Managers (Continued)

The following table sets forth the base management fee and incentive management fee, generally due and payable each fiscal year, for each of the Company's hotel properties:

	Base Management Fee(1)	Incentive Management Fee(2)
Austin Renaissance	3%	20%(3)
Atlanta Alpharetta Marriott	3%	25%(4)
Atlanta North at Perimeter Westin	3%(5)	10%(6)
Bethesda Marriott Suites	3%	50%(7)
Boston Westin Waterfront	2.5%	20%(8)
Chicago Marriott Downtown	3%	20%(9)
Conrad Chicago	2%(10)	15%(11)
Courtyard Manhattan/Fifth Avenue	5%(12)	25%(13)
Courtyard Manhattan/Midtown East	5%	25%(14)
Frenchman's Reef & Morning Star Marriott Beach Resort	3%	25%(15)
Los Angeles Airport Marriott	3%	25%(16)
Marriott Griffin Gate Resort	3%	20%(17)
Oak Brook Hills Marriott Resort	3%	20% or 30%(18)
Orlando Airport Marriott	3%	20% or 25%(19)
Renaissance Worthington	3%	25%(20)
Salt Lake City Marriott Downtown	3%	20%(21)
The Lodge at Sonoma, a Renaissance Resort & Spa	3%	20%(22)
Torrance Marriott South Bay	3%	20%(23)
Waverly Renaissance	3%	20%(24)
Vail Marriott Mountain Resort & Spa	3%	20%(25)

(1) As a percentage of gross revenues.

(2) Based on a percentage of hotel operating profits above a negotiated return on our investment capital as more fully described in the following footnotes.

(3) Calculated as a percentage of operating profits in excess of the sum of (i) $6.0 million and (ii) 10.75% of certain capital expenditures.

(4) Calculated as a percentage of operating profits in excess of the sum of (i) $4.1 million and (ii) 10.75% of certain capital expenditures.

(5) The base management fee will be equal to 3% of gross revenues for fiscal years 2006 through 2008, with up to 1% of gross revenues forfeited from 2006 to 2008 if DiamondRock does not achieve an 8.5% unlevered yield for the fiscal period ended April 30, 2006, 9.5% unlevered yield for the fiscal period ended April 30, 2007, or 10.75% unlevered yield for the fiscal period ended April 30, 2008.

(6) Calculated as a percentage of operating profits in excess of the sum of (i) $7.0 million and (ii) 10.75% of certain capital expenditures.

(7) Calculated as a percentage of operating profits in excess of the sum of (i) the payment of certain loan procurement costs, (ii) 10.75% of certain capital expenditures, (iii) an agreed-upon return on certain expenditures and (iv) the value of certain amounts paid into a reserve account established for the replacement, renewal and addition of certain hotel goods. The owner's priority expires in 2023.

(8)

Calculated as a percentage of operating profits in excess of the sum of (i) actual debt service and (ii) 15% of cumulative and compounding return on equity, which results with each sale.

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DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

12. Relationships with Managers (Continued)

(9) Calculated as 20% of net operating income before base management fees. There is no owner's priority.

(10) The base management fee will be equal to 2.5% of gross revenues for fiscal years 2008 and 2009 and 3% for fiscal years thereafter.

(11) Calculated as a percentage of operating profits after a pre-set dollar amount ($9.7 million in 2007 and $8.6 million in 2008) of owner's priority. Beginning in fiscal year 2011, the incentive management fee will be 103% of the prior year cash flow.

(12) The base management fee will be equal to 5.5% of gross revenues for fiscal years 2010 through 2014 and 6% for fiscal year 2015 and thereafter until the expiration of the agreement. Also, beginning in 2008, the base management fee has increased to 5.5% due to operating profits exceeding $4.7 million in 2007, and beginning in 2011, the base management fee may increase to 6.0% at the beginning of the next fiscal year if operating profits equal or exceed $5.0 million.

(13) Calculated as a percentage of operating profits in excess of the sum of (i) $5.5 million and (ii) 12% of certain capital expenditures, less 5% of the total real estate tax bill (for as long as the hotel is leased to a party other than the manager).

(14) Calculated as a percentage of operating profits in excess of the sum of (i) $7.9 million and (ii) 10.75% of certain capital expenditures.

(15) Calculated as a percentage of operating profits in excess of the sum of (i) $9.2 million and (ii) 10.75% of certain capital expenditures.

(16) Calculated as a percentage of operating profits in excess of the sum of (i) $10.3 million and (ii) 10.75% of certain capital expenditures.

(17) Calculated as a percentage of operating profits in excess of the sum of (i) $6.1 million and (ii) 10.75% of certain capital expenditures.

(18) Calculated as a percentage of operating profits in excess of the sum of (i) $8.1 million and (ii) 10.75% of certain capital expenditures. The percentage of operating profits is 20% except from 2011 through 2025 when it is 30%.

(19) Calculated as a percentage of operating profits in excess of the sum of (i) $8.9 million and (ii) 10.75% of certain capital expenditures. The percentage of operating profits is 20% except from 2011 through 2021 when it is 25%.

(20) Calculated as a percentage of operating profits in excess of the sum of (i) $7.6 million and (ii) 10.75% of certain capital expenditures.

(21) Calculated as a percentage of operating profits in excess of the sum of (i) $6.2 million and (ii) 10.75% of capital expenditures.

(22) Calculated as a percentage of operating profits in excess of the sum of (i) $3.6 million and (ii) 10.75% of capital expenditures.

(23) Calculated as a percentage of operating profits in excess of the sum of (i) $7.5 million and (ii) 10.75% of certain capital expenditures.

(24) Calculated as a percentage of operating profits in excess of the sum of (i) $10.3 million and (ii) 10.75% of certain capital expenditures.

(25) Calculated as a percentage of operating profits in excess of the sum of (i) $7.4 million and (ii) 11% of certain capital expenditures. The incentive management fee rises to 25% if the hotel achieves operating profits in excess of 15% of our invested capital.

We recorded $29.8 million and $19.5 million of management fees during the years ended December 31, 2007 and 2006, respectively. The management fees for the year ended December 31, 2007 consisted of $11.1 million of incentive management fees and $18.7 million of base management fees. The management fees for the year ended December 31, 2006 consisted of $8.4 million of incentive management fees and $11.1 million of base management fees.

Yield Support

Marriott has provided the Company with operating cash flow guarantees for certain hotels and will reimburse an amount of their management fee if actual hotel operating income is less than a negotiated target net operating income. The Company refers to these guarantees as "yield support".

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

12. Relationships with Managers (Continued)

Yield support is recognized over the period earned if the yield support is not refundable and there is reasonable uncertainty of receipt at inception of the management agreement. Yield support is recorded as an offset to base management fees on the accompanying consolidated statement of operations. The Company earned $0.9 million ($0.1 million of which is classified in discontinued operations on the accompanying statement of operations) and $2.8 million ($0.1 million of which is classified in discontinued operations on the accompanying statement of operations) of yield support during the years ended December 31, 2007 and 2006, respectively. There was no yield support earned during the year ended December 31, 2005. The Company is not entitled to any further yield support at any of its hotels in 2008.

Key Money

Marriott has contributed to the Company certain amounts in exchange for the right to manage hotels the Company has acquired or the completion of certain brand enhancing capital projects. The Company refers to these amounts as "key money." Marriott has provided the Company with key money of approximately $22 million in the aggregate in connection with the acquisitions of six of our hotels, $10 million of which was offered for the Chicago Marriott in exchange for a commitment to complete the renovation of certain public spaces and meeting rooms at the hotel. The Company received $5 million during the third fiscal quarter of 2007 and the remaining $5 million in January 2008.

On September 27, 2007, the Company and Hilton Hotels Corporation, the manager of the Conrad Chicago, amended the management agreement of the hotel to allow an exception to the territorial restriction and permit a new Chicago suburban airport Conrad hotel. In connection with this amendment, the Company will receive up to $1.8 million over a period of time. These payments will be accounted for as key money when received and amortized over the remaining term of the management agreement. As of December 31, 2007, the Company has received $250,000 in payments under this amendment.

Franchise Agreements

The following table sets forth the terms of the Company's franchise agreements for its two franchised hotels:

	Date of Agreement	Initial Term(1)	Franchise Fee
Vail Marriott Mountain Resort & Spa	6/2005	16 years	6% of gross room sales plus 3% of gross food and beverage sales
Atlanta Westin North at Perimeter	5/2006	20 years	7% of gross room plus 2% of food and beverage sales(2)

(1) There are no renewal options under either franchise agreement.

(2) The franchise fee is equal to 2% of gross room and food and beverage sales for fiscal year 2006, 3% of gross room sales and 2% of gross food and beverage sales for fiscal year 2007, 4% of gross room sales and 2% of gross food and beverage sales for 2008 and 7% of gross room sales and 2% of gross food and beverage sales thereafter.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

13. Commitments and Contingencies

Litigation

The Company is not involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Company. The Company is involved in routine litigation arising out of the ordinary course of business, all of which is expected to be covered by insurance and none of which is expected to have a material impact on its financial condition or results of operations.

Ground Leases

Four of the Company's hotels are subject to ground lease agreements that cover all of the land underlying the respective hotel:

The Bethesda Marriott Suites is subject to a ground lease that runs until 2087. There are no renewal options.

The Courtyard Manhattan/Fifth Avenue is subject to a ground lease that runs until 2085, inclusive of one 49-year renewal option.

The Salt Lake City Marriott Downtown is subject to two ground leases: one ground lease covers the land under the hotel and the other ground lease covers the portion of the hotel that extends into the Crossroads Plaza Mall. The term of the ground lease covering the land under the hotel runs through 2056, inclusive of our renewal options, and the term of the ground lease covering the extension runs through 2017.

The Westin Boston Waterfront is subject to a ground lease that runs until 2099. There are no renewal options.

In addition, two of the golf courses adjacent to two of the Company's hotels are subject to a ground lease agreement:

The golf course which is part of the Marriott Griffin Gate Resort is subject to a ground lease covering approximately 54 acres. The ground lease runs through 2033, inclusive of our renewal options. We have the right, beginning in 2013 and upon the expiration of any 5-year renewal term, to purchase the property covered by such ground lease for an amount ranging from $27,500 to $37,500 per acre, depending on which renewal term has expired. The ground lease also grants us the right to purchase the leased property upon a third party offer to purchase such property on the same terms and conditions as the third party offer. We are also the sub-sublessee under another minor ground lease of land adjacent to the golf course, with a term expiring in 2020.

The golf course which is part of the Oak Brook Hills Marriott Resort is subject to a ground lease covering approximately 110 acres. The ground lease runs through 2045 including renewal options.

Finally, portion of the parking garage relating to the Renaissance Worthington is subject to three ground leases that cover, contiguously with each other, approximately one-fourth of the land on which the parking garage is constructed. Each of the ground leases has a term that runs through July 2067, inclusive of the three 15-year renewal options contained in each ground lease.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

13. Commitments and Contingencies (Continued)

These ground leases generally require the Company to make rental payments (including a percentage of gross receipts as percentage rent with respect to the Courtyard Manhattan/Fifth Avenue ground lease) and payments for all, or in the case of the ground leases covering the Salt Lake City Marriott Downtown extension and a portion of the Marriott Griffin Gate Resort golf course, the Company's share of, charges, costs, expenses, assessments and liabilities, including real property taxes and utilities. Furthermore, these ground leases generally require the Company to obtain and maintain insurance covering the subject property. The Company records ground rent payments on a straight-line basis as required by U.S. generally accepted accounting principles.

Ground rent expense was $9.7 million, $9.2 million and $8.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. Cash paid for ground rent was $1.9 million, $1.8 million and $1.7 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Future minimum annual rental commitments under non-cancelable operating leases as of December 31, 2007 are as follows (in thousands):

2008	$	3,454
2009		3,295
2010		2,945
2011		2,619
2012		2,352
Thereafter		632,611
	$	647,276

14. Fair Value of Financial Instruments

The fair value of certain financial assets and liabilities and other financial instruments as of December 31, 2007 and 2006 are as follows:

	As of December 31, 2007 (in thousands)		As of December 31, 2006 (in thousands)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage debt	$ 824,526	$ 756,956	$ 841,151	$ 848,135

The fair value of all other financial assets and liabilities are equal to their carrying amounts.

15. Segment Information

The Company has one reportable operating segment. The Company aggregates its operating segments into one reportable segment using the criteria established by SFAS 131, including the similarities of our product offering, types of customers and method of providing service.

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

15. Segment Information (Continued)

The following table sets forth revenues and investment in hotel assets represented by the following geographical areas as of December 31, 2007, 2006 and 2005 and for the years ended December 31, 2007, 2006 and 2005.

	Revenues (in thousands)			Investment (in thousands)		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Chicago	$ 159,062	$ 84,762	$	$ 519,859	$ 501,616	$
Los Angeles	84,138	76,532	46,495	206,648	199,644	182,102
Atlanta	73,381	30,772	7,387	233,947	229,614	38,833
Boston	68,879			339,391		
US Virgin Islands	54,725	52,049	19,708	86,030	82,919	76,106
New York	50,313	41,881	35,339	123,940	122,338	117,214
Other	220,435	199,055	117,857	543,148	520,754	458,906
Total	**$ 710,933**	**$ 485,051**	**$ 226,786**	**$ 2,052,963**	**$ 1,656,885**	**$ 873,161**

16. Quarterly Operating Results (Unaudited)

	2007 Quarter Ended (in thousands, except per share data)			
	March 23	**June 15**	**September 7**	**December 31**
Total revenue	$ 132,213	$ 177,944	$ 166,517	$ 234,259
Total operating expenses	116,520	143,460	140,373	193,732
Operating income	$ 15,693	$ 34,484	$ 26,144	$ 40,527
Income from continuing operations	$ 6,372	$ 20,106	$ 15,552	$ 20,867
Income from discontinued operations	418	407	316	4,271
Net income	$ 6,790	$ 20,513	$ 15,868	$ 25,138
Basic and diluted earnings per share:				
Continuing operations	$ 0.07	$ 0.21	$ 0.17	$ 0.22
Discontinued operations	0.00	0.00	0.00	0.04
Total	$ 0.07	$ 0.21	$ 0.17	$ 0.26

DIAMONDROCK HOSPITALITY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

16. Quarterly Operating Results (Unaudited) (Continued)

	2006 Quarter Ended (in thousands, except per share data)			
	March 24	**June 16**	**September 8**	**December 31**
Total revenue	$ 81,508	$ 123,286	$ 113,370	$ 166,887
Total operating expenses	71,943	99,878	98,956	144,537
Operating income	$ 9,565	$ 23,408	$ 14,414	$ 22,350
Income from continuing operations	$ 3,952	$ 13,460	$ 6,225	$ 10,066
Income from discontinued operations	414	437	246	412
Net income	$ 4,366	$ 13,897	$ 6,471	$ 10,478
Basic and diluted earnings per share:				
Continuing operations	$ 0.07	$ 0.19	$ 0.09	$ 0.13
Discontinued operations	0.01	0.01	0.00	0.01
Total	$ 0.08	$ 0.20	$ 0.09	$ 0.14

DiamondRock Hospitality Company
Schedule III Real Estate and Accumulated Depreciation
As of December 31, 2007

		Initial Cost			Gross Amount at End of Year						
Description	Encumbrances	Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total	Accumulated Depreciation	Net Book Value	Year of Acquisition	Depreciation Life
The Lodge at Sonoma, a Renaissance Resort and Spa	$	$ 3,951	$ 22,720	$ 192	$ 3,951	$ 22,912	$ 26,863	$ (2,557)	$ 24,306	2004	40 Years
Courtyard Midtown Manhattan East	(42,249)	16,500	54,812	101	16,500	54,913	71,413	(4,285)	67,128	2004	40 Years
Marriott Salt Lake City Downtown	(35,696)		45,815	1,161		46,976	46,976	(3,520)	43,456	2004	40 Years
Courtyard Manhattan/Fifth Avenue	(51,000)		34,685	1,275		35,960	35,960	(2,721)	33,239	2004	40 Years
Marriott Griffin Gate Resort	(29,081)	7,869	33,352	1,330	7,869	34,682	42,551	(2,590)	39,961	2004	40 Years
Marriott Bethesda Suites	(5,000)		45,656	442		46,098	46,098	(3,496)	42,602	2004	40 Years
Torrance Marriott South Bay		7,241	48,232	3,242	7,241	51,474	58,715	(3,831)	54,884	2005	40 Years
Marriott Atlanta Alpharetta		3,623	33,503	210	3,623	33,713	37,336	(2,145)	35,191	2005	40 Years
Frenchman's Reef & Morning Star Marriott Beach Resort	(62,500)	17,713	50,697	900	17,713	51,597	69,310	(3,237)	66,073	2005	40 Years
Los Angeles Airport Marriott	(82,600)	24,100	83,077	1,593	24,100	84,670	108,770	(5,309)	103,461	2005	40 Years
Renaissance Worthington	(57,400)	15,500	63,428	226	15,500	63,654	79,154	(4,005)	75,149	2005	40 Years
Vail Marriott Mountain Resort		5,800	52,463	612	5,800	53,075	58,875	(3,343)	55,532	2005	40 Years
Oak Brook Hills Marriott Resort		9,500	39,128	761	9,500	39,889	49,389	(2,457)	46,932	2005	40 Years
Orlando Airport Marriott	(59,000)	9,769	57,803	1,872	9,769	59,675	69,444	(3,011)	66,433	2005	40 Years
Chicago Marriott	(220,000)	36,900	347,921	3,965	36,900	351,886	388,786	(15,489)	373,297	2006	40 Years
Westin Atlanta North at Perimeter		7,490	51,124	865	7,490	51,989	59,479	(2,161)	57,318	2006	40 Years
Conrad Chicago		31,650	76,961	(19)	31,650	76,942	108,592	(2,235)	106,357	2006	40 Years
Waverly Renaissance	(97,000)	12,701	110,461	21	12,701	110,482	123,183	(3,008)	120,175	2006	40 Years
Austin Renaissance	(83,000)	9,283	93,815	126	9,283	93,941	103,224	(2,542)	100,682	2006	40 Years
			273,696	563		274,259	274,259	(6,415)	267,844	2007	40 Years

		Initial Cost			Gross Amount at End of Year				
Boston Westin Waterfront									
Total	$ (824,526)	$ 219,590	$ 1,619,349	$ 19,438	$ 219,590	$ 1,638,787	$ 1,858,377	$ (78,357)	$ 1,780,020

DiamondRock Hospitality Company
Schedule III Real Estate and Accumulated Depreciation (continued)
As of December 31, 2007 (in thousands)

Notes:

A)

The change in total cost of properties for the fiscal years ended December 31, 2007, 2006 and 2005 is as follows:

Balance at December 31, 2004	$	265,215
Additions:		
Acquisitions		555,071
Capital expenditures		110
Adjustments to purchase accounting		453
Deductions:		
Dispositions and other		
Balance at December 31, 2005		820,849
Additions:		
Acquisitions		778,684
Capital expenditures		4,843
Adjustments to purchase accounting		(149)
Deductions:		
Dispositions and other		
Balance at December 31, 2006		1,604,227
Additions:		
Acquisitions		273,696
Capital expenditures		12,433
Adjustments to purchase accounting		
Deductions:		
Dispositions and other		(31,979)
Balance at December 31, 2007	$	1,858,377

B)

The change in accumulated depreciation of real estate assets for the fiscal years ended December 31, 2007, 2006 and 2005 is as follows:

Balance at December 31, 2004	$	468
Depreciation and amortization		12,044
Dispositions and other		
Balance at December 31, 2005		12,512
Depreciation and amortization		25,995
Dispositions and other		

Balance at December 31, 2006		38,507
Depreciation and amortization		41,549
Dispositions and other		(1,699)
Balance at December 31, 2007	$	78,357

C)

The aggregate cost of properties for Federal income tax purposes is approximately $1,849,001 as of December 31, 2007

QuickLinks