DiamondRock Hospitality Co
Form 10-Q
November 09, 2016

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	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 registrant had 200,315,646 shares of its $0.01 par value common stock outstanding as of November 8, 2016.

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PART I. FINANCIAL INFORMATION
Item I. Financial Statements

DIAMONDROCK HOSPITALITY COMPANY

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

	September 30, 2016	December 31, 2015
ASSETS		
Property and equipment, net	$ 2,642,034	$ 2,882,176
Restricted cash	47,661	59,339
Due from hotel managers	87,019	86,698
Favorable lease assets, net	18,076	23,955
Prepaid and other assets	47,693	46,758
Cash and cash equivalents	235,965	213,584
Total assets	$ 3,078,448	$ 3,312,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage debt, net of unamortized debt issuance costs	$ 823,626	$ 1,169,749
Term loan, net of unamortized debt issuance costs	99,336	—
Senior unsecured credit facility	—	—
Total debt	922,962	1,169,749
Deferred income related to key money, net	20,776	23,568
Unfavorable contract liabilities, net	73,123	74,657
Deferred ground rent	79,027	70,153
Due to hotel managers	55,350	65,350
Dividends declared and unpaid	23,586	25,599
Accounts payable and accrued expenses	59,247	58,829
Total liabilities	1,234,071	1,487,905
Stockholders' Equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value; 400,000,000 shares authorized; 200,796,110 and 200,741,777 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	2,008	2,007
Additional paid-in capital	2,059,638	2,056,878
Accumulated deficit	(217,269)	(234,280)
Total stockholders' equity	1,844,377	1,824,605
Total liabilities and stockholders' equity	$ 3,078,448	$ 3,312,510

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

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DIAMONDROCK HOSPITALITY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Rooms	$163,158	$178,529	$498,714	$504,729
Food and beverage	44,069	47,256	151,850	155,662
Other	13,012	12,717	39,373	36,801
Total revenues	220,239	238,502	689,937	697,192
Operating Expenses:				
Rooms	39,766	42,415	121,737	122,872
Food and beverage	29,103	32,143	97,718	103,044
Management fees	7,655	7,562	23,036	22,665
Other hotel expenses	74,123	83,358	232,576	237,410
Depreciation and amortization	23,605	25,107	73,731	75,018
Impairment losses	—	—	—	10,461
Hotel acquisition costs	—	453	—	945
Corporate expenses	4,684	6,048	17,420	17,790
Total operating expenses, net	178,936	197,086	566,218	590,205
Operating profit	41,303	41,416	123,719	106,987
Interest and other income, net	(333)	(126)	(451)	(480)
Interest expense	9,504	12,907	32,242	38,963
Gain on sale of hotel properties	(2,198)	—	(10,319)	—
Total other expenses, net	6,973	12,781	21,472	38,483
Income before income taxes	34,330	28,635	102,247	68,504
Income tax expense	(4,393)	(4,171)	(11,357)	(8,576)
Net income	$29,937	$24,464	$90,890	$59,928
Earnings per share:				
Basic earnings per share	$0.15	$0.12	$0.45	$0.30
Diluted earnings per share	$0.15	$0.12	$0.45	$0.30

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

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DIAMONDROCK HOSPITALITY COMPANY

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$ 90,890	$ 59,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73,731	75,018
Corporate asset depreciation as corporate expenses	49	63
Gain on sale of hotel properties	(10,319)	—
Non-cash ground rent	4,230	4,454
Amortization of debt issuance costs and debt premium	1,760	1,715
Impairment losses	—	10,461
Amortization of favorable and unfavorable contracts, net	(1,434)	(1,134)
Amortization of deferred income related to key money	(2,143)	(839)
Stock-based compensation	4,015	4,403
Changes in assets and liabilities:		
Prepaid expenses and other assets	(735)	(4,445)
Restricted cash	21	13,338
Due to/from hotel managers	(13,092)	(12,441)
Accounts payable and accrued expenses	5,572	7,300
Net cash provided by operating activities	152,545	157,821

Cash flows from investing activities:				
Hotel capital expenditures	(78,652	)	(46,141	)
Hotel acquisitions	—		(150,400	)
Net proceeds from sale of hotel properties	183,494		—	
Change in restricted cash	3,083		5,737	
Net cash provided by (used in) investing activities	107,925		(190,804	)
Cash flows from financing activities:				
Scheduled mortgage debt principal payments	(8,384	)	(10,075	)
Proceeds from sale of common stock, net	—		7,796	
Proceeds from mortgage debt	—		150,000	
Repayments of mortgage debt	(249,793	)	(146,876	)
Proceeds from senior unsecured term loan	100,000		—	
Draws on senior unsecured credit facility	75,000		135,000	
Repayments of senior unsecured credit facility	(75,000	)	(110,000	)
Purchase of interest rate cap	—		(325	)
Payment of financing costs	(2,765	)	(1,182	)
Payment of cash dividends	(75,635	)	(71,008	)
Repurchase of common stock	(1,512	)	(2,735	)
Net cash used in financing activities	(238,089	)	(49,405	)
Net increase (decrease) in cash and cash equivalents	22,381		(82,388	)
Cash and cash equivalents, beginning of period	213,584		144,365	
Cash and cash equivalents, end of period	$ 235,965		$ 61,977	

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

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DIAMONDROCK HOSPITALITY COMPANY

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

	Nine Months Ended September 30,	
	2016	2015
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$31,856	$36,326
Cash paid for income taxes	$1,621	$798
Non-cash Investing and Financing Activities:		
Unpaid dividends	$23,586	$25,479
Buyer assumption of mortgage debt on sale of hotel included in sale proceeds	$89,486	$—

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

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DIAMONDROCK HOSPITALITY COMPANY

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

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

As of September 30, 2016, we owned 26 hotels with 9,461 guest rooms, located in the following markets: Atlanta, Georgia; Boston, Massachusetts (2); Burlington, Vermont; Charleston, South Carolina; Chicago, Illinois (2); Denver, Colorado (2); Fort Lauderdale, Florida; Fort Worth, Texas; Huntington Beach, California; Key West, Florida (2); New York, New York (4); Salt Lake City, Utah; San Diego, California; San Francisco, California; Sonoma, California; Washington D.C. (2); St. Thomas, U.S. Virgin Islands; and Vail, Colorado.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2015, included in our Annual Report on Form 10-K filed on February 29, 2016.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of September 30, 2016, the results of our operations for the three and nine months ended September 30, 2016 and 2015, and cash flows for the nine months ended September 30, 2016 and 2015. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations.

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

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation.

Property and Equipment

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

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

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

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

Revenue Recognition

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

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period plus other potentially dilutive securities such as equity awards or shares issuable in the event of conversion of operat