DiamondRock Hospitality Co
Form S-11/A
March 20, 2006

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As filed with the Securities and Exchange Commission on March 20, 2006

Registration No. 333-132266

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-11

FOR REGISTRATION
UNDER
THE SECURITIES ACT OF 1933
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

DIAMONDROCK HOSPITALITY COMPANY

(Exact Name of Registrant as Specified in its Governing Instruments)

6903 Rockledge Drive, Suite 800, Bethesda, Maryland 20817, (240) 744-1150
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

William W. McCarten
Chief Executive Officer
DiamondRock Hospitality Company
6903 Rockledge Drive, Suite 800, Bethesda, Maryland 20817
(240) 744-1150
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement of the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus dated March 20, 2006

PROSPECTUS

14,000,000 Shares

Common Stock

We are a self-advised real estate company that owns and seeks to acquire additional premium full-service hotels and, to a lesser extent, premium urban select-service hotels. We are organized and conduct our operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes. We expect to qualify as a REIT under the federal income tax laws for the year ended December 31, 2005 and subsequent taxable years.

Our common stock currently trades on the New York Stock Exchange, or NYSE, under the symbol "DRH". On March 17, 2006, the closing price of our common stock, as reported on the NYSE, was $13.02 per share.

Shares of our common stock are subject to ownership limitations that we must impose in order for us to qualify, and maintain our status, as a REIT.

See "Risk Factors" beginning on page 18 of this prospectus for certain risk factors relevant to an investment in shares of our common stock.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us (before expenses)	$	$

The underwriters may purchase up to an additional 2,100,000 shares of common stock from us at the public offering price, less the underwriting discount, within 30 days after the date of this prospectus solely to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We expect to deliver the shares of common stock on or about , 2006.

Merrill Lynch & Co. **Friedman Billings Ramsey** **Wachovia Securities**

Citigroup

JMP Securities

Robert W. Baird & Co.

The date of this prospectus is March , 2006

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You should only rely on the information contained in this prospectus. We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.

SUMMARY

The following summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including "Risk Factors" and our historical and pro forma financial statements appearing elsewhere in this prospectus, before investing in our common stock. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters' over-allotment option is not exercised and assumes a stock price of $13.02, which was the closing price of our common stock as reported on the NYSE on March 17, 2006. References in this prospectus to "we," "our," "us" and "our company" refer to DiamondRock Hospitality Company, including, as the context requires, DiamondRock Hospitality Limited Partnership, our operating partnership, as well as our other direct and indirect subsidiaries, including our primary existing taxable REIT subsidiary, Bloodstone TRS, Inc. References to "Marriott" are to Marriott International, Inc., including, as the context requires, its subsidiaries. References to "RevPAR" are to revenue per available room, which is the product of average daily rate, which we refer to as "ADR," and occupancy, and is a key performance indicator for the hotel industry.

Our Company

We are a self-advised real estate company. We are committed to maximizing shareholder value through investing in premium full-service hotels and, to a lesser extent, premium urban select-service hotels. We will own sixteen hotels comprising 7,311 rooms upon completion of our recently announced hotel acquisition in downtown Chicago. These hotels have an aggregate projected investment of approximately $1.3 billion and are geographically diversified across major markets in the United States.

We differentiate ourselves through our:

- Proven acquisition capability;
- Aggressive asset management;
- Conservative capital structure; and
- Experienced senior management team.

Proven Acquisition Capability

Since we completed our first acquisition in October 2004, we have acquired, or have under contract to acquire, sixteen premium hotels. We have acquired eleven of these hotels in off-market transactions, meaning that they were not made generally available to other companies. We intend to make additional acquisitions that meet our stringent underwriting criteria. Consistent with this strategy, on March 1, 2006, we signed a purchase agreement to acquire the 1,192 room Chicago Marriott Downtown Magnificent Mile at 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. We believe that the current environment presents an excellent opportunity to acquire hotels based on our view that lodging industry fundamentals are currently strong and will remain strong for some time to come.

Generally, we invest in hotels that we believe are priced below replacement costs and are located in markets with attractive growth prospects and high barriers to entry. We are focused on acquiring premium full-service hotels located throughout North America and, to a lesser extent, premium select-service hotels in urban locations.

We believe we have a competitive advantage in acquiring hotels through our unique investment sourcing relationship with Marriott, a leading worldwide hotel brand, franchise and management company. Our investment sourcing relationship with Marriott provides us, subject to certain limitations, with a "first look" at hotel acquisition and investment opportunities known to Marriott. As a result of Marriott's extensive network, relationships and knowledge, we have preferred access to a unique source of hotel investment opportunities, many of which may not be available to other hospitality companies.

Since our formation in May 2004, Marriott has provided us with access to several billion dollars of off-market acquisition opportunities. Our relationship with Marriott has facilitated the acquisition of eight of our hotels, including the Marriott Griffin Gate Resort and The Lodge at Sonoma, a Renaissance Resort & Spa, both of which we acquired directly from Marriott.

Aggressive Asset Management

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

Our senior management team has established a broad network of hotel industry contacts and relationships, including relationships with hotel owners, financiers, operators, project managers and contractors and other key industry participants. In particular, we believe that we are unique in having a senior management team, most of whom worked for many years at Marriott, with very deep knowledge of Marriott's organization and processes, which gives us insight in how best to work with Marriott to deliver superior returns at our hotels.

Our philosophy is to negotiate management agreements that give us the right to exert significant influence (but not day-to-day control) over the management of our properties, annual budgets and all capital expenditures, and then to use those rights to continually monitor and improve the performance of our properties. We cooperatively partner with the managers of our hotels in an attempt to increase operating results and long-term asset values at our hotels. In addition to working directly with the personnel at our hotels, our senior management team also has long-standing professional relationships with our hotel managers' senior executives and we work directly with these senior executives to improve the performance of our portfolio.

We believe we can create significant value in our portfolio through innovative asset management strategies such as rebranding, renovating or repositioning. We are committed to regularly evaluating our portfolio to determine if we can employ these value-added strategies at our hotels. We have rebranded two of our properties, including one in which we converted an independently branded hotel to a Marriott brand, which contributed to a 31% increase in revenues and significantly increased operating margins at the hotel in 2005 compared to pro forma 2004. We also have budgeted to spend approximately $84 million in 2006 on identified value-added capital investment opportunities at our existing hotels. The opportunities range from room renovation (Courtyard Manhattan/Midtown East, Los Angeles Airport Marriott, Bethesda Marriott Suites) to a total renovation and repositioning of the hotel (Torrance Marriott and Oak Brook Hills Marriott Resort). In connection with our planned renovations and repositionings, our senior management team and our asset managers are individually committed to completing these renovations on time, on budget and with a minimal disruption at our hotels. We are optimistic that, when completed, these renovations will enable us to achieve higher rates and greater demand for our hotels.

Conservative Capital Structure

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

As of December 31, 2005, more than 90% of our debt carried fixed interest rates, with a weighted-average interest rate of 5.6%, and a weighted-average maturity date in excess of 8 years. As of December 31, 2005, we had $428.4 million of debt outstanding, representing a debt-to-enterprise value ratio of 41%. After giving effect to this offering, including the acquisition of the Chicago Marriott, and the refinancing of the Courtyard Manhattan/Fifth Avenue mortgage debt, we will have approximately $667.2 million of debt outstanding representing a debt-to-enterprise value ratio of 47%.

Enterprise value is calculated as our market capitalization plus net debt. We currently have a target debt-to-enterprise value ratio of 45% to 55%.

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

Experienced Senior Management Team

The extensive hotel industry experience of our senior management team enables us to effectively implement our business strategies. Our senior management team of William W. McCarten, John L. Williams, Mark W. Brugger, Michael D. Schecter and Sean M. Mahoney has significant experience in lodging, real estate and related service industries, including hotel asset management, acquisitions, mergers, dispositions, development, redevelopment and financing. Collectively, they have been involved in hotel transactions aggregating several billion dollars.

Our Hotels

The following table sets forth certain operating information for each of our hotels for the year ended December 31, 2005. This information includes periods prior to our acquisition of these hotels unless otherwise indicated:

Property	Location	Number of Rooms	Average Occupancy	ADR	RevPAR	% Change from 2004 RevPAR(4)
Los Angeles Airport Marriott	Los Angeles, California	1,004	77.0%	$ 101.99	$ 78.52	2.9%
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	71.4	118.68	84.76	8.0
Frenchman's Reef & Morning Star Marriott Beach Resort	St. Thomas, U.S. Virgin Islands	504	78.5	200.18	157.06	16.6
Renaissance Worthington	Fort Worth, Texas	504	76.9	151.48	116.45	15.1
Torrance Marriott	Los Angeles County, California	487	80.9	103.23	83.49	8.2
Orlando Airport Marriott (1)	Orlando, Florida	486	78.1	103.46	80.19	8.3
Marriott Griffin Gate Resort	Lexington, Kentucky	408	63.8	122.22	78.00	4.1
Oak Brook Hills Marriott Resort (2)	Oak Brook, Illinois	384	51.0	121.85	62.13	3.7
Vail Marriott Mountain Resort & Spa	Vail, Colorado	346	58.7	192.06	112.66	4.9
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	60.6	132.60	80.42	10.8
Courtyard Manhattan/Midtown East	New York, New York	307	87.9	230.52	202.52	13.9
Bethesda Marriott Suites	Bethesda, Maryland	274	77.4	160.38	124.13	8.2
SpringHill Suites Atlanta Buckhead (3)	Atlanta, Georgia	220	65.8	103.19	67.92	N/A
Courtyard Manhattan/Fifth Avenue	New York, New York	185	84.5	212.87	179.83	42.6
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	70.4	204.03	143.65	17.7
TOTAL/WEIGHTED AVERAGE		6,119	72.9%	$ 141.95	$ 103.42	10.7%

(1)
We acquired the hotel on December 16, 2005.

(2)
We acquired the hotel on July 29, 2005. The hotel was immediately converted to the Oak Brook Hills Marriott Resort.

(3)
The hotel was newly built and commenced operations on July 1, 2005. Hotel statistics are presented for our ownership period which commenced on July 22, 2005.

(4)

The % change from 2004 RevPAR excludes the SpringHill Suites Atlanta Buckhead. The hotel was newly built in 2005 and there are no comparable statistics for 2004.

The following table sets forth information regarding our investment in each of our hotels:

Property	Location	Year Opened	Number of Rooms(1)	Total Investment(1)	2006 Budgeted Capital Expenditures(2)	Total Projected Investment(3)	Total Projected Investment Per Room
Los Angeles Airport Marriott	Los Angeles, CA	1973	1,004	$ 114,681,000	$ 18,073,000	$ 132,754,000	$ 132,225
Salt Lake City Marriott Downtown	Salt Lake City, UT	1981	510	51,123,000	3,703,000	54,826,000	107,502
Frenchman's Reef & Morning Star Marriott Beach Resort	St. Thomas, USVI	1973	504	76,106,000	10,860,000	86,966,000	172,552
Renaissance Worthington	Fort Worth, TX	1981	504	80,811,000	2,853,000	83,664,000	166,000
Torrance Marriott	Los Angeles County, CA	1985	487	67,421,000	7,625,000	75,046,000	154,099
Orlando Airport Marriott	Orlando, FL	1983	486	71,154,000	12,235,000	83,389,000	171,582
Marriott Griffin Gate Resort	Lexington, KY	1981	408	49,779,000	1,933,000	51,712,000	126,745
Oak Brook Hills Marriott Resort	Oak Brook, IL	1987	384	66,165,000	11,483,000	77,648,000	202,208
Vail Marriott Mountain Resort & Spa	Vail, CO	1983	346	65,259,000	3,665,000	68,924,000	199,202
Marriott Atlanta Alpharetta	Atlanta, GA	2000	318	38,833,000	284,000	39,117,000	123,009
Courtyard Manhattan/Midtown East	New York, NY	1998	307	75,382,000	2,667,000	78,049,000	254,231
Bethesda Marriott Suites	Bethesda, MD	1990	274	42,185,000	5,831,000	48,016,000	175,241
SpringHill Suites Atlanta Buckhead	Atlanta, GA	2005	220	34,341,000	40,000	34,381,000	156,277
Courtyard Manhattan/Fifth Avenue	New York, NY	1990	185	41,832,000	2,575,000	44,407,000	240,038
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, CA	2001	182	32,430,000	486,000	32,916,000	180,857
TOTAL			**6,119**	**$ 907,502,000**	**$ 84,313,000**	**$ 991,815,000**	**$ 162,088**

(1) As of December 31, 2005.

(2) 2006 budgeted capital expenditures represents capital expenditures regardless of whether they will be paid for through an escrow account or owner funding.

(3) Total projected investments for each hotel is the gross book value of the hotel as of December 31, 2005 plus 2006 budgeted capital expenditures.

Risk Factors

See "Risk Factors" beginning on page 18 for certain risk factors relevant to an investment in our common stock, including, among others:

We are a relatively young company and are subject to all of the risks associated with being at an early stage of development.

Our management has limited experience operating a REIT and a public company and therefore may have difficulty in profitably operating our business.

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

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

Our hotel portfolio is not diverse by brand or manager and there are risks associated with using Marriott's brands on all of our hotels and having Marriott manage most of our hotels.

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

Our investment sourcing relationship with Marriott is non-exclusive and based on a non-binding understanding that may be changed or terminated at any time, which could adversely affect our ability to execute our business strategies, which in turn, would adversely affect our ability to make distributions to our stockholders.

Marriott may encourage us to enter into transactions or hotel management agreements that are not favorable to us.

Our ownership of properties through ground leases exposes us to the risk that we may have difficulty financing such properties, may sell such properties for a lower price or may lose such properties upon breach or termination of the ground leases.

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

If the hotel market declines, it may adversely affect our ability to execute our business strategies, which, in turn, would adversely affect our ability to make distributions to our stockholders.

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

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

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

It may be difficult for a third party to acquire control of our company thus limiting the ability of our stockholders to receive a "change of control premium."

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

As a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction, each year to our stockholders. In the event of future downturns in our operating results and financial performance or the need for unanticipated capital improvements to our hotels, we may be unable to declare or pay distributions to our stockholders.

Recent Developments

Chicago Marriott. On March 1, 2006, we signed a purchase agreement to acquire 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 (or approximately $257,000 per room), including the assumption of $220 million of floating-rate debt. We made a $10 million non-refundable deposit upon entering into the purchase agreement. The acquisition is scheduled to close on March 24, 2006. We intend to refinance the existing $220 million floating-rate loan with a 10-year 5.96% fixed-rate loan issued by Wachovia Bank, National Association, an affiliate of Wachovia Capital Markets, LLC, one of the underwriters in this offering. The loan will be interest only for $3^1/_2$ years, after which, the principal will amortize using a 30-year amortization schedule. The new loan will be a limited recourse loan secured by a mortgage on the property. We will finance the remainder of the purchase price through a portion of the net proceeds from this offering. We expect to borrow up to $100 million through a short-term floating-rate loan arranged by Wachovia Bank, National Association, which we will repay with a portion of the net proceeds of this offering.

This hotel earned $21 million of EBITDA on revenues of $84.3 million in 2005. The 2005 EBITDA is calculated as net income of $4.1 million plus interest expense of $8.9 million and depreciation of $8.2 million less an income tax benefit of $0.2 million.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 56,419,000	$ 53,984,000	$ 53,670,000	$ 54,070,000	$ 57,348,000
ADR	$ 176.11	$ 172.19	$ 170.32	$ 167.41	$ 184.44
Occupancy %	74.1%	70.9%	72.6%	74.4%	71.7%
RevPAR	$ 130.48	$ 122.07	$ 123.70	$ 124.62	$ 132.17

The foregoing table includes information for periods prior to our ownership provided to us by the sellers of the hotel.

The hotel was built in 1978 and underwent extensive renovations that were completed in 2005.

We believe this hotel has an excellent location on North Michigan Avenue in Chicago's famed shopping and entertainment district, the Magnificent Mile. The hotel is predominantly marketed to groups and individual business travelers who are seeking a premium full-service hotel located in the heart of this well-known district. According to the sellers' records, last year, over half of the rooms sold at the hotel were sold to corporate and association groups and roughly a quarter were sold to individual corporate travelers. The hotel has 60,000 square feet of flexible meeting space.

We believe that supply and demand dynamics are very favorable in Chicago. For example, the number of hotel rooms added to downtown Chicago over the past five years has been very limited, averaging just over 1% per year. In addition, Chicago is a compelling location for conventions and other city-wide events and over the next few years should benefit from the displacement of conventions caused by Hurricane Katrina. We also believe that this hotel is an irreplaceable asset as the land acquisition and construction cost of building a new large hotel in downtown Chicago would be prohibitive.

We cannot assure you that we will acquire the Chicago Marriott because the completion of the proposed acquisition is subject to a variety of conditions.

Refinancing of Courtyard Manhattan/Fifth Avenue. We have a commitment from Lehman Brothers Bank to refinance the mortgage loan on the Courtyard Manhattan/Fifth Avenue that will mature in January 2007. Pursuant to this commitment, we expect to refinance the $23 million existing floating-rate loan with a $51 million fixed-rate loan that matures in 10 years. At the closing of the refinancing, the interest rate on the loan will be set based on the then current 10-year swap rate plus 90 basis points. We expect that the new fixed-rate loan will require principal repayments based on a 30-year amortization schedule following the first five years of payments of interest only. We expect to close this refinancing early in the second quarter of 2006.

Increased dividend. On February 28, 2006, our board of directors declared an increase in the quarterly dividend for the first quarter of 2006. On April 11, 2006, a cash dividend of $0.18 per share will be paid to stockholders of record as of March 24, 2006. Purchasers in this offering will not receive the April dividend.

Our Corporate Structure

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our hotels are owned by subsidiaries of our operating partnership, DiamondRock Hospitality Limited Partnership. We are the sole general partner of our operating partnership and currently own, either directly or indirectly, all of the limited partnership units of our operating partnership. In order for the income from our hotel investments to constitute "rents from real properties" for purposes of the gross income test required for REIT qualification, we must lease each of our hotels to a wholly-owned subsidiary of our taxable REIT subsidiary, or TRS, or to an unrelated third party. However, we may structure our properties which are not subject to U.S. federal income tax differently from the structures we use for our U.S. properties. For example, the Frenchman's Reef & Morning Star Marriott Beach Resort is held by a United States Virgin Islands corporation that we have elected to be a TRS.

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

Hotel Industry Segments

References to "premium full-service hotels" are to "upper upscale hotels" (as defined by Smith Travel Research, Inc., a widely-recognized information and data provider for the lodging industry) such as Embassy Suites Hotels, Hilton, Hyatt, Marriott and Sheraton. References to "premium urban select-service hotels" are to hotels such as Courtyard by Marriott, SpringHill Suites by Marriott, Hilton Garden Inn, Crowne Plaza and Residence Inn by Marriott. While there are exceptions, in general, "full-service hotels" have amenities such as ballrooms, in-house food and beverage and fitness centers or spas, and "select-service" hotels typically have fewer amenities and do not have in-house food and beverage services.

Our Principal Office

Our corporate headquarters is located at 6903 Rockledge Drive, Suite 800, Bethesda, MD 20817. Our telephone number is (240) 744-1150. Our Internet address is http://www.drhc.com. The information on our website does not constitute a part of this prospectus.

Our Tax Status

We expect to be taxed as a REIT for federal income tax purposes for our taxable year ended on December 31, 2005 and intend to continue to qualify as a REIT in subsequent taxable years. If we qualify for taxation as a REIT, we generally will not be subject to federal income tax on that portion of our ordinary income or net capital gain that is currently distributed to our stockholders. Our ability to qualify as a REIT depends upon our satisfaction of various operational and organizational requirements, including requirements related to the nature of our assets, the sources of our income, the diversity of our stock ownership and the distributions to our stockholders, including a requirement that we distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction, each year to our stockholders. If we fail to qualify as a REIT and are not able to utilize an applicable statutory relief provision, we will be subject to federal income tax at regular corporate rates (up to 35%) as well as state and local taxes. Even if we qualify as a REIT, we may be subject to some federal, state, local and foreign taxes on our income and property. Our existing taxable REIT subsidiary, Bloodstone TRS, Inc., owner of our TRS lessees, is subject to corporate income tax as a C corporation on its earnings and the earnings of our TRS lessees.

In order to qualify as a REIT, our income must come primarily from "rents from real property," mortgage interest and real estate gains. Qualifying "rents from real property" include rents from interests in real property, certain charges for services customarily rendered in connection with the rental of real property, and a limited amount of rent attributable to personal property that is leased under, or in connection with, a lease of real property. However, operating revenues from a hotel are not qualifying "rents from real property." Therefore, we generally must lease our hotels to another party from whom we will derive rent income that will qualify as "rents from real property" under the REIT rules. Accordingly, we generally will lease each of our hotels to a taxable TRS lessee, except that a TRS may own hotels such as the Frenchman's Reef & Morning Star Marriott Beach Resort and any foreign hotels we acquire. Each TRS lessee will pay rent to us that generally should qualify as "rents from real property," provided that an "eligible independent contractor" operates and manages each hotel on behalf of the TRS lessee. We believe that each of our hotels is, and will be, managed by an "eligible independent contractor." The income remaining in our TRS lessees from the payment of rent to us, management fees, operating expenses and other costs will be subject to corporate tax.

Restrictions on Ownership of Our Stock

Our charter generally prohibits any stockholder from beneficially owning more than 9.8% of our common stock or of the value of the aggregate outstanding shares of our capital stock, except that certain "look-through entities," such as mutual funds, may beneficially own up to 15% of our common stock or of the value of the aggregate outstanding shares of our capital stock. Our bylaws, however, provide for certain exemptions from the ownership limitation, provided generally that the grant of such exemptions will not jeopardize our REIT status. Our charter also prohibits any person from owning or transferring shares of our capital stock if such ownership or transfer would result in our failure to meet certain REIT requirements under the Internal Revenue Code, or Code, or certain NYSE listing requirements.

Our Distribution Policy

We intend to continue to distribute to our stockholders each year on a regular quarterly basis sufficient amounts of our REIT taxable income so as to avoid paying corporate income tax and excise tax on our earnings (other than the earnings of our TRS and TRS lessees, which are subject to tax at regular corporate rates) and to qualify for the tax benefits afforded to REITs under the Code. In order to qualify as a REIT under the Code, we generally must make distributions to our stockholders each year in an amount equal to at least:

90% of our REIT taxable income determined without regard to the dividends paid deduction, plus

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

any excess non-cash income.

In 2005, we commenced paying dividends equal to an annualized rate of $0.69 per share following our initial public offering in May 2005. We paid our stockholders of record a pro-rated dividend of $0.0326 for the second quarter of 2005, and full quarter dividends of $0.1725 per share for the third and fourth quarters of 2005.

On February 28, 2006, our board of directors declared an increase in the quarterly dividend for the first quarter of 2006. On April 11, 2006, a cash dividend of $0.18 per share will be paid to stockholders of record as of March 24, 2006. Purchasers in this offering will not receive the April dividend.

The actual amount, timing and frequency of our distributions will be at the discretion of our board of directors and will depend upon our actual results of operations and a number of other factors deemed relevant by our board of directors. Our cash available for distribution may be less than 90% of our REIT taxable income, in which case we could be required to either sell assets or borrow funds to make distributions. To the extent our annual distribution is in excess of 100% of our estimated cash available for distribution, we will use existing cash or short-term borrowings to fund such shortfall. Distributions to our stockholders generally will be taxable to our stockholders as ordinary income; however, because a significant portion of our investment will be equity ownership interests in hotels, which will result in depreciation and non-cash charges against our income, a portion of our distribution may constitute a tax-free return of capital rather than taxable dividend income to stockholders.

Registration Rights and Lock-Up Agreements

Registration Rights Agreement. Pursuant to a registration rights agreement among us, our operating partnership, Friedman, Billings, Ramsey & Co., Inc. and certain holders of our common stock, entered into on July 7, 2004, we filed with the Securities and Exchange Commission a resale shelf registration statement registering all of the shares of common stock purchased or placed by Friedman, Billings, Ramsey & Co., Inc. in our July 2004 private placement and all of the 3 million shares of common stock purchased by Marriott in our July 2004 private placement. The resale shelf registration statement was declared effective in September 2005. We are required, under the registration rights agreement, to maintain the resale shelf registration statement continuously effective under the Securities Act for a specified period. As of March 2, 2006, approximately 7.5 million shares of restricted stock have been sold pursuant to the shelf registration statement or pursuant to Rule 144 under the Securities Act of 1933, as amended. As a result, as of March 2, 2006, we have approximately 13.5 million shares of restricted stock outstanding (including 3.0 million shares owned by Marriott).

Lock-up Agreements. We, our directors and senior executive officers and Marriott will agree not to sell or transfer any common stock for 90 days after the date of this prospectus without first obtaining the written consent of the representatives, Merrill Lynch & Co., Friedman, Billings, Ramsey & Co., Inc. and Wachovia Capital Markets, LLC, on behalf of the underwriters. The representatives may, at their discretion, release all or any portion of the common stock subject to the lock-up agreements with us, our directors and senior executive officers and Marriott at any time without notice or stockholder approval.

Conflicts of Interest with Certain of the Underwriters of this Offering

Wachovia Capital Markets, LLC and Citigroup Global Markets Inc., each an underwriter of this offering, have interests in the successful completion of this offering beyond the underwriting discounts and commissions they expect to receive.

On July 8, 2005, we entered into a three-year, $75 million senior secured revolving credit facility from Wachovia Bank, National Association (an affiliate of Wachovia Capital Markets, LLC), as administrative agent under the credit facility, and Citicorp North America, Inc. (an affiliate of Citigroup Global Markets Inc.) and Bank of America, N.A., as co-syndication agents under the credit facility. Our operating partnership is the borrower under the credit facility. We will use a portion of the net proceeds of this offering to repay borrowings under the credit facility.

We expect to enter into a short-term floating-rate loan for up to $100 million with Wachovia Bank, National Association in connection with the acquisition of the Chicago Marriott. In the event we borrow such money, we will repay the loan with a portion of the net proceeds of this offering.

The Offering

Common stock offered by us(1)	14,000,000 shares.
Common stock to be outstanding upon completion of this offering(1)(2)	65,566,864 shares.
Use of proceeds	The net proceeds to us from the sale of our common stock offered by this prospectus, after deducting the underwriting discount and the estimated offering expenses payable by us, will be approximately $172.6 million if the underwriters' over-allotment option is not exercised, or approximately $198.7 million if the underwriters' over-allotment option is exercised in full. We will contribute the net proceeds from this offering to our operating partnership. Our operating partnership intends to use the net proceeds as follows: to repay approximately $82.5 million, which we expect to borrow under the short-term loan from Wachovia Bank, National Association, the proceeds of which will be used to fund the acquisition of the Chicago Marriott; to fund approximately $54.1 million of 2006 owner-funded capital expenditures at our hotel properties; and to repay approximately $36 million of outstanding borrowings under our senior secured credit facility. Pending these uses, we intend to invest the net proceeds in interest-bearing, short-term investment grade securities or money-market accounts that are consistent with our intention to qualify as a REIT. Such investments may include, for example, government and government agency certificates, interest-bearing bank deposits and mortgage loan participations. In the event that the underwriters exercise any or all of their over-allotment, we expect to use the additional net proceeds for general corporate purposes.
New York Stock Exchange symbol	DRH.

(1) Excludes 2,100,000 shares of common stock that may be issued by us upon exercise of the underwriters' over-allotment option.

(2) Includes 34,000 unrestricted shares of our common stock issued to our independent directors and 747,000 unvested restricted shares of our common stock issued to our executive officers and other employees pursuant to our equity incentive plan. Excludes 829,667 shares available for future issuance under our equity incentive plan and 389,333 vested deferred common stock units outstanding as of December 31, 2005.

SUMMARY SELECTED HISTORICAL AND PRO FORMA FINANCIAL AND OPERATING DATA

We present in this prospectus certain historical and pro forma financial data. We also present certain operational data and non-U.S. generally accepted accounting principles, or GAAP, financial measures on a historical and pro forma basis.

The selected historical financial information as of and for the year ended December 31, 2005 and as of December 31, 2004 and the period from May 6, 2004 (inception) to December 31, 2004, has been derived from our historical financial statements audited by KPMG LLP, independent registered public accounting firm, whose report with respect to such financial information is included elsewhere in this prospectus. The summary historical financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements as of and for the year ended December 31, 2005 and as of December 31, 2004 and for the period from May 6, 2004 (inception) to December 31, 2004, and the related notes.

The unaudited pro forma consolidated balance sheet data as of December 31, 2005 is based on the historical consolidated balance sheet as of December 31, 2005, as adjusted to assume that the following occurred on December 31, 2005:

- The acquisition of the Chicago Marriott;
- Proceeds from the $220 million mortgage debt related to the acquisition of the Chicago Marriott;
- Repayment of the $12 million outstanding as of December 31, 2005 under our senior credit facility with the proceeds of this offering;
- The refinancing of the $23 million variable rate mortgage debt on the Courtyard Manhattan/Fifth Avenue with $51 million of fixed rate mortgage debt; and
- The offering of 14,000,000 shares of our common stock at $13.02 per share, with approximately $172.6 million of net proceeds to us.

The unaudited pro forma consolidated statement of operations and other data for the year ended December 31, 2005 are presented as if the following had occurred on January 1, 2005:

- Our 2005 acquisitions of the Torrance Marriott, the Vail Marriott Mountain Resort & Spa, a portfolio of hotels consisting of the Marriott Los Angeles Airport, Frenchman's Reef & Morning Star Marriott Beach Resort, Renaissance Worthington and Marriott Atlanta Alpharetta (the "Capital Hotel Investment Portfolio"), the Oak Brook Hills Marriott Resort, the Orlando Airport Marriott and the Chicago Marriott;
- Our borrowings under (i) the $62.5 million mortgage debt on the Frenchman's Reef & Morning Star Marriott Beach Resort, (ii) the $82.6 million mortgage debt on the Marriott Los Angeles Airport, (iii) the $57.4 million mortgage debt on the Renaissance Worthington Hotel, (iv) the $59 million mortgage debt on the Orlando Airport Marriott and (v) the $220 million mortgage debt on the Chicago Marriott;
- $12 million of draws under our senior credit facility;
- Repayment of the $12 million outstanding as of December 31, 2005 under our senior credit facility with the proceeds of this offering;
- The refinancing of the $23 million variable rate mortgage debt on the Courtyard Manhattan/Fifth Avenue with $51 million of fixed rate mortgage debt; and

The offering of 14,000,000 shares of our common stock at $13.02 per share, with approximately $172.6 million of net proceeds to us.

The adjustments to the pro forma financial information as of and for the year ended December 31, 2005 are also discussed under "Unaudited Pro Forma Financial Data." The pro forma statement of operations for the year ended December 31, 2005, excludes the pre-acquisition operating results of the SpringHill Suites Atlanta Buckhead since it was opened on July 1, 2005 and has no historical operating results. The accompanying pro forma financial information reflects the preliminary application of purchase accounting to the acquisitions of the Vail Marriott Mountain Resort & Spa, the Capital Hotel Investment Portfolio, the Oak Brook Hills Marriott Resort, the Orlando Airport Marriott and the Chicago Marriott. The preliminary purchase accounting may be adjusted if any of the assumptions underlying the purchase accounting change. The pro forma information is not necessarily indicative of what our actual financial position or results of operations would have been as of the dates or for the periods indicated, nor does it purport to represent our future financial position or results of operations.

We present the following two non-GAAP financial measures throughout this prospectus that we believe are useful to investors as key measures of our operating performance: (1) earnings before interest expense, taxes, depreciation and amortization, or EBITDA; and (2) funds from operations, or FFO. These financial measures are discussed further under "Selected Historical and Pro Forma Financial and Operating Data."

Amounts presented in accordance with our definitions of EBITDA and FFO may not be comparable to similar measures disclosed by other companies, as not all companies calculate these non-GAAP measures in the same manner. EBITDA and FFO should not be considered as an alternative measure of our net income (loss), operating performance, cash flow or liquidity. EBITDA and FFO may include funds that may not be used for our discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions and other commitments or uncertainties. Although we believe that EBITDA and FFO can enhance your understanding of our results of operations, these non-GAAP financial measures, when viewed individually, are not necessarily better indicators of any trend as compared to GAAP measures such as net income (loss) or cash flow from operations. In this section and under "Selected Historical and Pro Forma Financial and Operating Data," we include a quantitative reconciliation of EBITDA and FFO to the most directly comparable GAAP financial performance measure, which is net income (loss).

	Historical		Pro Forma
	Year Ended December 31, 2005	Period from May 6, 2004 to December 31, 2004	Year Ended December 31, 2005
Statement of operations data:			
Revenues:			
Rooms	$ 151,755,924	$ 5,137,370	$ 281,603,911
Food and beverage	63,261,282	1,507,960	129,705,682
Other	14,433,057	428,534	25,716,615
Total revenues	229,450,263	7,073,864	437,026,208
Operating costs and expenses:			
Rooms	37,432,635	1,455,380	67,575,558
Food and beverage	47,281,237	1,266,827	90,122,611
Other hotel expenses and management fees	96,555,386	3,444,683	174,886,542
Corporate expenses	13,461,528	4,114,165	13,461,528
Depreciation and amortization	27,590,234	1,053,283	50,296,141
Total operating expenses	222,321,020	11,334,338	396,342,380
Operating income (loss)	7,129,243	(4,260,474)	40,683,828
Interest income	(1,548,635)	(1,333,837)	(1,548,635)
Interest expense	17,367,079	773,101	38,643,715
Income (loss) before income taxes	(8,689,201)	(3,699,738)	3,588,748
Income tax benefit	1,353,261	1,582,113	576,734
Net income (loss)	$ (7,335,940)	$ (2,117,625)	$ 4,165,482
Earnings (loss) per share basic and diluted	$ (0.19)	$ (0.12)	$ 0.06
Dividends declared per share	$ 0.38	$	$
FFO(1)	$ 20,254,294	$ (1,064,342)	$ 54,461,623
EBITDA(2)	$ 36,268,112	$ (1,873,354)	$ 92,528,604

	Historical		Pro Forma
	As of December 31, 2005	As of December 31, 2004	As of December 31, 2005
Balance sheet data:			
Property and equipment, net	$ 870,562,399	$ 285,642,439	$ 1,263,362,399
Cash and cash equivalents	9,431,741	76,983,107	104,553,441
Total assets	966,012,282	391,691,179	1,458,179,114
Total debt	431,177,057	180,771,810	667,177,057
Total other liabilities	71,446,797	15,331,951	155,246,797
Shareholders' equity	463,388,428	195,587,418	635,755,260

(1)

FFO, as defined by NAREIT, is net income (loss) determined in accordance with GAAP, excluding gains (losses) from sales of property, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures (which are calculated to reflect FFO on the same basis). The calculation of FFO may vary from entity to entity, thus our presentation of FFO may not be comparable to other similarly titled measures of other reporting companies. FFO is not intended to represent cash flows for the period. FFO has not been presented as an alternative to operating income, but as an indicator of operating performance, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

FFO is a supplemental industry-wide measure of REIT operating performance, the definition of which was first proposed by NAREIT in 1991 (and clarified in 1995, 1999 and 2002). Since the introduction of the definition by NAREIT, the term has come to be widely used by REITs. Historical GAAP cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical GAAP cost accounting to be insufficient by themselves. Accordingly, we believe FFO (combined with our primary GAAP presentations) help improve our stockholders' ability to understand our operating performance. We only use FFO as a supplemental measure of operating performance. The following is a reconciliation between net loss and FFO:

	Historical		Pro Forma
	Year Ended December 31, 2005	Period from May 6, 2004 to December 31, 2004	Year Ended December 31, 2005
Net income (loss)	$ (7,335,940)	$ (2,117,625)	$ 4,165,482
Real estate related depreciation and amortization	27,590,234	1,053,283	50,296,141
FFO	$ 20,254,294	$ (1,064,342)	$ 54,461,623

(2)

EBITDA is defined as net income (loss) before interest, taxes, depreciation and amortization. We believe it is a useful financial performance measure for us and for our stockholders and is a complement to net income and other financial performance measures provided in accordance with GAAP. We use EBITDA to measure the financial performance of our operating hotels because it excludes expenses such as depreciation and amortization, taxes and interest expense, which are not indicative of operating performance. By excluding interest expense, EBITDA measures our financial performance irrespective of our capital structure or how we finance our properties and operations. By excluding depreciation and amortization expense, which can vary from hotel to hotel based on a variety of factors unrelated to the hotels' financial performance, we can more accurately assess the financial performance of our hotels. Under GAAP, hotels are recorded at historical cost at the time of acquisition and are depreciated on a straight-line basis. By excluding depreciation and amortization, we believe EBITDA provides a basis for measuring the financial performance of hotels unrelated to historical cost. However, because EBITDA excludes depreciation and amortization, it does not measure the capital we require to maintain or preserve our fixed assets. In addition, because EBITDA does not reflect interest expense, it does not take into account the total amount of interest we pay on outstanding debt nor does it show trends in interest costs due to changes in our borrowings or changes in interest rates. EBITDA, as calculated by us, may not be comparable to EBITDA reported by other companies that do not define EBITDA exactly as we define the term. Because we use EBITDA to evaluate our financial performance, we reconcile it to net income (loss) which is the most comparable financial measure calculated and presented in accordance with GAAP. EBITDA does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity. The following is a reconciliation between net income (loss) and EBITDA:

	Historical		Pro Forma
	Year Ended December 31, 2005	Period from May 6, 2004 to December 31, 2004	Year Ended December 31, 2005
Net income (loss)	$ (7,335,940)	$ (2,117,625)	$ 4,165,482
Interest expense	17,367,079	773,101	38,643,715
Income tax benefit	(1,353,261)	(1,582,113)	(576,734)
Depreciation and amortization	27,590,234	1,053,283	50,296,141
EBITDA	$ 36,268,112	$ (1,873,354)	$ 92,528,604

RISK FACTORS

An investment in our common stock involves a number of risks. The risks described below represent the material risks you should carefully consider before making an investment decision. These risks may materially and adversely affect our business, liquidity, financial condition and results of operations, in which case the value of our common stock could decline significantly and you could lose all or a part of your investment. The risk factors described below are not the only risks that may affect us. Some statements in this prospectus, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements."

Risks Related to Our Business and Operations

We are a relatively young company and are subject to all of the risks associated with being at an early stage of development.

We commenced operations in July 2004 and, as a result, have a limited operating history. We have experienced rapid growth in our short history and have developed our business strategies based on the expectation of continued rapid growth. We cannot assure you that we will be able to adapt our management, administrative, accounting and operational systems, or hire and retain qualified operational staff to integrate and manage our investment in our hotels. Our failure to successfully integrate and manage acquisitions could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Our management has limited experience operating a REIT and a public company and therefore may have difficulty in profitably operating our business.

Prior to joining our company, our senior management team had no experience operating a REIT and limited experience operating a public company. As a result, we cannot assure you that we will be able to continue to successfully operate as a REIT or execute our business strategies as a public company. You should be cautious in drawing conclusions about the ability of our senior management team to execute our business plan. Our inability to execute our business plan could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

We own hotels, a very different asset class from many other REITs. A typical office REIT, for example, has long-term leases with third party tenants, which provides a relatively stable long-term stream of revenue. Our TRS, on the other hand, does not enter into a lease with a hotel manager. Instead, our TRS engages the hotel manager pursuant to a management agreement and pays the manager a fee for managing the hotel. The TRS receives all the operating profit or losses at the hotel. Moreover, virtually all hotel guests stay at the hotel for only a few nights, so the rate and occupancy at each of our hotels changes every day. As a result, we may have highly volatile earnings.

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

- competition from other hotels that may be located in our markets, some of which may have greater marketing and financial resources than us;
- an over-supply or over-building of hotels in our markets, which could adversely affect occupancy rates and revenues at our properties;

- dependence on business and commercial travelers and tourism, both of which vary with consumer and business perceptions as to the strength of the general economy;
- increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates; and
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance.

In addition, our hotels are mostly in the premium full-service segment of the hotel business that tends to have the best operating results in a strong economy and the worst results in a weak economy. In periods of weak demand, profitability is negatively affected by the relatively high fixed costs of operating premium full-service hotels when compared to other classes of hotels.

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

Our hotels are subject to significant competition.

Currently, the supply and demand in the markets where our hotels are located is in balance and, with few exceptions, the markets are very competitive. However, historically, a material increase in the supply of new hotel rooms to a market can quickly destabilize that market and existing hotels have experienced rapidly decreasing RevPAR and profitability. If such over-building occurs in one or more of our major markets, we may experience a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

One of our major hotels, Frenchman's Reef & Morning Star Marriott Beach Resort, is located on the side of a cliff facing the ocean in the United States Virgin Islands, which is in the so-called "hurricane belt" in the Caribbean. The hotel was partially destroyed by a hurricane in the mid-1990's and since then has been damaged by subsequent hurricanes. In addition, three of our hotels, the Los Angeles Airport Marriott, the Torrance Marriott and The Lodge at Sonoma, a Renaissance Resort & Spa, are located in areas that are seismically active. Finally, four of our hotels are located in metropolitan markets that have been, or may in the future be, targets of actual or threatened terrorist attacks, including New York City and Los Angeles. These hotels are each material to our financial results. Frenchman's Reef & Morning Star Marriott Beach Resort, Los Angeles Airport Marriott, the Torrance Marriott, Courtyard Manhattan/Midtown East and Courtyard Manhattan/Fifth Avenue constituted 8.6%, 11.2%, 9.1%, 10.4% and 5.0% of our revenues in 2005, respectively. Additionally, even in the absence of direct physical damage to our hotels, the occurrence of any natural disasters, terrorist attacks, significant military actions, outbreaks of contagious diseases, such as SARS or the avian bird flu, or other casualty events affecting the United States, will likely have a material adverse effect on business and commercial travelers and tourists, the economy generally and the hotel and tourism industries in particular. While we cannot predict the impact of the occurrence of any of these events, such impact could result in a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

We have acquired and intend to maintain comprehensive insurance on each of our hotels, including liability, terrorism, fire and extended coverage, of the type and amount we believe are customarily obtained for or by hotel owners. We cannot assure you that such coverage will be available at reasonable rates or with reasonable deductibles. For example, Frenchman's Reef & Morning Star Marriott Beach Resort has a high deductible if it is damaged due to a wind storm. Various types of catastrophic losses, like earthquakes, floods, losses from foreign terrorist activities such as those on September 11, 2001, or losses from domestic terrorist activities such as the Oklahoma City bombing may not be insurable or are generally not insured because of economic infeasibility, legal restrictions or the policies of insurers. Future lenders may require such insurance and our failure to obtain such insurance could constitute a default under loan agreements. Depending on our access to capital, liquidity and the value of the properties securing the affected loan in relation to the balance of the loan, a default could have a material adverse effect on our results of operations and ability to obtain future financing.

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

With or without insurance, damage to any of our hotels, or to the hotel industry generally, due to fire, hurricane, earthquake, terrorism, outbreaks such as avian bird flu or other man-made or natural disasters or casualty events could materially and adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.

The hotel industry is capital intensive and we are subject to risks associated with our ongoing need for renovations and capital improvements as well as financing for such expenditures.

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

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

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

In addition, we may not be able to fund capital improvements or acquisitions solely from cash provided from our operating activities because we generally must distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction, each year to maintain our REIT tax status. As a result, our ability to fund capital expenditures, or investments through retained earnings, is very limited. Consequently, we will rely upon the availability of debt or equity capital to fund our investments and capital improvements, but these sources of funds may not be available on favorable terms and conditions. Neither our charter nor our bylaws limits the amount of debt that we can incur; however, we may not be able to obtain additional equity or debt financing on favorable terms, if at all.

If we do not complete the acquisition of the Chicago Marriott, we will have incurred substantial expenses without our stockholders realizing the expected benefits.

If we are unable to complete the acquisition of the Chicago Marriott, we may lose substantial deposits that we have provided to sellers. We made a $10 million non-refundable deposit. We will forfeit this deposit if the acquisition does not close, unless such failure to close is a result of the failure of the seller to satisfy its obligations or fulfill certain conditions precedent to closing under the purchase agreement.

We cannot assure you that we will acquire the Chicago Marriott because the proposed acquisition is subject to a variety of factors, including the satisfaction of closing conditions. Our inability to complete this acquisition within our anticipated timeframe, or at all, will cause us to forfeit our non-refundable deposit.

We have also incurred several hundred thousand dollars in due diligence, legal and accounting expenses in connection with this acquisition and may incur additional due diligence, legal and accounting expenses prior to closing.

Our hotel portfolio is not diverse by brand or manager and there are risks associated with using Marriott's brands on all of our hotels and having Marriott manage most of our hotels.

Our success depends in part on the success of Marriott.

All of our current hotels utilize brands owned by Marriott. As a result, our success is dependent in part on the continued success of Marriott and its brands. If market recognition or the positive perception of these Marriott brands is reduced or compromised, the goodwill associated with Marriott branded hotels may be adversely affected and the results of operations of our hotels may be adversely affected. As a result, we could experience a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Our success depends in part on maintaining good relations with Marriott.

Due to the differences in how each company earns its money, which company is responsible for operating losses and capital expenditures, and tensions between an individual hotel and the brand standards of a large chain, there are natural conflicts between an owner of a hotel and a brand company, such as Marriott. Over the last several years, Marriott has been involved in contractual and other disputes with owners of the hotels it manages. Although we currently maintain good relations with Marriott, we cannot assure you that disputes between us and Marriott regarding the management of our properties will not arise. Should our relationship with Marriott deteriorate, we believe that two of our competitive advantages (namely our ability to work with senior executives at Marriott to improve the asset management of our hotels and our investment sourcing relationship) could be eliminated, which may have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

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

Under the terms of the hotel management agreements that we have entered into with Marriott (or its affiliates), or that will enter into in the future with Marriott or other third-party hotel management companies, our ability to participate in operating decisions regarding our hotel properties is limited. We currently rely, and will continue to rely, on these hotel management companies to adequately operate our hotel properties under the terms of the hotel management agreements. We do not have the authority to require any hotel property to be operated in a particular manner or to govern any particular aspect of its operations (for instance, setting room rates). Thus, even if we believe our hotel properties are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, ADRs and operating profits, we may not have sufficient rights under our hotel management agreements to enable us to force the hotel management company to change its method of operation. We can only seek redress if a hotel management company violates the terms of the applicable hotel management agreement with the TRS lessee, and then only to the extent of the remedies provided for under the terms of the hotel management agreement. Our current management agreements are generally non-terminable, subject to certain exceptions for cause (see "Our Principal Agreements Our Hotel Management Agreements"), and in the event that we need to replace any of our hotel management companies pursuant to termination for cause, we may experience significant disruptions at the affected properties, which may have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

There are risks associated with the Marriott investment sourcing relationship.

Our investment sourcing relationship with Marriott is non-exclusive and based on a non-binding understanding that may be changed or terminated at any time, which could adversely affect our ability to execute our business strategies, which in turn, would adversely affect our ability to make distributions to our stockholders.

Our investment sourcing relationship with Marriott is non-exclusive and based on a non-binding understanding. Both parties are free to terminate or attempt to change our investment sourcing relationship at any time. While Marriott intends to provide us a "first look" at hotel investment opportunities known to Marriott that are consistent with our stated business strategies, it will not provide us with opportunities where it is contractually or ethically prohibited from doing so, or where Marriott believes it would be damaging to existing Marriott relationships. Termination of, or an adverse change in, our investment sourcing relationship with Marriott may limit our sources of acquisition and investment opportunities and therefore adversely affect our ability to execute our business strategies.

We believe that access to information about hotel investment opportunities known to Marriott gives us a competitive advantage by providing us with knowledge about a potential investment opportunity before it has been widely marketed. Therefore, while we expect that this competitive advantage will lead to favorable investments, we cannot assure you that this "first look" will result in the acquisition of any future hotels or provide us with a competitive advantage.

Marriott may encourage us to enter into transactions or hotel management agreements that are not favorable to us.

Pursuant to our investment sourcing relationship with Marriott, we have pursued and intend to continue to pursue, hotel investment opportunities referred to us by Marriott, and we intend to work with Marriott as our preferred hotel management company. Marriott is paid a fee based on gross revenues at the hotels while we only benefit from operating profits at a hotel. It is possible that Marriott will encourage us to acquire a hotel which generates significant gross revenues, but little or no operating profits.

Marriott may also have short-term or long-term goals and objectives that conflict with our own, including the terms of the agreements under which our hotels are managed. These differences may be significant and may include the fees payable to Marriott, the term of any hotel management agreement, trade area restrictions with respect to competition by Marriott or its affiliates or differing policies, procedures or practices. As a result of these potentially differing objectives, Marriott may present to us, and we may invest in, hotel investment opportunities, and enter into management agreements, that are less favorable to us than other alternatives. If we do enter into below market management agreements, our returns on invested capital and operating results will suffer.

These differing objectives could result in deterioration in our relationship with Marriott and may adversely affect our ability to execute our business strategies, which in turn, would have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Our ownership of properties through ground leases exposes us to the risk that we may have difficulty financing such properties, may sell such properties for a lower price or may lose such properties upon breach or termination of the ground leases.

We acquired interests in three hotels (Bethesda Marriott Suites, Courtyard Manhattan/Fifth Avenue and the Salt Lake City Marriott Downtown), the parking lot associated with another hotel (Renaissance Worthington) and two golf courses associated with two additional hotels (Marriott Griffin Gate Resort and Oak Brook Hills Marriott Resort) by acquiring a leasehold interest in land underlying the property. We may acquire additional hotels in the future through the purchase of hotels subject to ground leases. In the past, from time to time, secured lenders have been unwilling to lend, or otherwise charged higher interest rates, for loans secured by a leasehold mortgage compared to loans secured by a fee simple mortgage. In addition, at any given time, investors may be disinterested in buying properties subject to a ground lease and may pay a lower price for such properties than for a comparable property in fee simple or they may not purchase such properties at any prices, so we may find that we will have a difficult time selling a property subject to a ground lease or may receive less proceeds from such sale. Finally, as lessee under ground leases, we are exposed to the possibility of losing the hotel, or a portion of the hotel, upon termination, or an earlier breach by us, of the ground lease, which could result in a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

Our existing indebtedness contains financial and operating covenants, such as net worth requirements, fixed charge coverage, debt ratios and other limitations which will restrict our ability to make distributions or other payments to our stockholders, sell all or substantially all of our assets and engage in mergers, consolidations and certain acquisitions. In addition, our existing indebtedness contains restrictions (including cash management provisions) that may under circumstances specified in the loan agreements prohibit our subsidiaries that own our hotels from making distributions or paying dividends, repaying loans to us or other subsidiaries or transferring any of their assets to us or another subsidiary. Failure to meet our financial covenants could result from, among other things, changes in our results of operations, the incurrence of debt or changes in general economic conditions. These covenants may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders. This could cause one or more of our lenders to accelerate the timing of payments and could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

There is refinancing risk associated with our debt.

Our typical debt contains limited principal amortization, therefore the vast majority of the principal must be repaid at the maturity of the loan in a so-called "balloon payment." At the maturity of these loans, assuming we do not have sufficient funds to repay the debt, we will need to refinance this debt. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates on refinancings, increases in interest expense will adversely affect our cash flow, and, consequently, our cash available for distribution to our stockholders. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of our hotels on disadvantageous terms, potentially resulting in losses that could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Higher interest rates could increase debt service requirements on our floating-rate debt and could reduce the amounts available for distribution to our stockholders, as well as reduce funds available from our operations, future investment opportunities or other purposes. We may obtain in the future one or more forms of interest rate protection in the form of swap agreements, interest rate cap contracts or similar agreements to "hedge" against the possible negative effects of interest rate fluctuations. However, we cannot assure you that any hedging will adequately mitigate the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations. In addition, we may be subject to risks of default by hedging counter-parties. Adverse economic conditions could also cause the terms on which we borrow to be unfavorable.

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

All of our indebtedness for borrowed money, except our credit facility, is secured by single property first mortgages on the applicable property. Our credit facility is secured by a mortgage on the Torrance Marriott and the Vail Marriott Mountain Resort & Spa and by certain pledges of our equity interests in certain of our subsidiary entities that own our properties. Should we default on any of the loans, the lender will be able to foreclose on the property pledged to the relevant lender under that loan.

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

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

Our current hotel management agreements are long-term and contain certain restrictions on selling our hotels, which may affect the value of our hotels.

The hotel management agreements that we have entered into with Marriott (and those we expect to enter into in the future) contain provisions restricting our ability to dispose of our hotels which, in turn, may have an adverse affect on the value of our hotels. Marriott's hotel management agreements generally prohibit the sale of a hotel to:

- certain competitors of Marriott;
- purchasers who are insufficiently capitalized; or
- purchasers who might jeopardize certain liquor or gaming licenses.

In addition, there are rights of first refusal in the hotel management agreement for the Salt Lake City Marriott Downtown and in both the franchise agreement and management agreement for the Vail Marriott Mountain Resort & Spa. These rights of first refusal might discourage certain purchasers from expending resources to conduct due diligence and making an offer to purchase these hotels from us, thus resulting in a lower sales price.

Finally, our current hotel management agreements contain initial terms ranging from fifteen to forty years and certain agreements have renewal periods, exercisable at the option of the property manager, of ten to forty-five years. Because our hotels would have to be sold subject to the applicable hotel management agreement, the term length of a hotel management agreement may deter some potential purchasers and could adversely impact the price realized from any such sale. To the extent we receive less sale proceeds, we could experience a material adverse effect on our business financial conditions, results of operations and our ability to make distributions to stockholders.

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

In order to assign or transfer our rights and obligations under certain of our mortgage agreements, we generally must:

- obtain the consent of the lender;
- pay a fee equal to a fixed percentage of the outstanding loan balance; and
- pay any costs incurred by the lender in connection with any such assignment or transfer.

These provisions of our mortgage agreements may limit our ability to sell our hotels which, in turn, could adversely impact the price realized from any such sale. To the extent we receive less sale proceeds, we could experience a material adverse effect on our business financial conditions, results of operations and our ability to make distributions to stockholders.

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

Our ground lease agreements with respect to Bethesda Marriott Suites and Salt Lake City Marriott Downtown require the consent of the lessor for assignment or transfer. These provisions of our ground leases may limit our ability to sell our hotels which, in turn, could adversely impact the price realized from any such sale. In addition, at any given time, investors may be disinterested in buying properties subject to a ground lease and may pay a lower price for such properties than for a comparable property in fee simple or they may not purchase such properties at any price. Accordingly, we may find it difficult to sell a property subject to a ground lease or may receive less proceeds from any such sale. To the extent we receive less sale proceeds, we could experience a material adverse effect on our business financial conditions, results of operations and our ability to make distributions to stockholders.

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

One component of our business strategy is expansion through acquisitions, and we may not be successful in identifying or completing acquisitions that are consistent with our strategy. We compete with institutional pension funds, private equity investors, REITs, hotel companies and others who are engaged in the acquisition of hotels. This competition for hotel investments may increase the price we pay for hotels and these competitors may succeed in acquiring those hotels that we seek to acquire. Furthermore, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater financial resources, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities competing for suitable hotels may increase in the future, which would increase demand for these hotels and the prices we must pay to acquire them. If we pay higher prices for hotels, our returns on investment and profitability may be reduced. Also, future acquisitions of hotels or hotel companies may not yield the returns we expect and may result in stockholder dilution.

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

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

Noncompliance with governmental regulations could adversely affect our operating results.

Environmental matters.

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

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

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

We may face liability regardless of:

- our knowledge of the contamination;
- the timing of the contamination;
- the cause of the contamination; or
- the party responsible for the contamination of the property.

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

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

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

Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. Compliance with the ADA's requirements could require removal of access barriers, and non-compliance could result in the U.S. government imposing fines or private litigants winning damages. If we are required to make substantial modifications to our hotels, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations and ability to make distributions to our stockholders could be adversely affected.

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

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

If the hotel market declines, it may adversely affect our ability to execute our business strategies, which, in turn, would adversely affect our ability to make distributions to our stockholders.

Our business strategy is focused in the hotel industry, and we cannot assure you that hotel industry fundamentals will not decline from current conditions. Economic slowdown and world events outside our control, such as natural disasters and terrorism, have adversely affected the hotel industry in the recent past and a reoccurrence of these events may adversely affect the industry in the future. In the event of a decline in the hotel market, our ability to execute our business strategies will be adversely affected, which, in turn, would have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

We currently maintain a target debt-to-enterprise value ratio of 45% to 55%. Enterprise value is calculated as our market capitalization plus net debt. Our board of directors, however, may change or eliminate this target leverage ratio at any time without the approval of our stockholders. In the future, we and our subsidiaries may be able to incur substantial additional debt, including secured debt. Incurring such debt could subject us to many risks, including the risks that:

- our cash flow from operations will be insufficient to make required payments of principal and interest;

- we may be more vulnerable to adverse economic and industry conditions;
- we may be required to dedicate a substantial portion of our cash flow from operations to the repayment of our debt, thereby reducing the cash available for distribution to our stockholders, funds available for operations and capital expenditures, future investment opportunities or other purposes;
- the terms of any refinancing may not be as favorable as the terms of the debt being refinanced; and
- the use of leverage could adversely affect our stock price and the ability to make distributions to our stockholders.

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

If we obtain debt in the future and do not have sufficient funds to repay our debt at maturity, it may be necessary to refinance this debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates on refinancings, increases in interest expense could adversely affect our cash flow, and, consequently, our cash available for distribution to our stockholders. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of our hotel properties on disadvantageous terms, potentially resulting in losses adversely affecting cash flow from operating activities. In addition, we may place mortgages on our hotel properties to secure our line of credit or other debt. To the extent we cannot meet these debt service obligations, we risk losing some or all of those properties to foreclosure. Additionally, our debt covenants could impair our planned strategies and, if violated, result in a default of our debt obligations.

Higher interest rates could increase debt service requirements on our floating rate debt and could reduce the amounts available for distribution to our stockholders, as well as reduce funds available for our operations, future investment opportunities or other purposes. We may obtain in the future one or more forms of interest rate protection in the form of swap agreements, interest rate cap contracts or similar agreements to "hedge" against the possible negative effects of interest rate fluctuations. However, we cannot assure you that any hedging will adequately mitigate the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations. In addition, we may be subject to risks of default by hedging counter-parties. Adverse economic conditions could also cause the terms on which we borrow to be unfavorable.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more hotel properties or investments in our portfolio in response to changing economic, financial and investment conditions may be limited. The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in international, national, regional and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;

- changes in operating expenses; and

- civil unrest, acts of God, including earthquakes, floods and other natural disasters and acts of war or terrorism, including the consequences of terrorist acts such as those that occurred on September 11, 2001, which may result in uninsured losses.

We may decide to sell our hotel properties in the future. We cannot predict whether we will be able to sell any hotel property or investment for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a hotel property or loan.

We may be required to expend funds to correct defects or to make improvements before a hotel property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a hotel property, we may agree to lock-out provisions that materially restrict us from selling that hotel property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that hotel property. These facts and any others that would impede our ability to respond to adverse changes in the performance of our hotel properties could have a material adverse effect on our operating results and financial condition, as well as our ability to make distributions to stockholders.

A portion of our revenues may be attributable to operations outside of the United States, which will subject us to different legal, monetary and political risks, as well as currency exchange risks, and may cause unpredictability in a significant source of our cash flows that could adversely affect our ability to make distributions to our stockholders.

We may acquire selective hotel properties outside of the United States. International investments and operations generally are subject to various political and other risks that are different from and in addition to risks in U.S. investments, including:

- the enactment of laws prohibiting or restricting the foreign ownership of property;

- laws restricting us from removing profits earned from activities within the foreign country to the United States, including the payment of distributions, i.e., nationalization of assets located within a country;

- variations in the currency exchange rates, mostly arising from revenues made in local currencies;

- change in the availability, cost and terms of mortgage funds resulting from varying national economic policies;

- changes in real estate and other tax rates and other operating expenses in particular countries; and

- more stringent environmental laws or changes in such laws.

In addition, currency devaluations and unfavorable changes in international monetary and tax policies could have a material adverse effect on our profitability and financing plans, as could other changes in the international regulatory climate and international economic conditions. Liabilities arising from differing legal, monetary and political risks as well as currency fluctuations could adversely affect our financial condition, operating results and our ability to make distributions to our stockholders. In addition, the requirements for qualifying as a REIT limit our ability to earn gains, as determined for federal income tax purposes, attributable to changes in currency exchange rates. These limitations may significantly limit our ability to invest outside of the United States or impair our ability to qualify as a REIT.

Any properties we invest in outside of the United States may be subject to foreign taxes.

We may invest in additional hotel properties located outside the United States. Jurisdictions outside the United States will generally impose taxes on our hotel properties and our operations within their jurisdictions. To the extent possible, we will structure our investments and activities to minimize our foreign tax liability, but we will likely incur foreign taxes with respect to non-U.S. properties. Moreover, the requirements for qualification as a REIT may preclude us from always using the structure that minimizes our foreign tax liability. Furthermore, as a REIT, we and our stockholders will derive little or no benefit from the foreign tax credits arising from the foreign taxes we pay. As a result, foreign taxes we pay will reduce our income and available cash flow from our foreign hotel properties, which, in turn, could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Seasonality of the hotel business can be expected to cause quarterly fluctuations in our earnings.

The hotel industry is seasonal in nature. Generally, our earnings are higher in the third and fourth quarters. As a result, we may have to enter into short-term borrowings in our first and second quarters in order to offset these fluctuations in earnings and to make distributions to our stockholders.

Risks Related to Our Status as a REIT

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

We will elect, and believe we are qualified, to be taxed as a REIT for our taxable year ended December 31, 2005, and we expect to continue to qualify as a REIT for future taxable years, but we cannot assure you that we have qualified, or will remain qualified, as a REIT.

The REIT qualification requirements are extremely complex and official interpretations of the federal income tax laws governing qualification as a REIT are limited. Certain aspects of our REIT qualification are beyond our control. For example, we will fail to qualify as a REIT if one of our hotel managers acquires directly or constructively more than 35% of our stock. Accordingly, we cannot be certain that we will be successful in operating so that we can remain qualified as a REIT. At any time, new laws, interpretations, or court decisions may change the federal tax laws or the federal income tax consequences of our qualification as a REIT.

Moreover, our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT.

If we fail to qualify as a REIT and do not qualify for certain statutory relief provisions, or otherwise cease to be a REIT, we will be subject to federal income tax on our taxable income. We might need to borrow money or sell assets in order to pay any such tax. Unless we were entitled to relief under certain federal income tax laws, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT.

Maintaining our REIT qualification contains certain restrictions and drawbacks.

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

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

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

In order to remain qualified as a REIT, we cannot operate our hotels or participate in the decisions that affect the daily operations of our hotels. Our TRS lessees must therefore enter into third-party hotel management agreements with one or more eligible independent contractors (including Marriott).

Under the terms of the hotel management agreements that we have entered into with Marriott (or its affiliates), or will enter into in the future with Marriott or other third-party hotel management companies, our ability to participate in operating decisions regarding our hotels will be limited. We currently rely and will continue to rely on these hotel management companies to adequately operate our hotels under the terms of the hotel management agreements. We do not have the authority to require any hotel to be operated in a particular manner or to govern any particular aspect of its operations (for instance, setting room rates). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, ADRs and operating profits, we may not have sufficient rights under our hotel management agreements to enable us to force the hotel management company to change its method of operation. We can only seek redress if a hotel management company violates the terms of the applicable hotel management agreement with the TRS lessee, and then only to the extent of the remedies provided for under the terms of the hotel management agreement. Our current management agreements are generally non-terminable, subject to certain exceptions for cause, and in the event that we need to replace any of our hotel management companies pursuant to termination for cause, we may experience significant disruptions at the affected properties, which may have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Failure to make required distributions would subject us to tax.

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

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

Bloodstone TRS, Inc. and any other of our domestic TRSs are subject to federal and state income tax on their taxable income. The taxable income of our TRS lessees is included in the taxable income of Bloodstone TRS, Inc. and currently consists and generally will continue to consist of revenues from the hotels leased by our TRS lessees plus, in certain cases, Key Money payments (amounts paid to us by a hotel management company in exchange for the right to manage a hotel we acquire), net of the operating expenses for such properties and rent payments to us. Such taxes could be substantial. Our non-U.S. TRSs also may be subject to tax in jurisdictions where they operate.

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

You may be restricted from transferring our common stock.

In order to maintain our REIT qualification, among other requirements, no more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal income tax laws to include various kinds of entities) during the last half of any taxable year (other than the first year for which a REIT election is made). In addition, the REIT rules generally prohibit a manager of one of our hotels from owning, directly or indirectly, more than 35% of our stock and a person who holds 35% or more of our stock from also holding, directly or indirectly, more than 35% of any such hotel management company. To qualify for and preserve REIT status, our charter contains an aggregate share ownership limit and a common share ownership limit. Generally, any shares of our stock owned by affiliated owners will be added together for purposes of the aggregate share ownership limit, and any shares of common stock owned by affiliated owners will be added together for purposes of the common share ownership limit.

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

Risks Related to Our Organization and Structure

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

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

Our charter also authorizes our board of directors to issue up to 100,000,000 shares of common stock and up to 10,000,000 shares of preferred stock, to classify or reclassify any unissued shares of common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares. Furthermore, our board of directors may, without any action by the stockholders, amend our charter from time to time to increase or decrease the aggregate number of shares of stock of any class or series that we have authority to issue. Issuances of additional shares of stock may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium to the market price of our common stock or otherwise be in our stockholders' best interests.

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

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

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

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

Additionally, Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to take certain actions that may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium to the market price of our common stock or otherwise be in our stockholders' best interests.

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

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

Risks Related to the Offering

Certain of the underwriters of this offering have interests in this offering other than underwriting discounts and commissions.

Wachovia Capital Markets, LLC and Citigroup Global Markets Inc., each an underwriter of this offering, have interests in the successful completion of this offering beyond the underwriting discounts and commissions they expect to receive. On July 8, 2005, we entered into a three-year, $75 million senior secured revolving credit facility from Wachovia Bank, National Association (an affiliate of Wachovia Capital Markets, LLC), as administrative agent under the credit facility, and Citicorp North America, Inc. (an affiliate of Citigroup Global Markets Inc.) and Bank of America, N.A., as co-syndication agents under the credit facility. Our operating partnership is the borrower under the credit facility. We will use a portion of the net proceeds of this offering to repay borrowings under the credit facility. We expect to enter into a short-term floating-rate loan for up to $100 million with Wachovia Bank, National Association in connection with the acquisition of the Chicago Marriott Downtown Magnificent Mile. In the event we borrow such money, we will repay the loan with a portion of the net proceeds of this offering.

Risk of future dilution.

As hotel acquisition opportunities arise from time to time, we may issue additional shares of common stock or preferred stock to raise the capital necessary to finance the hotel acquisitions or may issue common stock or preferred stock or partnership units, which are redeemable on a one-to-one basis for our common stock, to acquire hotels. Such issuances could result in dilution of shareholders' equity.

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

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

FORWARD-LOOKING STATEMENTS

We make statements in this prospectus that are forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, our pro forma financial statements and all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as "believe," "expect," "may," "will," "should," "seek," "approximately," "intend," "plan," "pro forma," "estimate" or "anticipate" or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, market statistics, or intentions.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- the factors discussed in this prospectus, including without limitation those set forth under the sections titled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Our Business," and "Our Properties";
- difficulties in completing acquisitions, in particular, the Chicago Marriott;
- our failure to obtain necessary outside financing;
- adverse economic or real estate developments in our markets;
- general economic conditions;
- the degree and nature of our competition;
- increased interest rates and operating costs;
- difficulties in identifying properties to acquire;
- availability of and our ability to retain qualified personnel;
- our failure to qualify or maintain our status as a REIT;
- changes in our business or investment strategy;
- availability, terms and deployment of capital;
- general volatility of the capital markets and the market price of our common stock;

- environmental uncertainties and risks related to natural disasters;
- changes in foreign currency exchange rates; and
- changes in real estate and zoning laws and increases in real property tax rates.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. You should carefully consider this risk when you make an investment decision concerning our common stock. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section above entitled "Risk Factors."

USE OF PROCEEDS

We intend to issue 14,000,000 shares of our common stock or 16,100,000 shares of our common stock if the underwriters' over-allotment option is exercised in full.

After deducting the underwriting discount and commissions and estimated expenses of this offering, we expect net proceeds from this offering of approximately $172.6 million or approximately $198.7 million if the underwriters' over-allotment option is exercised in full.

We will contribute the net proceeds from this offering to our operating partnership. Our operating partnership intends to use the net proceeds as follows:

- to repay approximately $82.5 million, which we expect to borrow under the short-term loan from Wachovia Bank, National Association, the proceeds of which will be used to fund the acquisition of the Chicago Marriott;

- to fund approximately $54.1 million of 2006 owner-funded capital expenditures at our hotel properties; and

- to repay approximately $36 million of outstanding borrowings under our senior secured credit facility.

Amounts drawn under the credit facility bear interest at a variable rate that fluctuates based on the level of outstanding indebtedness in relation to the value of our assets from time to time. The weighted-average interest rate as of December 31, 2005 on the credit facility was 5.7575%. The credit facility expires on July 8, 2008, subject to a one-year extension option and is funded by Wachovia Bank, National Association (an affiliate of Wachovia Capital Markets, LLC), Citicorp North America, Inc. (an affiliate of Citigroup Global Markets Inc.) and Bank of America, N.A.

The short-term loan of up to $100 million from Wachovia Bank, National Association, will have a 90-day term with two 45-day extension periods and bears interest at an interest rate equal to LIBOR plus 145 basis points.

In the event that the underwriters exercise any or all of their over-allotment, we expect to use the additional net proceeds for general corporate purposes.

Pending these uses, we intend to invest the net proceeds in interest-bearing, short-term investment grade securities or money-market accounts that are consistent with our intention to qualify as a REIT. Such investments may include, for example, government and government agency certificates, interest-bearing bank deposits and mortgage loan participations.

DIVIDEND POLICY AND DISTRIBUTIONS

We intend to continue to generally distribute to our stockholders each year on a regular quarterly basis sufficient amounts of our REIT taxable income so as to avoid paying corporate income tax and excise tax on our earnings (other than the earnings of our TRS and TRS lessees, which are all subject to tax at regular corporate rates) and to qualify for the tax benefits afforded to REITs under the Code. In order to qualify as a REIT under the Code, we generally must make distributions to our stockholders each year in an amount equal to at least:

90% of our REIT taxable income determined without regard to the dividends paid deduction, plus

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

any excess non-cash income.

See "Federal Income Tax Considerations."

In 2005, we commenced paying dividends equal to an annualized rate of $0.69 per share following our initial public offering in May 2005. In 2005, we paid our stockholders of record a pro rated dividend of $0.0326 for the portion of the second quarter following our initial public offering, and full quarterly dividends of $0.1725 per share for each of the third and fourth quarters, respectively. On February 28, 2006, our board of directors declared an increase in the quarterly dividend for the first quarter of 2006. On April 11, 2006, a cash dividend of $0.18 per share will be paid to stockholders of record as of March 24, 2006. Purchasers in this offering will not receive the April dividend.

The actual amount, timing and frequency of our distributions will be at the discretion of, and authorized by, our board of directors and will depend on our actual results of operations and actual cash flow as well as projected future cash needs as well as other factors that our board of directors may deem relevant.

In addition, our ability to make distributions to our stockholders will depend, in part, upon the amount of distributions we receive from our operating partnership, DiamondRock Hospitality Limited Partnership, which will depend upon the amount of lease payments received from our TRS lessees, and, in turn, upon the management of our hotels by third party hotel management companies, who operate our hotels. Our credit facility has a covenant limiting our maximum REIT dividend payout to 100% of our cash available for distribution during any four-quarter period (subject to dividend payments necessary to preserve our REIT status).

To the extent not inconsistent with maintaining our REIT status, we may retain earnings of our TRS and TRS lessees in those subsidiaries, and such amount of cash would not be available to satisfy the 90% distribution requirement. If our cash available for distribution to our stockholders is less than 90% of our REIT taxable income, we could be required to sell assets or borrow funds to make distributions. To the extent our annual distribution is in excess of 100% of our estimated cash available for distribution, we will use existing cash or short-term borrowings to fund any such shortfall. Dividend distributions to our stockholders will generally be taxable to our stockholders as ordinary income to the extent of our current or accumulated earnings and profits. Because a significant portion of our investments are equity ownership interests in hotels, which results in depreciation and non-cash charges against our income, a portion of our distributions may constitute a tax-free return of capital. Finally, we cannot assure you that we will have cash available for distributions to our stockholders.

CAPITALIZATION

The following table sets forth:

- our actual capitalization as of December 31, 2005; and

- our as adjusted capitalization giving effect to:

  (i) the incurrence of $220 million of debt in connection with the probable acquisition of the Chicago Marriott;

  (ii) the repayment of $36 million of outstanding debt under our credit facility, as described in "Use of Proceeds;"

  (iii) the sale of our common stock in this offering, excluding shares of common stock that may be issued by us upon exercise of the underwriters' over-allotment option; and

  (iv) the expenditure of $54.1 million of owner-funded capital expenditures at our hotel properties.

	As of December 31, 2005	
	Actual	As Adjusted
Cash and cash equivalents	$ 9,431,741	$ 23,431,741
Total debt (1)	431,177,057	639,177,057
Shareholders' equity		
Preferred stock, $.01 par value per share, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, $.01 par value per share, 100,000,000 shares authorized, 50,819,864 shares issued and outstanding; 64,819,864 shares issued and outstanding, as adjusted after this offering(2)	508,199	648,199
Additional paid-in capital	491,951,223	664,432,923
Accumulated deficit	(29,070,994)	(29,070,994)
Total shareholders' equity	463,388,428	636,010,128
Total capitalization	$ 894,565,485	$ 1,275,187,185

(1) Excludes $28 million of additional debt incurred in connection with the refinancing of the mortgage debt of the Courtyard Manhattan/Fifth Avenue.

(2) Excludes 2,100,000 shares of common stock that may be issued by us upon exercise of the underwriters' over-allotment option, 747,000 unvested restricted shares of our common stock issued to our executive officers and other employees pursuant to our equity incentive plan, 389,333 vested shares of deferred common stock issued to our senior executive officers in connection with our initial public offering and 829,667 shares of common stock available for future awards under our equity incentive plan.

DILUTION

Net Tangible Book Value

At December 31, 2005, we had a combined net tangible book value of approximately $463.4 million, or $9.12 per share ($8.83 per share giving effect to shares available for future grants of restricted shares). Net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of our common stock outstanding.

Dilution After This Offering

Purchasers of our common stock will experience an immediate dilution of the net tangible book value of our common stock from the public offering price set forth on the cover page of this prospectus. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of common stock in this offering and the net tangible book value per share of common stock immediately after this offering and the application of the estimated net offering proceeds. After giving effect to the sale of the shares of our common stock offered by us under this prospectus at the offering price of $13.02 per share and the deduction of underwriting discounts and estimated offering expenses, our pro forma net tangible book value at December 31, 2005 would have been $635.8 million, or approximately $9.81 per share of our common stock. This amount represents an immediate increase in net tangible book value of $0.69 per share to our existing stockholders and an immediate dilution in pro forma net tangible book value of $3.21 per share from the offering price of $13.02 per share of our common stock to new investors. The following table illustrates this per share dilution:

Offering price per share	$	13.02
Historic net tangible book value per share at December 31, 2005(1)		9.12
Increase in pro forma net tangible book value per share attributable to this offering(2)		0.69
Pro forma net tangible book value per share after this offering(3)		9.81
Dilution in pro forma net tangible book value per share to investors in this offering(4)	$	3.21

(1) Net tangible book value per share of common stock is determined by dividing net tangible book value at December 31, 2005 by the number of shares of common stock outstanding prior to this offering. Net tangible book value is equal to total stockholders' equity.

(2) After deducting underwriting discounts, commissions and other expenses of this offering.

(3) Based on the pro forma net tangible book value attributable to common stockholders of approximately $635.8 million divided by the sum of shares of our common stock to be outstanding after giving effect to this offering.

(4) Dilution is determined by subtracting (i) pro forma net tangible book value per share of our common stock after giving effect to this offering and the application of the net proceeds from (ii) the offering price per share paid by an investor in this offering.

SELECTED HISTORICAL AND PRO FORMA FINANCIAL AND OPERATING DATA

We present in this prospectus certain historical and pro forma financial data. We also present certain operational data and non-U.S. generally accepted accounting principles, or GAAP, financial measures on a historical and pro forma basis.

The selected historical financial information as of and for the year ended December 31, 2005 and as of December 31, 2004 and the period from May 6, 2004 (inception) to December 31, 2004, has been derived from our historical financial statements audited by KPMG LLP, independent registered public accounting firm, whose report with respect to such financial information is included elsewhere in this prospectus. The summary historical financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements as of and for the year ended December 31, 2005 and as of December 31, 2004 and for the period from May 6, 2004 (inception) to December 31, 2004, and the related notes.

The unaudited pro forma consolidated balance sheet data as of December 31, 2005 is based on the historical consolidated balance sheet as of December 31, 2005, as adjusted to assume that the following occurred on December 31, 2005:

- The acquisition of the Chicago Marriott;
- Proceeds from $220 million mortgage debt related to the acquisition of the Chicago Marriott;
- Repayment of the $12 million outstanding as of December 31, 2005 under our senior credit facility with the proceeds of this offering;
- The refinancing of the $23 million variable rate mortgage debt on the Courtyard Manhattan/Fifth Avenue with $51 million of fixed rate mortgage debt; and
- The offering of 14,000,000 shares of our common stock at $13.02 per share, with approximately $172.6 million of net proceeds to us.

The unaudited pro forma consolidated statement of operations and other data for the year ended December 31, 2005 are presented as if the following had occurred on January 1, 2005:

- Our 2005 acquisitions of the Torrance Marriott, the Vail Marriott Mountain Resort & Spa, the Capital Hotel Investment Portfolio, the Oak Brook Hills Marriott Resort, the Orlando Airport Marriott and the Chicago Marriott;
- Our borrowings under (i) the $62.5 million mortgage debt on the Frenchman's Reef & Morning Star Marriott Beach Resort, (ii) the $82.6 million mortgage debt on the Marriott Los Angeles Airport, (iii) the $57.4 million mortgage debt on the Renaissance Worthington Hotel, (iv) the $59 million mortgage debt on the Orlando Airport Marriott and (v) the $220 million mortgage debt on the Chicago Marriott;
- $12 million of draws under our senior credit facility;
- Repayment of the $12 million outstanding as of December 31, 2005 under our senior credit facility with the proceeds of this offering;
- The refinancing of the $23 million variable rate mortgage debt on the Courtyard Manhattan/Fifth Avenue with $51 million of fixed rate mortgage debt; and

The offering of 14,000,000 shares of our common stock at $13.02 per share, with approximately $172.6 million of net proceeds to us.

The adjustments to the pro forma financial information as of and for the year ended December 31, 2005 are also discussed under "Unaudited Pro Forma Financial Data." The pro forma statement of operations for the year ended December 31, 2005 excludes the pre-acquisition operating results of the SpringHill Suites Atlanta Buckhead since it was opened on July 1, 2005 and has no historical operating results. The accompanying pro forma financial information reflects the preliminary application of purchase accounting to the acquisitions of the Vail Marriott Mountain Resort & Spa, the Capital Hotel Investment Portfolio, the Oak Brook Hills Marriott Resort, the Orlando Airport Marriott and the Chicago Marriott. The preliminary purchase accounting may be adjusted if any of the assumptions underlying the purchase accounting change. The pro forma information is not necessarily indicative of what our actual financial position or results of operations would have been as of the dates or for the periods indicated, nor does it purport to represent our future financial position or results of operations.

We present the following two non-GAAP financial measures throughout this prospectus that we believe are useful to investors as key measures of our operating performance: (1) EBITDA; and (2) FFO.

EBITDA represents net income (loss) excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; and (3) depreciation and amortization. We believe EBITDA is useful to an investor in evaluating our operating performance because it helps investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization) from our operating results. We also use EBITDA as one measure in determining the value of hotel acquisitions and dispositions.

We compute FFO in accordance with standards established by NAREIT, which defines FFO as net income (loss) (determined in accordance with GAAP), excluding gains (losses) from sales of property, plus depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures (which are calculated to reflect FFO on the same basis). We believe that the presentation of FFO provides useful information to investors regarding our operating performance because it is a measure of our operations without regard to specified non-cash items, such as real estate depreciation and amortization and gain or loss on sale of assets. We also use FFO as one measure in determining our results after taking into account the impact of our capital structure.

Amounts presented in accordance with our definitions of EBITDA and FFO may not be comparable to similar measures disclosed by other companies, as not all companies calculate these non-GAAP measures in the same manner. EBITDA and FFO should not be considered as an alternative measure of our net income (loss), operating performance, cash flow or liquidity. EBITDA and FFO may include funds that may not be used for our discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions and other commitments or uncertainties. Although we believe that EBITDA and FFO can enhance your understanding of our results of operations, these non-GAAP financial measures, when viewed individually, are not necessarily better indicators of any trend as compared to GAAP measures such as net income (loss) or cash flow from operations. In this section and under "Selected Historical and Pro Forma Historical and Pro Forma Financial and Operating Data," we include a quantitative reconciliation of EBITDA and FFO to the most directly comparable GAAP financial performance measure, which is net income (loss).

	Historical		Pro Forma
	Year Ended December 31, 2005	Period from May 6, 2004 to December 31, 2004	Year Ended December 31, 2005
Statement of operations data:			
Revenues:			
Rooms	$ 151,755,924	$ 5,137,370	$ 281,603,911
Food and beverage	63,261,282	1,507,960	129,705,682
Other	14,433,057	428,534	25,716,615
Total revenues	229,450,263	7,073,864	437,026,208
Operating costs and expenses:			
Rooms	37,432,635	1,455,380	67,575,558
Food and beverage	47,281,237	1,266,827	90,122,611
Other hotel expenses and management fees	96,555,386	3,444,683	174,886,542
Corporate expenses	13,461,528	4,114,165	13,461,528
Depreciation and amortization	27,590,234	1,053,283	50,296,141
Total operating expenses	222,321,020	11,334,338	396,342,380
Operating income (loss)	7,129,243	(4,260,474)	40,683,828
Interest income	(1,548,635)	(1,333,837)	(1,548,635)
Interest expense	17,367,079	773,101	38,643,715
Income (loss) before income taxes	(8,689,201)	(3,699,738)	3,588,748
Income tax benefit	1,353,261	1,582,113	576,734
Net income (loss)	$ (7,335,940)	$ (2,117,625)	$ 4,165,482
Earnings (loss) per share basic and diluted	$ (0.19)	$ (0.12)	$ 0.06
Dividends declared per share	$ 0.38	$	$
FFO(1)	$ 20,254,294	$ (1,064,342)	$ 54,461,623
EBITDA(2)	$ 36,268,112	$ (1,873,354)	$ 92,528,604

	Historical		Pro Forma
	As of December 31, 2005	As of December 31, 2004	As of December 31, 2005
Balance sheet data:			
Property and equipment, net	$ 870,562,399	$ 285,642,439	$ 1,263,362,399
Cash and cash equivalents	9,431,741	76,983,107	104,553,441
Total assets	966,012,282	391,691,179	1,458,179,114
Total debt	431,177,057	180,771,810	667,177,057
Total other liabilities	71,446,797	15,331,951	155,246,797
Shareholders' equity	463,388,428	195,587,418	635,755,260

(1)

FFO, as defined by NAREIT, is net income (loss) determined in accordance with GAAP, excluding gains (losses) from sales of property, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures (which are calculated to reflect FFO on the same basis). The calculation of FFO may vary from entity to entity, thus our presentation of FFO may not be comparable to other similarly titled measures of other reporting companies. FFO is not intended to represent cash flows for the period. FFO has not been presented as an alternative to operating income, but as an indicator of operating performance, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

FFO is a supplemental industry-wide measure of REIT operating performance, the definition of which was first proposed by NAREIT in 1991 (and clarified in 1995, 1999 and 2002). Since the introduction of the definition by NAREIT, the term has come to be widely used by REITs. Historical GAAP cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical GAAP cost accounting to be insufficient by themselves. Accordingly, we believe FFO (combined with our primary GAAP presentations) help improve our stockholders' ability to understand our operating performance. We only use FFO as a supplemental measure of operating performance. The following is a reconciliation between net loss and FFO:

	Historical		Pro Forma
	Year Ended December 31, 2005	Period from May 6, 2004 to December 31, 2004	Year Ended December 31, 2005
Net income (loss)	$ (7,335,940)	$ (2,117,625)	$ 4,165,482
Real estate related depreciation and amortization	27,590,234	1,053,283	50,296,141
FFO	$ 20,254,294	$ (1,064,342)	$ 54,461,623

(2)

EBITDA is defined as net income (loss) before interest, taxes, depreciation and amortization. We believe it is a useful financial performance measure for us and for our stockholders and is a complement to net income and other financial performance measures provided in accordance with GAAP. We use EBITDA to measure the financial performance of our operating hotels because it excludes expenses such as depreciation and amortization, taxes and interest expense, which are not indicative of operating performance. By excluding interest expense, EBITDA measures our financial performance irrespective of our capital structure or how we finance our properties and operations. By excluding depreciation and amortization expense, which can vary from hotel to hotel based on a variety of factors unrelated to the hotels' financial performance, we can more accurately assess the financial performance of our hotels. Under GAAP, hotels are recorded at historical cost at the time of acquisition and are depreciated on a straight-line basis. By excluding depreciation and amortization, we believe EBITDA provides a basis for measuring the financial performance of hotels unrelated to historical cost. However, because EBITDA excludes depreciation and amortization, it does not measure the capital we require to maintain or preserve our fixed assets. In addition, because EBITDA does not reflect interest expense, it does not take into account the total amount of interest we pay on outstanding debt nor does it show trends in interest costs due to changes in our borrowings or changes in interest rates. EBITDA, as calculated by us, may not be comparable to EBITDA reported by other companies that do not define EBITDA exactly as we define the term. Because we use EBITDA to evaluate our financial performance, we reconcile it to net income (loss) which is the most comparable financial measure calculated and presented in accordance with GAAP. EBITDA does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity. The following is a reconciliation between net income (loss) and EBITDA:

	Historical		Pro Forma
	Year Ended December 31, 2005	Period from May 6, 2004 to December 31, 2004	Year Ended December 31, 2005
Net income (loss)	$ (7,335,940)	$ (2,117,625)	$ 4,165,482
Interest expense	17,367,079	773,101	38,643,715
Income tax benefit	(1,353,261)	(1,582,113)	(576,734)
Depreciation and amortization	27,590,234	1,053,283	50,296,141
EBITDA	$ 36,268,112	$ (1,873,354)	$ 92,528,604

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements about our business. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Forward-Looking Statements" and "Risk Factors" contained elsewhere in this prospectus.

Overview

We are a self-advised real estate company. We are committed to maximizing shareholder value through investing in premium full-service hotels and, to a lesser extent, premium urban select-service hotels. We will own sixteen hotels comprising 7,311 rooms upon completion of our recently announced hotel acquisition in downtown Chicago. These hotels have an aggregate projected investment of approximately $1.3 billion and are geographically diversified across major markets in the United States.

We differentiate ourselves through our:

- Proven acquisition capability;
- Aggressive asset management;
- Conservative capital structure; and
- Experienced senior management team.

Proven Acquisition Capability

Since we completed our first acquisition in October 2004, we have acquired, or have under contract to acquire, sixteen premium hotels. We have acquired eleven of these hotels in off-market transactions, meaning that they were not made generally available to other companies. We intend to make additional acquisitions that meet our stringent underwriting criteria. Consistent with this strategy, on March 1, 2006, we signed a purchase agreement to acquire the 1,192 room Chicago Marriott at 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. We believe that the current environment presents an excellent opportunity to acquire hotels based on our view that lodging industry fundamentals are currently strong and will remain strong for some time to come.

Generally, we invest in hotels that we believe are priced below replacement costs and are located in markets with attractive growth prospects and high barriers to entry. We are focused on acquiring premium full-service hotels located throughout North America and, to a lesser extent, premium select-service hotels in urban locations.

We believe we have a competitive advantage in acquiring hotels through our unique investment sourcing relationship with Marriott, a leading worldwide hotel brand, franchise and management company. Our investment sourcing relationship with Marriott provides us, subject to certain limitations, with a "first look" at hotel acquisition and investment opportunities known to Marriott. As a result of Marriott's extensive network, relationships and knowledge, we have preferred access to a unique source of hotel investment opportunities, many of which may not be available to other hospitality companies. Since our formation in May 2004, Marriott has provided us with access to several billion dollars of off-market acquisition opportunities. Our relationship with Marriott has facilitated the acquisition of eight of our hotels, including the Marriott Griffin Gate Resort and The Lodge at Sonoma, a Renaissance Resort & Spa, both of which we acquired directly from Marriott.

Aggressive Asset Management

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

Our senior management team has established a broad network of hotel industry contacts and relationships, including relationships with hotel owners, financiers, operators, project managers and contractors and other key industry participants. In particular, we believe that we are unique in having a senior management team, most of whom worked for many years at Marriott, with very deep knowledge of Marriott's organization and processes, which gives us insight in how best to work with Marriott to deliver superior returns at our hotels.

Our philosophy is to negotiate management agreements that give us the right to exert significant influence (but not day-to-day control) over the management of our properties, annual budgets and all capital expenditures, and then to use those rights to continually monitor and improve the performance of our properties. We cooperatively partner with the managers of our hotels in an attempt to increase operating results and long-term asset values at our hotels. In addition to working directly with the personnel at our hotels, our senior management team also has long-standing professional relationships with our hotel managers' senior executives and we work directly with these senior executives to improve the performance of our portfolio.

We believe we can create significant value in our portfolio through innovative asset management strategies such as rebranding, renovating or repositioning. We are committed to regularly evaluating our portfolio to determine if we can employ these value-added strategies at our hotels. We have rebranded two of our properties, including one in which we converted an independently branded hotel to a Marriott brand, which contributed to a 31% increase in revenues and significantly increased operating margins at the hotel in 2005 compared to pro forma 2004. We also have budgeted to spend approximately $84 million in 2006 on identified value-added capital investment opportunities at our existing hotels. The opportunities range from room renovation (Courtyard Manhattan/Midtown East, Los Angeles Airport Marriott, Bethesda Marriott Suites) to a total renovation and repositioning of the hotel (Torrance Marriott and Oak Brook Hills Marriott Resort). In connection with our planned renovations and repositionings, our senior management team and our asset managers are individually committed to completing these renovations on time, on budget and with a minimal disruption at our hotels. We are optimistic that, when completed, these renovations will enable us to achieve higher rates and greater demand for our hotels.

Conservative Capital Structure

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

As of December 31, 2005, more than 90% of our debt carried fixed interest rates, with a weighted-average interest rate of 5.6%, and a weighted-average maturity date in excess of 8 years. As of December 31, 2005, we had $428.4 million of debt outstanding, representing a debt-to-enterprise value ratio of 41%. After giving effect to this offering, including the acquisition of the Chicago Marriott, and the refinancing of the Courtyard Manhattan/Fifth Avenue mortgage debt, we will have approximately $667.2 million of debt outstanding representing a debt-to-enterprise value ratio of 47%. Enterprise value is calculated as our market capitalization plus net debt. We currently have a target debt-to-enterprise value ratio of 45% to 55%.

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

Experienced Senior Management Team

The extensive hotel industry experience of our senior management team enables us to effectively implement our business strategies. Our senior management team of William W. McCarten, John L. Williams, Mark W. Brugger, Michael D. Schecter and Sean M. Mahoney has significant experience in lodging, real estate and related service industries, including hotel asset management, acquisitions, mergers, dispositions, development, redevelopment and financing. Collectively, they have been involved in hotel transactions aggregating several billion dollars.

Key Indicators of Financial Condition and Operating Performance

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

- Occupancy percentage;
- ADR;
- RevPAR;
- EBITDA; and
- FFO.

Occupancy, ADR and RevPAR are commonly used measures within the hotel industry to evaluate operating performance. RevPAR, which is calculated as the product of ADR and occupancy percentage, is an important statistic for monitoring operating performance at the individual hotel level and across our business as a whole. We evaluate individual hotel RevPAR performance on an absolute basis with comparisons to budget and prior periods, as well as on a company-wide and regional basis. ADR and RevPAR include only room revenue. Room revenue comprised approximately 66% of our total revenues for the year ended December 31, 2005, and is dictated by demand, as measured by occupancy percentage, pricing, as measured by ADR, and our available supply of hotel rooms.

Our ADR, occupancy percentage and RevPAR performance may be impacted by macroeconomic factors such as regional and local employment growth, personal income and corporate earnings, office vacancy rates and business relocation decisions, airport and other business and leisure travel, new hotel construction and the pricing strategies of competitors. In addition, our ADR, occupancy percentage and RevPAR performance is dependent on the continued success of Marriott and its brands.

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

Our Hotels

As of December 31, 2005, we owned the following hotels:

Property	Location	Number of Rooms
Los Angeles Airport Marriott	Los Angeles, California	1,004
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510
Frenchman's Reef & Morning Star Marriott Beach Resort	St. Thomas, U.S. Virgin Islands	504
Renaissance Worthington	Fort Worth, Texas	504
Torrance Marriott	Los Angeles County, California	487
Orlando Airport Marriott	Orlando, Florida	486
Marriott Griffin Gate Resort	Lexington, Kentucky	408
Oak Brook Hills Marriott Resort	Oak Brook, Illinois	384
Vail Marriott Mountain Resort & Spa	Vail, Colorado	346
Marriott Atlanta Alpharetta	Atlanta, Georgia	318
Courtyard Manhattan/Midtown East	New York, New York	307
Bethesda Marriott Suites	Bethesda, Maryland	274
SpringHill Suites Atlanta Buckhead	Atlanta, Georgia	220
Courtyard Manhattan/Fifth Avenue	New York, New York	185
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182
Total		6,119

Recent Developments

Chicago Marriott. On March 1, 2006, we signed a purchase agreement to acquire 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 (or approximately $257,000 per room), including the assumption of $220 million of floating-rate debt. We made a $10 million non-refundable deposit upon entering into the purchase agreement. The acquisition is scheduled to close on March 24, 2006. We intend to refinance the existing $220 million floating-rate loan with a 10-year 5.96% fixed-rate loan issued by Wachovia Bank, National Association, an affiliate of Wachovia Capital Markets, LLC, one of the underwriters in this offering. The loan will be interest only for 3 1/2 years, after which, the principal will amortize using a 30-year amortization schedule. The new loan will be a limited recourse loan secured by a mortgage on the property. We will finance the remainder of the purchase price through a portion of the net proceeds from this offering. We expect to borrow up to $100 million through a short-term floating-rate loan arranged by Wachovia Bank, National Association, which we will repay with a portion of the net proceeds of this offering.

This hotel earned $21 million of EBITDA on revenues of $84.3 million in 2005. The 2005 EBITDA is calculated as net income of $4.1 million plus interest expense of $8.9 million and depreciation of $8.2 million less an income tax benefit of $0.2 million.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 56,419,000	$ 53,984,000	$ 53,670,000	$ 54,070,000	$ 57,348,000
ADR	$ 176.11	$ 172.19	$ 170.32	$ 167.41	$ 184.44
Occupancy %	74.1%	70.9%	72.6%	74.4%	71.7%
RevPAR	$ 130.48	$ 122.07	$ 123.70	$ 124.62	$ 132.17

The foregoing table includes information for periods prior to our ownership provided to us by the sellers of the hotel.

The hotel was built in 1978 and underwent extensive renovations that were completed in 2005.

We believe the hotel has an excellent location on North Michigan Avenue in Chicago's famed shopping and entertainment district, the Magnificent Mile. The hotel is predominantly marketed to groups and individual business travelers who are seeking a premium full-service hotel located in the heart of this well-known district. According to the sellers' records, last year, over half of the rooms sold at the hotel were sold to corporate and association groups and roughly a quarter were sold to individual corporate travelers. The hotel has 60,000 square feet of flexible meeting space.

We believe that supply and demand dynamics are very favorable in Chicago. For example, the number of hotel rooms added to downtown Chicago over the past five years has been very limited, averaging just over 1% per year. In addition, Chicago is a compelling location for conventions and other city-wide events and over the next few years should benefit from the displacement of conventions caused by Hurricane Katrina. We also believe that this hotel is an irreplaceable asset as the land acquisition and construction cost of building a new large hotel in downtown Chicago would be prohibitive.

We cannot assure you that we will acquire the Chicago Marriott because the completion of the proposed acquisition is subject to a variety of conditions.

Refinancing of Courtyard Manhattan/Fifth Avenue. We have a commitment from Lehman Brothers Bank to refinance the mortgage loan on the Courtyard Manhattan/Fifth Avenue that will mature in January 2007. Pursuant to this commitment, we expect to refinance the $23 million existing floating-rate loan with a $51 million fixed-rate loan that matures in 10 years. At the closing of the refinancing, the interest rate on the loan will be set based on the then current 10-year swap rate plus 90 basis points. We expect that the new fixed-rate loan will require principal repayments based on a 30-year amortization schedule following the first five years of payments of interest only. We expect to close this refinancing early in the second quarter of 2006.

Increased dividend. On February 28, 2006, our board of directors declared an increase in the quarterly dividend for the first quarter of 2006. On April 11, 2006, a cash dividend of $0.18 per share will be paid to stockholders of record as of March 24, 2006. Purchasers in this offering will not receive the April dividend.

2005 Highlights

Significant highlights for the year ended December 31, 2005 are as follows:

- **Acquisitions**. We acquired eight full-service hotels and one urban select-service hotel in 2005 for aggregate purchase prices of $623.2 million (including working capital and cash escrowed for future renovations). The eight full-service hotels that we acquired are: the Torrance

Marriott (January 5, 2005); a portfolio of four full-service hotels: Renaissance Worthington, Marriott Atlanta Alpharetta, Frenchman's Reef & Morning Star Marriott Beach Resort and Los Angeles Airport Marriott (June 23, 2005); the Vail Marriott Mountain Resort & Spa (June 24, 2005); Oak Brook Hills Resort & Conference Center (July 29, 2005); and the Orlando Airport Marriott (December 16, 2005). We also acquired the SpringHill Suites Atlanta Buckhead on July 22, 2005, an urban premium select-service hotel.

Initial Public Offering. We completed the initial public offering of our common stock on June 1, 2005. We sold 29,785,764 shares of common stock, including 3,698,764 shares of common stock exercised in the underwriters' over-allotment, at the initial public offering price of $10.50 per share. The net proceeds to us, after deduction of offering costs, were $288.4 million.

Repaid Short-Term Floating-rate Debt. We repaid early the two year floating-rate debt incurred in connection with the acquisition of the Torrance Marriott on June 2, 2005 and the two year floating-rate debt incurred in connection with the acquisition of The Lodge at Sonoma, a Renaissance Resort & Spa, on June 16, 2005.

Dividends. Following our initial public offering, we began paying a cash dividend of $0.69 per share, on an annualized basis. We paid shareholders of record on June 17, 2005 a cash dividend of $0.0326 per share on June 28, 2005, we paid shareholders of record on September 9, 2005 a cash dividend of $0.1725 per share on September 27, 2005 and we paid shareholders of record on December 30, 2005 a cash dividend of $0.1725 per share on January 17, 2006.

Borrowed Long-Term Fixed-rate Debt. We incurred $261.5 million of long-term fixed-rate debt on four of our properties: the Los Angeles Airport Marriott, the Renaissance Worthington, the Frenchman's Reef & Morning Star Marriott Beach Resort, and the Orlando Airport Marriott. All of the debt was secured by individual property, limited-recourse mortgages.

Credit Facility. We initiated our three-year $75 million senior secured revolving credit facility on July 8, 2005, which may be increased to $250 million subject to lender approval. We had $12 million drawn under our credit facility as of December 31, 2005. During January and February 2006, we drew an additional $16 million under the credit facility.

Results of Operations

Year Ended December 31, 2005

As of December 31, 2005, we owned fifteen hotels. Our total assets were $966 million as of December 31, 2005. Total liabilities were $502.6 million as of December 31, 2005, including $431.2 million of debt. Shareholders' equity was approximately $463.4 million as of December 31, 2005. Our net loss for the year ended December 31, 2005 was $7.3 million. We acquired nine of our fifteen hotels during the year ended December 31, 2005. Accordingly, the current period results are not comparable to the results for the corresponding period in 2004.

Revenue. Our revenues totaled $229.5 million for the year ended December 31, 2005. Revenue consists primarily of the room, food and beverage and other revenues from our hotels. Revenues for the year ended December 31, 2005 consists of the following:

Rooms	$	151,755,924
Food and beverage		63,261,282
Other		14,433,057
Total revenues	$	229,450,263

Individual hotel revenues for the year ended December 31, 2005 consisted of the following (in millions):

Property	Revenues
Los Angeles Airport Marriott	$ 25.6
Salt Lake City Marriott Downtown	24.1
Marriott Griffin Gate Resort	24.0
Courtyard Manhattan/Midtown East	23.8
Torrance Marriott	20.9
Frenchman's Reef & Morning Star Marriott Beach Resort	19.7
Renaissance Worthington	17.9
The Lodge at Sonoma, a Renaissance Resort & Spa	16.7
Bethesda Marriott Suites	16.6
Courtyard Manhattan/Fifth Avenue	11.4
Oak Brook Hills Marriott Resort	9.6
Vail Marriott Mountain Resort & Spa	8.7
Marriott Atlanta Alpharetta	7.4
SpringHill Suites Atlanta Buckhead	2.7
Orlando Airport Marriott	0.4
Total	$ 229.5

The following pro forma key hotel operating statistics for our hotels for each of the years ended December 31, 2005 and 2004 excludes the SpringHill Suites Atlanta Buckhead due to the fact that this hotel was newly built and opened on July 1, 2005. The pro forma hotel operating statistics presented below include the results of operations of the hotels under previous ownership.

	Year Ended December 31, 2005	Year Ended December 31, 2004	% Change
Occupancy %	73.0%	72.5%	0.5 percentage points
ADR	$ 142.54	$ 129.58	10.0%
RevPAR	$ 104.01	$ 93.99	10.7%

The pro forma hotel operating statistics presented below include the results of operations of the hotels under previous ownership. Individual hotel RevPAR for the years ended December 31, 2005 and 2004 is as follows:

Property	Year Ended December 31, 2005	Year Ended December 31, 2004	% Change from 2004(2)
Bethesda Marriott Suites	$ 124.13	$ 114.74	8.2%
Courtyard Manhattan/Midtown East	202.52	177.85	13.9
Courtyard Manhattan/Fifth Avenue	179.83	126.09	42.6
Frenchman's Reef & Morning Star Marriott Beach Resort	157.06	134.73	16.6
Los Angeles Airport Marriott	78.52	76.30	2.9
Marriott Atlanta Alpharetta	80.42	72.59	10.8
Marriott Griffin Gate Resort	78.00	74.94	4.1
Oak Brook Hills Marriott Resort	62.13	59.93	3.7
Orlando Airport Marriott	80.19	74.06	8.3
Renaissance Worthington	116.45	101.15	15.1
Salt Lake City Marriott Downtown	84.76	78.49	8.0
The Lodge at Sonoma, a Renaissance Resort & Spa	143.65	122.03	17.7
Torrance Marriott	83.49	77.16	8.2
Vail Marriott Mountain Resort & Spa	112.66	107.42	4.9
Total Excluding SpringHill Suites Atlanta Buckhead	$ 104.01	$ 93.99	10.7%
SpringHill Suites Atlanta Buckhead (1)	$ 67.92	$	N/A
Total Including SpringHill Suites Atlanta Buckhead	$ 103.42	$ 93.99	10.7%

(1) SpringHill Suites Atlanta Buckhead was newly built and commenced operations on July 1, 2005. There are no comparable statistics for 2004.

(2) The % change from 2004 excludes the SpringHill Suites Atlanta Buckhead. The hotel was newly built in 2005 and there are no comparable statistics for 2004.

Hotel operating expenses. Our hotel operating expenses totaled $181.3 million for the year ended December 31, 2005. Hotel operating expenses consist primarily of operating expenses of our hotels, including approximately $7.1 million of non-cash ground rent expense. The operating expenses for the year ended December 31, 2005 consist of the following (in millions):

Rooms departmental expenses	$ 37.4
Food and beverage departmental expenses	47.3
Other hotel expenses	73.2
Base management fees	7.5
Incentive management fees	0.6
Property taxes	6.5
Ground rent Contractual	1.7
Ground rent Non-cash	7.1
Total operating expenses	$ 181.3

Depreciation and amortization. Our depreciation and amortization expense totaled $27.6 million for the year ended December 31, 2005. Depreciation and amortization is recorded on our hotel buildings over 40 years for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. We have assigned shorter depreciable lives of 1 - 2 years for the furniture, fixtures and equipment of the Courtyard Manhattan/Midtown East, the Courtyard Manhattan/Fifth Avenue, the Bethesda Marriott Suites, the Marriott Atlanta Alpharetta, the Frenchman's Reef & Morning Star Marriott Beach Resort, the Los Angeles Airport Marriott, the Oak Brook Hills Marriott Resort and the Orlando Airport Marriott since these hotels will undergo, and/or have undergone, significant renovations within two years of acquisition.

Corporate expenses. Our corporate expenses totaled $13.5 million for the year ended December 31, 2005. Corporate expenses principally consist of employee related costs, including base payroll, bonus and restricted stock. Corporate expenses also include organizational costs, professional fees and directors' fees. We recorded an expense of approximately $3.7 million during the year as a result of our commitment to issue, on the fifth anniversary of the initial public offering, 382,500 shares of common stock to our executive officers.

Interest expense. Our interest expense totaled $17.4 million for the year ended December 31, 2005. This interest expense is related to mortgage debt incurred (or in one case assumed) in connection with our acquisition of our hotels ($15.8 million), amortization and write-off of deferred financing costs ($1.3 million) and interest and unused facility fees on our credit facility ($0.3 million). As of December 31, 2005, we have property-specific mortgage debt outstanding on nine of our hotels. On eight of the hotels, we have fixed-rate secured debt, which bears interest at rates ranging from 5.11% to 7.69% per year. On the ninth hotel, we have variable rate secured debt, the interest of which is based on LIBOR plus a spread. The interest rate as of December 31, 2005 on this mortgage loan was 7.075%. Our weighted-average interest rate as of December 31, 2005 was 5.60%. Amounts drawn under the credit facility bear interest at a variable rate that fluctuates based on the level of outstanding indebtedness in relation to the value of our assets from time to time. The weighted-average interest rate as of December 31, 2005 on the credit facility was 5.7575%. We had $12 million drawn on the credit facility as of December 31, 2005. During January and February 2006, we drew an additional $16 million under the credit facility.

During the year, we repaid the mortgage debt on the Torrance Marriott ($44 million) and The Lodge at Sonoma, a Renaissance Resort & Spa ($20 million). In conjunction with the repayment of the mortgage on The Lodge at Sonoma, a Renaissance Resort & Spa, we incurred a prepayment penalty of approximately $50,000, which is classified as interest expense on the accompanying consolidated statements of operations. In conjunction with the repayment of these mortgages, we wrote off unamortized deferred financing fees of approximately $655,000, which is classified as interest expense on the accompanying consolidated statements of operations.

Income taxes. We recorded a net benefit for income taxes of $1.4 million for the year ended December 31, 2005. We recorded an income statement charge of $1.4 million in the first quarter to reverse a portion of the deferred tax assets recorded in 2004 in connection with our REIT election. This charge was offset by an income tax benefit of $2.8 million recorded on the $7 million pre-tax loss of our TRS for the year ended December 31, 2005.

May 6, 2004 (inception) through December 31, 2004

We were formed on May 6, 2004, began operations in July 2004 and acquired our first hotel in October 2004. We completed our private placement of common stock in July 2004 and received proceeds, net of offering costs and fees, of approximately $196.3 million. Stockholders' equity at

December 31, 2004 was approximately $195.6 million. Our GAAP loss before income taxes, for the period from inception (May 6, 2004) through December 31, 2004, was $3.7 million.

Revenue. We had total revenues of $7.1 million for the period from May 6, 2004 to December 31, 2004. Revenue consists primarily of the room, food and beverage and other revenues from The Lodge at Sonoma, a Renaissance Resort & Spa, and the Courtyard Manhattan/Midtown East for the periods subsequent to our acquisition dates of October 27, 2004 and November 19, 2004, respectively. Revenues are also included for the post acquisition period for our other four acquisitions, completed during the last two weeks of 2004. The average occupancy of our hotels was 67.9% for the periods subsequent to acquisition. The hotels collectively achieved an ADR of $184.22 and RevPAR of $125.02, respectively, for the periods subsequent to acquisition.

Hotel operating expenses. Our hotel operating expenses totaled $6.2 million for the period from May 6, 2004 to December 31, 2004. Hotel operating expenses consist primarily of operating expenses of The Lodge at Sonoma, a Renaissance Resort & Spa, and the Courtyard Manhattan/Midtown East for the periods subsequent to our acquisition dates of October 27, 2004 and November 19, 2004, respectively. Operating expenses are also included for the post acquisition period of our other four 2004 acquisitions, which were completed during the last two weeks of 2004.

Depreciation and amortization expense. Our depreciation and amortization expense totaled $1.1 million for the period from May 6, 2004 to December 31, 2004. Depreciation and amortization is recorded on our hotels for the periods subsequent to acquisition. Depreciable lives of hotel furniture, fixtures and equipment are estimated as the time period between the acquisition date and the date that the hotel furniture, fixtures and equipment will be replaced. The furniture, fixtures and equipment depreciable lives are less than one year for the Courtyard Manhattan/Midtown East, the Courtyard Manhattan/Fifth Avenue and the Bethesda Marriott Suites since these hotels were scheduled to undergo significant renovations in 2005 and 2006.

Corporate expenses. Our corporate expenses totaled $4.1 million for the period from May 6, 2004 to December 31, 2004. Corporate expenses principally consist of employee related costs, including base salary, bonus and restricted stock. Corporate expenses also include organizational costs, professional fees and directors' fees.

Interest expense. Our interest expense totaled $0.8 million for the period from May 6, 2004 to December 31, 2004. Interest expense relates to the mortgage debt incurred in connection with our acquisitions. Our mortgage debt on two of our hotels bore interest at variable rates based on LIBOR. The interest rates as of December 31, 2004 on these two mortgage loans were 4.74% and 5.04%, respectively. The mortgage debt on our other four hotels bears interest at fixed rates ranging from 5.11% to 7.69% per annum.

Income tax benefit. We recorded an income tax benefit of $1.6 million for the period from May 6, 2004 to December 31, 2004. The 2004 current tax liability of $0.9 million is the result of temporary differences primarily resulting from deferred Key Money, capitalized pre-opening costs, restricted stock expense, straight-line ground rent, depreciation and other items that will result in future taxable income. A significant portion of the deferred tax assets recorded in 2004 was expensed in the first quarter of 2005 in connection with our REIT election.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds necessary to fund future distributions to our stockholders to maintain our REIT status as well as to pay for operating expenses and other expenditures directly associated with our hotels, including maintenance and recurring capital expenditures as well as payments of interest and principal. We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our credit facility.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional hotels, renovations, expansions and other capital expenditures that need to be made periodically to our hotels, scheduled debt payments and making distributions to our stockholders. We expect to meet our long-term liquidity requirements through various sources of capital, cash provided by operations, and borrowings, as well as through the issuances of additional equity or debt securities. Our ability to incur additional debt is dependent upon a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions imposed by existing lenders. Our ability to raise funds through the issuance of debt and equity securities is dependent upon, among other things, general market conditions for REITs and market perceptions about us.

Our Financing Strategy

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

As of December 31, 2005, more than 90% of our debt carried fixed interest rates, with a weighted-average interest rate of 5.6%, and a weighted-average maturity date in excess of eight years. As of December 31, 2005, we had $428.4 million of debt outstanding, representing a debt-to-enterprise value ratio of 41%. After giving effect to this offering, including the acquisition of the Chicago Marriott, and the refinancing of the Courtyard Manhattan/Fifth Avenue mortgage debt, we will have approximately $667.2 million of debt outstanding representing a debt-to-enterprise value ratio of 47%. Enterprise value is calculated as our market capitalization plus net debt. We currently have a target debt-to-enterprise value ratio of 45% to 55%.

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

We prefer a relatively simple but efficient capital structure. We have not invested in joint ventures and have not issued any operating partnership units or preferred stock. We endeavor to structure our hotel acquisitions so that they will not overly complicate our capital structure; however, we will consider a more complex transaction if we believe that the projected returns to our shareholders will significantly exceed the returns that would otherwise be available.

Our Senior Secured Revolving Credit Facility

On July 8, 2005, we entered into a three-year, $75 million senior secured revolving credit facility from Wachovia Bank, National Association, as administrative agent under the credit facility, and Citicorp North America, Inc. and Bank of America, N.A., as co-syndication agents under the credit facility. Our operating partnership is the borrower under the credit facility. The credit facility is guaranteed by substantially all of our material subsidiaries and is secured by first mortgages on certain of our qualifying properties, which make up the "borrowing base." The Torrance Marriott and the Vail Marriott Mountain Resort & Spa are the two hotels currently comprising the borrowing base. We may add hotels to the borrowing base if certain conditions in the credit facility are met.

We may extend the maturity date of the credit facility for an additional year upon the payment of applicable fees and the satisfaction of certain other conditions, such as the provision of adequate notice, our not defaulting on the terms of the credit facility and the truth of certain representations and warranties in all material respects at the time of extension. We also have the right to increase the amount of the credit facility to $250 million with the lenders' approval.

Interest is paid on the periodic advances under the credit facility at varying rates, based upon either LIBOR or the applicable prime 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		
	70% or greater	**65% to 70%**	**less than 65%**
Prime rate margin	1.25%	1.00%	0.75%
LIBOR margin	2.00%	1.75%	1.45%

In addition to the interest payable on amounts outstanding under the credit facility, we are required to pay an amount equal to 0.35% of the unused portion of the credit facility.

Our ability to borrow under the credit facility is dependent upon the size of the borrowing base. We will be permitted to borrow up to 65% of the lesser of (1) the appraised value of the borrowing base properties or (2) our cost of the borrowing base properties. Included in our cost of the borrowing base properties are renovation costs that we incur following the acquisition of the borrowing base properties. In addition, the net operating income generated by the borrowing base properties, as calculated by Wachovia Bank, National Association, must at all times be greater than 140% of the amount of implied debt service, which is an amount equal to the payment of principal and interest that we would have to pay if we had borrowed such amount under a conventional mortgage loans. Our current borrowing base assets permit us to draw the maximum amount under the credit facility.

We had $12 million drawn on our credit facility as of December 31, 2005. In addition, we provided the Orlando Airport Marriott mortgage lender with an $11.4 million letter of credit secured by our credit facility as security for certain capital improvements of the Orlando Airport Marriott required under the mortgage debt. During January and February 2006, we drew an additional $16 million under our credit facility.

Our senior secured revolving credit facility contains various financial covenants. We complied with all of these covenants as of December 31, 2005. A summary of the most restrictive covenants, along with our corresponding value for each covenant, as of December 31, 2005, is as follows:

Covenant Test	**Covenant**	**Value at December 31, 2005**
Maximum leverage ratio	75%	45.6%
Minimum fixed charge coverage ratio	1.5x	2.44x
Unhedged floating rate debt as a percentage of total indebtedness	50%	2.8%
Minimum implied debt service ratio for the borrowing base assets for the trailing twelve months	1.40x	7.66x
Limitation on our distributions to stockholders	100%	42.8%

2005 Mortgage Financings

In connection with our acquisition of the Los Angeles Airport Marriott and the Renaissance Worthington, we incurred debt secured by property specific mortgages that aggregate $140 million.

These borrowings consist of an $82.6 million mortgage on the Los Angeles Airport Marriott and a $57.4 million mortgage on the Renaissance Worthington. Each loan is secured by a first mortgage lien on the applicable hotel. Interest on each of the mortgages is fixed at a rate equal to 5.30%, in the case of the Los Angeles Airport Marriott mortgage debt, and at 5.40%, in the case of the Renaissance Worthington mortgage debt. Until August 11, 2009 with respect to the Renaissance Worthington loan, we will pay only interest. From and after August 11, 2009 with respect to the Renaissance Worthington loan, we will pay interest and principal, with the amount of principal being determined based upon a 30-year amortization schedule. The Los Angeles Airport Marriott loan is interest only for the full term. For each loan, we will be obligated to repay all unpaid principal on July 11, 2015.

On July 29, 2005, we entered into debt secured by a mortgage on the Frenchman's Reef & Morning Star Marriott Beach Resort. The debt has a principal balance of $62.5 million, a term of 10 years, bears interest at 5.44%, and is interest only for the first three years and then amortizes on a 30-year schedule. In conjunction with the closing of the debt, the lender required $2.9 million of the loan proceeds to be set aside into a lender held escrow account to pre-fund certain capital improvements of the Frenchman's Reef & Morning Star Marriott Beach Resort required under the mortgage debt. During the fourth quarter of 2005 the lender reduced the escrow requirement to $1.2 million.

On December 15, 2005, we entered into mortgage debt in connection with the acquisition of the Orlando Airport Marriott. The mortgage debt has a principal balance of $59 million, a term of 10 years, bears interest at 5.68%, and is interest only for the first five years and then amortizes on a 30-year schedule. In conjunction with the closing of the mortgage debt, we provided the lender with an $11.4 million letter of credit secured by our credit facility as security for certain capital improvements of the Orlando Airport Marriott required under the mortgage debt.

2006 Proposed Financings

We intend to refinance the $220 million floating-rate loan that we are assuming in connection with the acquisition of Chicago Marriott with a 10-year 5.96% fixed-rate loan issued by Wachovia Bank, National Association, an affiliate of Wachovia Capital Markets, LLC, one of the underwriters of this offering. The loan will be interest only for $3^1/_2$ years, after which, the principal will amortize using a 30-year amortization schedule. The new loan will be a limited recourse loan secured by a mortgage on the property. We will finance the remainder of the purchase price through a portion of the net proceeds from this offering. We expect to borrow up to $100 million through a short-term floating-rate loan arranged by Wachovia Bank, National Association, which we will repay with a portion of the net proceeds of this offering.

Sources and Uses of Cash

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

Cash Provided by Operations. Our cash provided by operations was $19.8 million for the year ended December 31, 2005 which is the result of our net loss, adjusted for the impact of several non-cash charges, including $27.6 million of depreciation, $7.1 million of non-cash straight line ground rent, $1.3 million of amortization of deferred financing costs and loan repayment losses, and $6.3 million of stock grants, offset by working capital changes of $12.7 million and a $2.1 million non-cash income tax benefit. Our cash used in operations was $0.8 million for the period from May 6, 2004 to December 31, 2004 which is the result of our $2.1 million net loss, adjusted for the impact of several non-cash charges, including $1.1 million of depreciation, $1.4 million of stock grants and working capital changes of $0.3 million, offset by a $1.5 million non-cash income tax benefit.

Cash Used In Investing Activities. Our cash used in investing activities was $619.9 million and $275.1 million for the years ended December 31, 2005 and the period from May 6, 2004 to December 31, 2004, respectively. During the year ended December 31, 2005, we utilized $611.6 million of cash for the acquisition of the following hotels (in millions):

Torrance Marriott	$ 61.5
Capital Hotel Investments Portfolio (Los Angeles Airport Marriott, Frenchman's Reef & Morning Star Marriott Beach Resort, Marriott Atlanta Alpharetta, and Renaissance Worthington)	315.2
Vail Marriott Mountain Resort & Spa	63.7
Oak Brook Hills Marriott Resort	65.7
SpringHill Suites Atlanta Buckhead	34.1
Orlando Airport Marriott	71.4
Total	$ 611.6

During the year ended December 31, 2005, we also incurred normal recurring capital expenditures at our other hotels of $18 million. In addition, we received $8 million of Key Money related to the Torrance Marriott ($3 million), the Courtyard Manhattan/Fifth Avenue ($1 million), the Oak Brook Hills Marriott Resort ($2.5 million), the SpringHill Suites Atlanta Buckhead ($0.5 million) and the Orlando Airport Marriott ($1 million). During the period from May 6, 2004 to December 31, 2004, we utilized $273.8 million to acquire our initial six hotels. During the period from May 6, 2004 to December 31, 2004, we also received $2.5 million of Key Money related to the Courtyard Manhattan/Midtown East and paid $3.3 million for pre-acquisition costs related to the acquisition of the Torrance Marriott.

Cash Provided by Financing Activities. Approximately $532.5 million and $352.9 million of cash was provided by financing activities for the year ended December 31, 2005 and the period from May 6, 2004 to December 31, 2004, respectively. The cash provided by financing activities for the year ended December 31, 2005 primarily consists of $291.8 million of proceeds from the sale of 29.8 million shares of common stock in our initial public offering, offset by the $3.4 million of offering costs, $317.5 million of proceeds from mortgage debt of the Torrance Marriott ($44 million), the Los Angeles Marriott ($82.6 million), the Renaissance Worthington ($57.4 million), the Frenchman's Reef Marriott & Morning Star Resort ($62.5 million), and the Orlando Airport Marriott ($59 million) and proceeds from $16 million of draws under the senior secured credit facility, net of $4 million of repayments under the facility. The cash provided by financing activities for the year ended December 31, 2005 was offset by the $56.9 million repayment of the secured debt incurred at the Lodge at Sonoma, a Renaissance Resort & Spa and the Torrance Marriott in June 2005, $2.8 million of financing costs paid during the year, $2.9 million of scheduled debt principal payments and $10.7 million of dividends. The cash provided by financing activities for the period from May 6, 2004 to December 31, 2004 primarily consists of $197.4 million of proceeds from the sale of 21 million shares of common stock in a private placement offering, offset by the $1 million of offering costs, $158 million of proceeds from mortgage debt of the Lodge at Sonoma, a Renaissance Resort & Spa ($20 million), the Marriott Griffin Gate Resort ($31 million), the Salt Lake City Marriott Downtown ($39 million), the Courtyard Manhattan/Fifth Avenue ($23 million) and the Courtyard Manhattan/Midtown East ($45 million). The cash provided by financing activities for the period from May 6, 2004 to December 31, 2004 was offset by $1.4 million of financing costs paid during the period and $0.1 million cash paid for interest rate caps.

The following table summarizes our significant financing activities since the beginning of 2005:

Transaction Date	Description of Transaction	Amount
January 13, 2005	Proceeds from Torrance Marriott mortgage	$ 44.0 million
June 1, 2005	Proceeds from initial public offering, net of offering costs	288.6 million
June 2, 2005	Repayment of Torrance Marriott mortgage, net	(36.9 million)
June 16, 2005	Repayment of The Lodge at Sonoma mortgage	(20.0 million)
June 23, 2005	Proceeds from LAX and Worthington mortgages	140.0 million
June 28, 2005	Payment of second quarter dividends	(1.8 million)
July 29, 2005	Proceeds from Frenchman's Reef mortgage	62.5 million
July 29, 2005	Draw under senior secured credit facility	5.0 million
September 26, 2005	Draw under senior secured credit facility, net of $2 million repayment	9.0 million
September 27, 2005	Payment of third quarter dividends	(8.9 million)
September 30, 2005	Repayment of senior secured credit facility	(2.0 million)
January 25, 2006	Draw under senior secured credit facility	11.0 million
January 27, 2006	Payment of fourth quarter dividends	(8.9 million)
February 28, 2006	Draw under senior secured credit facility	5.0 million

Dividend Policy

Generally, we intend to continue to distribute to our stockholders each year on a regular quarterly basis sufficient amounts of our REIT taxable income so as to avoid paying corporate income tax and excise tax on our earnings (other than the earnings of our TRS and TRS lessees, which are all subject to tax at regular corporate rates) and to qualify for the tax benefits afforded to REITs under the Code. In order to qualify as a REIT under the Code, we generally must make distributions to our stockholders each year in an amount equal to at least:

90% of our REIT taxable income determined without regard to the dividends paid deduction, plus

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

any excess non-cash income.

During the second fiscal quarter of 2005 our board of directors declared a cash dividend of $0.0326 per share of our common stock. The dividend was paid on June 28, 2005 to stockholders of record as of June 17, 2005. During the third fiscal quarter of 2005 our board of directors declared a cash dividend of $0.1725 per share of our common stock. The dividend was paid on September 27, 2005 to stockholders of record as of September 9, 2005. During the fourth fiscal quarter of 2005 our board of directors declared a cash dividend of $0.1725 per share of our common stock. The dividend was paid on January 17, 2006 to stockholders on record as of December 30, 2005.

On February 28, 2006, our board of directors declared an increase in the quarterly dividend for the first quarter of 2006. On April 11, 2006, a cash dividend of $0.18 per share will be paid to stockholders of record as of March 24, 2006. Purchasers in this offering will not receive the April dividend.

Capital Expenditures

The management agreements for each of our hotels provide for the establishment of separate property improvement funds to cover, among other things, the cost of replacing and repairing furniture and fixtures at the hotel. Contributions to the property improvement fund are calculated as a percentage of hotel sales. In addition, we may be required to pay for the cost of certain additional improvements that are not permitted to be funded from the property improvement fund under the applicable management agreement. As of December 31, 2005, we had set aside $23.1 million for capital projects in property improvement funds ($20.7 million) and lender held restricted cash ($2.4 million). Funds held in property improvement funds for one hotel are not permitted to be applied to any other property.

We have a number of significant capital projects currently planned or underway and we expect to spend approximately $84 million on such projects in 2006. For a breakdown of the cost of such projects, please see "Our Properties." A description of the significant 2005 actual and 2006 budgeted capital projects is as follows:

We substantially completed the renovation of the Courtyard Manhattan/Fifth Avenue during the year ended December 31, 2005. The project consisted of the renovation of the hotel guestrooms and public space.

We substantially completed the renovation of the Marriott Griffin Gate Resort during the year ended December 31, 2005. The project consisted of the renovation of the hotel ballroom, corridors and public space.

We completed a renovation of the Frenchman's Reef & Morning Star Marriott Beach Resort during 2005. The project consisted of the replacement of case goods in a portion of the guestrooms. The renovation was funded from existing cash in the hotel's property improvement fund.

We completed the renovation of the Los Angeles Airport Marriott in early 2006. The project consisted of the renovation of the hotel ballroom, conversion of a food outlet to a junior ballroom and renovation of the hotel bar. The renovation was funded from existing cash in the hotel's property improvement fund.

We will accelerate the timing of a major room renovation at the Los Angeles Airport Marriott from 2007 to 2006. The project will consist of the renovation of the hotel guestrooms and bathrooms. Marriott International has agreed to fund $1.5 million of the cost of this renovation.

We are currently completing the major renovation and repositioning of the Torrance Marriott. The renovation is currently scheduled to be completed during the first half of 2006. The project consists of the renovation of the hotel guestroom soft goods and bathrooms, renovation of the hotel's main ballroom and meeting rooms, renovation of the hotel lobby and conversion of a food and beverage outlet to meeting space. In early 2006 we completed the renovation of the hotel guestroom soft goods and bathrooms and renovation of the hotel's main ballroom and meeting rooms. The renovation of the hotel lobby and conversion of a food and beverage outlet to meeting space will take place during the second quarter of 2006.

We are currently completing the renovation of the Bethesda Marriott Suites. The project consists of the renovation of the hotel guest suites.

We are currently completing the renovation of the Courtyard Manhattan/Midtown East which is expected to be completed by the end of the first quarter of 2006. The project consists of the renovation of the hotel guestrooms, renovation of the hotel lobby, renovation of the hotel restaurant and meeting space.

We have committed to significantly renovate the Oak Brook Hills Marriott Resort during 2006. We have accelerated the timing of a major portion of the room renovation from 2007 to 2006. The renovation will include the hotel guestrooms and bathrooms, the hotel main ballroom and meeting rooms and the hotel lobby.

We are doing a major renovation of the Orlando Airport Marriott during 2006, including a renovation of the rooms, bathrooms and public spaces.

In addition, we are currently evaluating significant renovation projects at the Frenchman's Reef & Morning Star Marriott Beach Resort and the Vail Marriott Mountain Resort & Spa. In particular, at the Vail Marriott Mountain Resort & Spa, we are evaluating a major renovation of the ballrooms and at Frenchman's Reef & Morning Star Marriott Beach Resort we are evaluating a renovation of certain guestrooms and balconies.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Non-GAAP Financial Measures

We use the following two non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: (1) EBITDA and (2) FFO. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP.

EBITDA represents net income (loss) excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; and (3) depreciation and amortization. We believe EBITDA is useful to an investor in evaluating our operating performance because it helps investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization) from our operating results. In addition, covenants included in our indebtedness use EBITDA as a measure of financial compliance. We also use EBITDA as one measure in determining the value of hotel acquisitions and dispositions.

	Year Ended December 31, 2005	Period from May 6, 2004 to December 31, 2004
Net loss	$ (7,335,940)	$ (2,117,625)
Interest expense	17,367,079	773,101
Income tax benefit	(1,353,261)	(1,582,113)
Depreciation and amortization	27,590,234	1,053,283
EBITDA	$ 36,268,112	$ (1,873,354)

We compute FFO in accordance with standards established by NAREIT, which defines FFO as net income (loss) (determined in accordance with GAAP), excluding gains (losses) from sales of property, plus depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures (which are calculated to reflect FFO on the same basis). We believe that the presentation of FFO provides useful information to investors regarding our operating performance because it is a measure of our operations without regard to specified non-cash items, such as real estate depreciation and amortization and gain or loss on sale of assets. We also use FFO as one measure in determining our results after taking into account the impact of our capital structure.

	Year Ended December 31, 2005	Period from May 6, 2004 to December 31, 2004
Net loss	$ (7,335,940)	$ (2,117,625)
Real estate related depreciation and amortization	27,590,234	1,053,283
FFO	$ 20,254,294	$ (1,064,342)

Critical Accounting Policies

Our consolidated financial statements include the accounts of DiamondRock Hospitality Company and all consolidated subsidiaries. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We evaluate our estimates and judgments, including those related to the impairment of long-lived assets, on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies are disclosed in the notes to our consolidated financial statements. The following represent certain critical accounting policies that require us to exercise our business judgment or make significant estimates:

Investment in Hotels. Investments in hotels, land improvements, building and furniture, fixtures and equipment and identifiable intangible assets are recorded at fair value in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*. Property and equipment are recorded at fair value based on analyses, including current replacement cost for similar capacity and allocated to buildings, improvements, furniture, fixtures and equipment based on analysis performed by management and appraisals received from independent third parties. Property and equipment are depreciated using the straight-line method over an estimated useful life of 15 to 40 years for buildings and land improvements and one to ten years for furniture and equipment. Identifiable intangible assets are typically related to contracts, including ground lease agreements and hotel management agreements, which are recorded at fair value. Above-market and below-market contract values are based on the present value of the difference between contractual amounts to be paid pursuant to the contracts acquired and our estimate of the fair market contract rates for corresponding contracts. Contracts acquired that are at market do not have significant value. We typically enter into a new hotel management agreement based on market terms at the time of acquisition. Intangible assets are amortized using the straight-line method over the remaining non-cancelable term of the related agreements. In making estimates of fair values for purposes of allocating purchase price, we may utilize a number of sources that may be obtained in connection with the acquisition or financing of a property and other market data. Management also considers information obtained about each property as a result of its pre-acquisition due diligence in estimating the fair value of the tangible and intangible assets acquired.

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

Revenue Recognition. Hotel revenues, including room, golf, food and beverage, and other hotel revenues, are recognized as the related services are provided.

Stock-based Compensation. We account for stock-based employee compensation using the fair value based method of accounting described in Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*. For share grants, total compensation expense is based on the price of our common stock at the grant date. Compensation expense is recorded ratable over the vesting period, if any.

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

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

Inflation

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates.

Seasonality

The operations of hotels historically have been seasonal depending on location, and accordingly, we expect some seasonality in our business. Historically, we have experienced approximately two-thirds of our annual income in the second and fourth quarters.

New Accounting Pronouncements

Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS 123R"), *Share-Based Payment*, requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be 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. We plan on adopting SFAS 123R on January 1, 2006 and the adoption of SFAS 123R is not expected to have a material impact on our results of operations, financial position or cash flows.

FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143* ("FIN 47"), clarifies that the term "conditional asset retirement obligation" as used in Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("SFAS 143"), refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and and/or method of settlement. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. We adopted the provisions of FIN 47 as of December 31, 2005. FIN 47 did not have a material impact on our results of operations, financial position, or cash flows.

Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* ("SFAS 154"), which supersedes APB Opinion No. 20, *Accounting Changes* ("APB 20"), and Statement of Financial Accounting Standards No. 3, *Reporting Accounting Changes in Interim Financial Statements*, changes the requirements for the accounting for and reporting of a voluntary change in accounting principle. SFAS 154 also carries forward without change the guidance contained in APB 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. APB 20 previously required that most voluntary changes in accounting principle be recognized with a cumulative effect adjustment in net income of the period of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

Outstanding Debt

As of December 31, 2005, we had approximately $416.4 million of outstanding mortgage debt. In addition, as of December 31, 2005, we had $12 million outstanding under our credit facility. The following table sets forth our mortgage debt obligations on our hotels.

Property	Principal Balance	Prepayment Penalties	Interest Rate	Maturity Date	Amortization Provisions	Balance at Maturity(12)
Bethesda Marriott Suites	$ 19,305,400	Yes(1)	7.69%	2/23	25 years	$ 19,305,400
Frenchman's Reef & Morning Star Marriott Beach Resort	62,500,000	No(2)	5.44%	8/15	30 years(3)	58,015,332
Griffin Gate Marriott Resort	30,442,250	Yes(4)	5.11%	1/10	25 years	27,691,231
Los Angeles Airport Marriott	82,600,000	No(2)	5.30%	7/15	Interest Only	82,600,000
Courtyard Manhattan/Fifth Avenue	23,000,000	No(5)	LIBOR + 2.70%(6)	1/07(7)	Interest Only	23,000,000
Courtyard Manhattan/Midtown East	44,130,896	No(8)	5.195%	12/09	25 years	40,166,163
Orlando Airport Marriott	59,000,000	No(2)	5.68%	12/15	30 years(9)	54,949,085
Salt Lake City Marriott Downtown	38,016,189	Yes(8)	5.50%	12/14	20 years(10)	25,066,672
Renaissance Worthington	57,400,000	No(2)	5.40%	7/15	30 years(11)	52,362,448
Total	$ 416,394,735					$ 383,156,331

(1) The debt may be prepaid. If it is prepaid prior to August 2012, it is subject to a prepayment fee equal to the greater of (i) one percent of the outstanding principal amount or (ii) a yield maintenance premium determined as set forth in the Deed of Trust.

(2) Prepayment of the debt on the Marriott Los Angeles Airport, Renaissance Worthington and Orlando Airport Marriott is not permitted until the earlier of (i) two years after securitization (the lender intends to sell all or a portion of the debt through one or more public offerings) or (ii) four years from the closing date. Thereafter, we may pay a defeasance deposit in lieu of a prepayment of the debt. Prepayment in full will be permitted at par on the last three payment dates before the maturity date. For the loan secured by the mortgage on Frenchman's Reef & Morning Star Marriott Beach Resort, we may release

the lien of mortgage through a defeasance deposit at any time after the earlier of (i) two years after securitization or (ii) thirty months after the closing date of the loan.

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

(4) We may not prepay the loan without the express written consent of the lender, and we have no right to prepay the debt until October 2009. Notwithstanding the foregoing, if the lender accepts prepayment of the debt prior to October 2009, we must pay a penalty equal to the greater of (i) 1% of the outstanding principal and (ii) the present value, as of the prepayment calculation date, of a series of monthly payments over the remaining term of the loan, each equal to the amount of interest that would be due on the portion of the loan being prepaid, assuming an annual interest rate of 5.11% over the discounted reinvestment yield, as such term is defined in the agreement.

(5) The debt may be prepaid at par.

(6) We have entered into an interest rate cap agreement on this debt. Breakage fees may be payable if the debt is repaid.

(7) The debt allows for three one-year extensions provided that certain conditions are met.

(8) The debt may not be prepaid until three months prior to the maturity date of the mortgage loan (the "Prepayment Release Date"). For Salt Lake City Marriott Downtown, we may prepay the loan on or after the Prepayment Release Date without payment of fees. However, we must pay to the lender, simultaneously with such prepayment, the interest that would have accrued on the outstanding principal balance of the loan at the regular interest rate through the end of the interest period in which such prepayment occurs.

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

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

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

(12) Assuming no unscheduled payments have been made on the principal in advance of its due date.

Contractual Obligations

The following table outlines the timing of payment requirements related to our consolidated mortgage debt and other commitments as of December 31, 2005.

	Payments due by period				
	Total	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
	(in thousands)				
Long-Term Debt Obligations	$ 428,395	$ 3,244	$ 42,060	$ 76,023	$ 307,068
Operating Lease Obligations Ground Leases and Office Space	608,971	1,648	3,529	3,646	600,148
Total	$ 1,037,366	$ 4,892	$ 45,589	$ 79,669	$ 907,216

Tax and Depreciation

The following table reflects certain real estate tax information for our hotels:

Property	Federal Tax Basis (In thousands)	Property Tax Rate 2005 Estimate(1)	Real Estate Tax 2005 Estimate (In thousands)	Depreciation Method	Tax Depreciation Life (Years)	Annual Depreciation Percent
Los Angeles Airport Marriott	$ 106,400	1.29%	$ 1,370	Straight-Line	39	2.564%
Renaissance Worthington	78,125	1.63	1,273	Straight-Line	39	2.564
Courtyard Manhattan/Midtown East	69,778	1.48	1,034	Straight-Line	39	2.564
Orlando Airport Marriott	67,533	0.87	587	Straight-Line	39	2.564
Frenchman's Reef & Morning Star Marriott Beach Resort(2)	59,406			Straight-Line	39	2.564
Vail Marriott Mountain Resort & Spa	57,695	0.52	298	Straight-Line	39	2.564
Torrance Marriott	56,676	1.23	696	Straight-Line	39	2.564
Oak Brook Hills Marriott Resort	47,214	0.56	263	Straight-Line	39	2.564
Salt Lake City Marriott Downtown	44,581	1.43	639	Straight-Line	39	2.564
Bethesda Marriott Suites	44,453	0.95	423	Straight-Line	39	2.564
Marriott Griffin Gate Resort	40,359	1.03	417	Straight-Line	39	2.564
Marriott Atlanta Alpharetta	36,687	0.98	360	Straight-Line	39	2.564
Courtyard Manhattan/Fifth Avenue	33,778	2.72	918	Straight-Line	39	2.564
SpringHill Suites Atlanta Buckhead(3)	31,665	N/A	N/A	Straight-Line	39	2.564
The Lodge at Sonoma, a Renaissance Resort & Spa	25,718	1.97	507	Straight-Line	39	2.564

(1) Per $1,000 of assessed value.

(2) This hotel is exempt from real estate taxes pursuant to an agreement with the U.S. Virgin Islands Industrial Development Commission.

(3) Property tax information is not applicable. The hotel was newly built and opened on July 1, 2005 and therefore has no historical operating results.

Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business strategies, the primary market risk to which we are currently exposed, and which we expect to be exposed to in the future, is interest rate risk. Some of our outstanding debt has a variable interest rate. We use interest rate caps to manage our interest rate risks relating to our variable rate mortgage debt. Our total outstanding debt at December 31, 2005 was approximately $428.4 million, of which approximately $35 million, or 8.2%, was variable rate debt. If market rates of interest on our variable rate debt were to increase by 1.0%, or approximately 100 basis points, the increase in interest expense on our variable rate debt would decrease future earnings and cash flows by approximately $350,000 annually. On the other hand, if market rates of interest on our variable rate were to decrease by one percentage point, or approximately 100 basis points, the decrease in interest expense on our variable rate debt would increase future earnings and cash flow by approximately $350,000. If market rates of interest were to increase by 1.0%, or approximately 100 basis points, the decrease in the fair value of our fixed-rate debt would be $24.2 million. On the other hand, if market rates of interest were to decrease by one percentage point, or approximately 100 basis points, the increase in the fair value of our fixed-rate debt would be $24.2 million. As of December 31, 2005, the fair value of the $393.4 million of fixed-rate debt was approximately $388.7 million.

OUR BUSINESS

Overview

We are a self-advised real estate company. We are committed to maximizing shareholder value through investing in premium full-service hotels and, to a lesser extent, premium urban select-service hotels. We will own sixteen hotels comprising 7,311 rooms upon completion of our recently announced hotel acquisition in downtown Chicago. These hotels have an aggregate projected investment of approximately $1.3 billion and are geographically diversified across major markets in the United States.

We differentiate ourselves through our:

- Proven acquisition capability;
- Aggressive asset management;
- Conservative capital structure; and
- Experienced senior management team.

Proven Acquisition Capability

Since we completed our first acquisition in October 2004, we have acquired, or have under contract to acquire, sixteen premium hotels. We have acquired eleven of these hotels in off-market transactions, meaning that they were not made generally available to other companies. We intend to make additional acquisitions that meet our stringent underwriting criteria. Consistent with this strategy, on March 1, 2006, we signed a purchase agreement to acquire the 1,192 room Chicago Marriott Downtown Magnificent Mile at 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. We believe that the current environment presents an excellent opportunity to acquire hotels based on our view that lodging industry fundamentals are currently strong and will remain strong for some time to come.

Generally, we invest in hotels that we believe are priced below replacement costs and are located in markets with attractive growth prospects and high barriers to entry. We are focused on acquiring premium full-service hotels located throughout North America and, to a lesser extent, premium select-service hotels in urban locations.

We believe we have a competitive advantage in acquiring hotels through our unique investment sourcing relationship with Marriott, a leading worldwide hotel brand, franchise and management company. Our investment sourcing relationship with Marriott provides us, subject to certain limitations, with a "first look" at hotel acquisition and investment opportunities known to Marriott. As a result of Marriott's extensive network, relationships and knowledge, we have preferred access to a unique source of hotel investment opportunities, many of which may not be available to other hospitality companies. Since our formation in May 2004, Marriott has provided us with access to several billion dollars of off-market acquisition opportunities. Our relationship with Marriott has facilitated the acquisition of eight of our hotels, including the Marriott Griffin Gate Resort and The Lodge at Sonoma, a Renaissance Resort & Spa, both of which we acquired directly from Marriott.

Aggressive Asset Management

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

Our senior management team has established a broad network of hotel industry contacts and relationships, including relationships with hotel owners, financiers, operators, project managers and contractors and other key industry participants. In particular, we believe that we are unique in having a senior management team, most of whom worked for many years at Marriott, with very deep knowledge

of Marriott's organization and processes, which gives us insight in how best to work with Marriott to deliver superior returns at our hotels.

Our philosophy is to negotiate management agreements that give us the right to exert significant influence (but not day-to-day control) over the management of our properties, annual budgets and all capital expenditures, and then to use those rights to continually monitor and improve the performance of our properties. We cooperatively partner with the managers of our hotels in an attempt to increase operating results and long-term asset values at our hotels. In addition to working directly with the personnel at our hotels, our senior management team also has long-standing professional relationships with our hotel managers' senior executives and we work directly with these senior executives to improve the performance of our portfolio.

We believe we can create significant value in our portfolio through innovative asset management strategies such as rebranding, renovating or repositioning. We are committed to regularly evaluating our portfolio to determine if we can employ these value-added strategies at our hotels. We have rebranded two of our properties, including one in which we converted an independently branded hotel to a Marriott brand, which contributed to a 31% increase in revenues and significantly increased operating margins at the hotel in 2005 compared to pro forma 2004. We also have budgeted to spend approximately $84 million in 2006 on identified value-added capital investment opportunities at our existing hotels. The opportunities range from room renovation (Courtyard Manhattan/Midtown East, Los Angeles Airport Marriott, Bethesda Marriott Suites) to a total renovation and repositioning of the hotel (Torrance Marriott and Oak Brook Hills Marriott Resort). In connection with our planned renovations and repositionings, our senior management team and our asset managers are individually committed to completing these renovations on time, on budget and with a minimal disruption at our hotels. We are optimistic that, when completed, these renovations will enable us to achieve higher rates and greater demand for our hotels.

Conservative Capital Structure

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

As of December 31, 2005, more than 90% of our debt carried fixed interest rates, with a weighted-average interest rate of 5.6%, and a weighted-average maturity date in excess of 8 years. As of December 31, 2005, we had $428.4 million of debt outstanding, representing a debt-to-enterprise value ratio of 41%. After giving effect to this offering, including the acquisition of the Chicago Marriott, and the refinancing of the Courtyard Manhattan/Fifth Avenue mortgage debt, we will have approximately $667.2 million of debt outstanding representing a debt-to-enterprise value ratio of 47%. Enterprise value is calculated as our market capitalization plus net debt. We currently have a target debt-to-enterprise value ratio of 45% to 55%.

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

Experienced Senior Management Team

The extensive hotel industry experience of our senior management team enables us to effectively implement our business strategies. Our senior management team of William W. McCarten, John L. Williams, Mark W. Brugger, Michael D. Schecter and Sean M. Mahoney has significant experience in lodging, real estate and related service industries, including hotel asset management, acquisitions, mergers, dispositions, development, redevelopment and financing. Collectively, they have been involved in hotel transactions aggregating several billion dollars. In particular, our senior executive officers have the following experience:

Mr. McCarten had over twenty-five years' experience with the Marriott organization. Over the course of his career with Marriott and its related entities, he served in a variety of positions, including Chief Executive Officer of HMSHost Corporation (formerly Host Marriott Services Corporation) and Executive Vice President and Operating Group President of Host Marriott Corporation, each a publicly traded company. Mr. McCarten oversaw the spin-off of HMSHost Corporation through its merger with Autogrill S.P.A. Mr. McCarten serves as our Chairman and Chief Executive Officer.

Mr. Williams has over twenty-five years' experience with Marriott and recently served as Executive Vice President of North American Hotel Development for Marriott, where he had primary responsibility for the acquisition and development of full-service hotel projects involving Marriott Hotels & Resorts, Renaissance Hotels & Resorts and The Ritz-Carlton. He has extensive experience in acquiring, repositioning, developing and redeveloping hotels. Mr. Williams serves as our President and Chief Operating Officer.

Mr. Brugger has over a decade of experience in real estate and finance. He recently served as a Vice President Project Finance with Marriott as well as Chief Executive Officer of a non-lodging Marriott subsidiary with over $300 million in annual revenues. His experience includes structured finance transactions totaling in excess of $2 billion as well as the acquisition, disposition and financing of investment properties. Mr. Brugger serves as our Executive Vice President, Chief Financial Officer and Treasurer.

Mr. Schecter has over fifteen years' experience practicing law, including six years with Marriott. He has led and successfully completed a wide array of transactions in the hotel industry, including mergers and acquisitions, dispositions, joint ventures, and financings. Mr. Schecter serves as our General Counsel and Secretary.

Mr. Mahoney has twelve years' experience as a certified public accountant. He most recently served as a senior manager with Ernst & Young LLP. He has extensive experience with clients in the real estate and hotel industries. Mr. Mahoney serves as our Chief Accounting Officer and Corporate Controller.

Our Relationship with Marriott

Investment Sourcing Relationship

We have an investment sourcing relationship with Marriott, a leading worldwide hotel brand, franchise and management company. Marriott has agreed to provide us, subject to certain limitations, with a "first look" at hotel acquisition and investment opportunities known to Marriott. We believe that our ability to implement our business strategies is greatly enhanced by the continuing source of additional acquisition opportunities generated by this relationship, as many of the properties Marriott brings to our attention are offered to us through "off-market" transactions, meaning that they are not made generally available to other real estate investment companies. However, we have not entered into a binding agreement or commitment setting forth all of the terms of this investment sourcing relationship. As a result, our investment sourcing relationship may be modified or terminated at any time by either party.

Since our formation in 2004, Marriott has provided us with access to several billion dollars of off-market acquisition opportunities and our sourcing relationship has facilitated the acquisition of eight of our hotels, including the Marriott Griffin Gate Resort and The Lodge at Sonoma, a Renaissance Resort & Spa, each of which we acquired directly from Marriott.

Our senior management team regularly meets with senior representatives of Marriott to explore how to further our investment sourcing relationship in order to maximize the value of the relationship to both parties. To date, both companies have worked proactively to convert appropriate opportunities into hotel investments made by us and managed by Marriott.

Except where contractually or ethically prohibited, or where Marriott believes it would be damaging to existing Marriott relationships, Marriott provides us a "first look" at potential hotel investment opportunities known to Marriott that are consistent with our stated business strategy. These hotel investment opportunities are those situations where Marriott believes that it may have a significant influence on a potential sale. We believe we are Marriott's preferred purchaser of full-service as well as urban select-service and urban extended-stay hotels in the United States, Canada and Mexico. Whether the "first look" opportunity develops further will depend upon the circumstances of each investment. In order to continue to develop this relationship, except where contractually or ethically prohibited, we intend to provide Marriott with a "first look" at all hotel management opportunities that become known to us.

Neither we nor Marriott have entered into a binding agreement or commitment setting forth all of the terms of this relationship. Our investment sourcing relationship may be modified or terminated at any time by either party. We retain the right to utilize any property brand and any hotel management company. We believe that should we pursue any such opportunity, it will not affect our investment sourcing relationship with Marriott, so long as such an opportunity does not interfere with Marriott's objectives for our investment sourcing relationship. On the other hand, Marriott has numerous longstanding relationships with other potential property owners and we understand that Marriott may work with other owners on any potential transaction.

Marriott's only binding commitment with regard to this investment sourcing relationship is that until June 30, 2006, it will not enter into any written agreement or series of written agreements granting any third party the right to receive information from Marriott concerning opportunities to purchase full-service, urban select-service or urban extended-stay hotels in the United States, or in any region thereof, prior to such opportunities being presented to us. Our only binding commitment with regard to this relationship is that until June 30, 2006, we will not enter into a written agreement or series of written agreements granting any third party the right to receive information from us concerning potential opportunities to provide hotel management services for full-service, urban select-service or urban extended-stay hotels in the United States, or in any region thereof, prior to such opportunity being presented to Marriott. However, for any particular hotel, we are under no obligation to use Marriott as our hotel management company and we may invest in hotels that do not operate under one of Marriott's brands. While we intend to permit this written agreement to expire on June 30, 2006, we intend to continue and to expand, the very successful unwritten investment sourcing relationship with Marriott and we believe that our relationship is solid and continues to achieve the objectives of both parties.

Key Money and Yield Support

Marriott has contributed to us certain amounts in exchange for the right to manage hotels we have acquired. We refer to these amounts as "Key Money." Marriott has provided us with Key Money of approximately $10.5 million in the aggregate in connection with our acquisitions of the Courtyard Manhattan/Midtown East ($2.5 million), the Courtyard Manhattan/Fifth Avenue ($1 million), the Torrance Marriott ($3 million), the Oak Brook Hills Marriott Resort ($2.5 million), the SpringHill Suites Atlanta Buckhead ($0.5 million) and the Orlando Airport Marriott ($1 million). The $3.5 million in Key Money payments received from Marriott in connection with our acquisitions of the Courtyard Manhattan/Fifth Avenue and Courtyard Manhattan/Midtown East are not recoverable by Marriott. The $7 million in Key Money contributed by Marriott in connection with our acquisitions of the Torrance Marriott, the Oak Brook Hills Marriott Resort, the SpringHill Suites Atlanta Buckhead and the

Orlando Airport Marriott is recoverable subject to a 10% reduction per year in the event that the applicable management agreement with Marriott terminates within 10 years and such termination is not a result of a default by Marriott.

In addition, Marriott has provided us with operating cash flow guarantees for certain hotels and will fund shortfalls of actual hotel operating income compared to a negotiated target net operating income. We refer to these guarantees as "Yield Support." Marriott provided us with Yield Support for the Oak Brook Hills Marriott Resort for fiscal years 2006 and 2007. The guarantee provides that Marriott will fund actual hotel operating income shortfalls during fiscal years 2006 and 2007. The total guarantee obligation of Marriott is capped at $2.5 million. The SpringHill Suites Atlanta Buckhead also has Yield Support for each of fiscal years 2006 and 2007, which will reduce base management fees. The annual Yield Support is capped at $0.1 million for each of fiscal year 2006 and 2007, respectively. The Orlando Airport Marriott has Yield Support for fiscal year 2006, which is capped at $1 million.

Hotel Management

We intend to use Marriott as our preferred, but not exclusive, hotel management company for our hotels and expect to benefit from Marriott's strong brands and its excellent hotel management services. Marriott-branded hotels have an extensive record of generating premiums in RevPAR over competitive brands. Each of our hotels operates under a recognized Marriott brand, including Marriott®, Renaissance Hotels and Resorts®, SpringHill Suites® and Courtyard by Marriott®.

Investment in DiamondRock

In connection with our July 2004 private placement, Marriott purchased 3 million shares of common stock at the same purchase price as all other investors in our private placement. That purchase represented 13.8% of our outstanding common stock following our private placement. In connection with our initial public offering, Marriott purchased 1,428,571 shares of our common stock at the same purchase price as all other investors. As of December 31, 2005, Marriott owned 8.6% of our outstanding common stock.

Our Corporate Structure

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our hotels are owned by subsidiaries of our operating partnership, DiamondRock Hospitality Limited Partnership. We are the sole general partner of our operating partnership and currently own, either directly or indirectly, all of the limited partnership units of our operating partnership. In order for the income from our hotel investments to constitute "rents from real properties" for purposes of the gross income test required for REIT qualification, we must lease each of our hotels to a wholly-owned subsidiary of our taxable REIT subsidiary, or TRS, or an unrelated third party. However, we may structure our properties which are not subject to U.S. federal income tax differently from the structures we use for our U.S. properties. For example, the Frenchman's Reef & Morning Star Marriott Beach Resort is held by a United States Virgin Islands corporation which we have elected to be a TRS.

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

Environmental Matters

Under various federal, state and local environmental laws and regulations, a current or previous owner, operator or tenant of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases or threats of releases at such property and may be held liable to a government entity or to third parties for property damage and for investigation, clean-up and monitoring costs incurred by such parties in connection with the actual or threatened contamination. These laws typically impose clean-up responsibility and liability without regard to fault, or whether or not the owner, operator or tenant knew of or caused the presence of the contamination. The liability under these laws may be joint and several for the full amount of the investigation, clean-up and monitoring costs incurred or to be incurred or actions to be undertaken, although a party held jointly and severally liable may obtain contributions from other identified, solvent, responsible parties of their fair share toward these costs. These costs may be substantial and can exceed the value of the property. The presence of contamination, or the failure to properly remediate contamination, on a property may adversely affect the ability of the owner, operator or tenant to sell or rent that property or to borrow funds using such property as collateral and may adversely impact our investment in that property.

Federal regulations require building owners and those exercising control over a building's management to identify and warn, via signs and labels, of potential hazards posed by workplace exposure to installed asbestos-containing materials and potential asbestos-containing materials in their building. The regulations also set forth employee training, record keeping and due diligence requirements pertaining to asbestos-containing materials and potential asbestos-containing materials. Significant fines can be assessed for violation of these regulations. Building owners and those exercising control over a building's management may be subject to an increased risk of personal injury lawsuits by workers and others exposed to asbestos-containing materials and potential asbestos-containing materials as a result of these regulations. The regulations may affect the value of a building containing asbestos-containing materials and potential asbestos-containing materials in which we have invested. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and disposal of asbestos-containing materials and potential asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for improper handling or a release to the environment of asbestos-containing materials and potentially asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real estate facilities for personal injury or improper work exposure associated with asbestos-containing materials and potential asbestos-containing materials.

Prior to closing any property acquisition, we obtain Phase I environmental assessments in order to attempt to identify potential environmental concerns at the properties. These assessments are carried out in accordance with an appropriate level of due diligence and will generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the results of the Phase I environmental assessments or other information indicates possible contamination or where our consultants recommend such procedures. We cannot assure you that these assessments will discover every environmental condition that may be present on a property.

Competition

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

We face competition for the acquisition of and investment in hotels from institutional pension funds, private equity investors, REITs, hotel companies and others who are engaged in the acquisition of hotels. Some of these competitors have substantially greater financial and operational resources than we have and may have greater knowledge of the markets in which we seek to invest. This competition may reduce the number of suitable investment opportunities offered to us and increase the cost of acquiring our targeted hotel investments. Although we expect that our investment sourcing relationship with Marriott will continue to provide us with a continuing source of investment opportunities, Marriott is under no binding commitment to provide us with any such opportunities or continue that relationship.

Employees

We currently employ 14 full-time employees. We believe that our relations with our employees are good. None of our employees is a member of any union; however, the employees of Marriott working at the Courtyard Manhattan/Fifth Avenue hotel are currently represented by a labor union and are subject to a collective bargaining agreement.

Legal Proceedings

We are not involved in any material litigation nor, to our knowledge, is any material litigation pending or threatened against us, other than routine litigation arising out of the ordinary course of business or which is expected to be covered by insurance and not expected to harm our business, financial condition or results of operations.

Regulation

Our properties must comply with Title III of the Americans with Disabilities Act, or ADA, to the extent that such properties are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this respect.

Insurance

We carry comprehensive liability, fire, extended coverage, earthquake, business interruption and rental loss insurance covering all of the properties in our portfolio under a blanket policy, which is up for renewal on April 1, 2006. In addition, we carry earthquake and terrorism insurance on our properties in an amount and with deductibles, which we believe are commercially reasonable. We do not carry insurance for generally uninsured losses such as loss from riots, war or acts of God. Certain of the properties in our portfolio are located in areas known to be seismically active or subject to hurricanes and we have appropriate insurance for those risks, although they are subject to higher deductibles than ordinary property insurance.

Most of our hotel management agreements generally provide that we are responsible for obtaining and maintaining property insurance, business interruption insurance, flood insurance, earthquake insurance (if the hotel is located in an "earthquake prone zone" as determined by the U.S. Geological Survey) and other customary types of insurance related to hotels and the manager is responsible for obtaining general liability insurance, workers' compensation and employer's liability insurance.

OUR PROPERTIES

Overview

The following table sets forth certain operating information for each of our hotels for the year ended December 31, 2005. This information includes periods prior to our acquisition of these hotels unless otherwise indicated:

Property	Location	Number of Rooms	Average Occupancy(%)	ADR($)	RevPAR($)	% Change from 2004 RevPAR(4)
Los Angeles Airport Marriott	Los Angeles, California	1,004	77.0%	$ 101.99	$ 78.52	2.9%
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	71.4	118.68	84.76	8.0
Frenchman's Reef & Morning Star Marriott Beach Resort	St. Thomas, U.S. Virgin Islands	504	78.5	200.18	157.06	16.6
Renaissance Worthington	Fort Worth, Texas	504	76.9	151.48	116.45	15.1
Torrance Marriott	Los Angeles County, California	487	80.9	103.23	83.49	8.2
Orlando Airport Marriott(1)	Orlando, Florida	486	78.1	103.46	80.19	8.3
Marriott Griffin Gate Resort	Lexington, Kentucky	408	63.8	122.22	78.00	4.1
Oak Brook Hills Marriott Resort(2)	Oak Brook, Illinois	384	51.0	121.85	62.13	3.7
Vail Marriott Mountain Resort & Spa	Vail, Colorado	346	58.7	192.06	112.66	4.9
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	60.6	132.60	80.42	10.8
Courtyard Manhattan/Midtown East	New York, New York	307	87.9	230.52	202.52	13.9
Bethesda Marriott Suites	Bethesda, Maryland	274	77.4	160.38	124.13	8.2
SpringHill Suites Atlanta Buckhead(3)	Atlanta, Georgia	220	65.8	103.19	67.92	N/A
Courtyard Manhattan/Fifth Avenue	New York, New York	185	84.5	212.87	179.83	42.6
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	70.4	204.03	143.65	17.7
TOTAL/WEIGHTED AVERAGE		6,119	72.9%	$ 141.95	$ 103.42	10.7%

(1) We acquired the hotel on December 16, 2005.

(2) We acquired the hotel on July 29, 2005. The hotel was immediately converted to the Oak Brook Hills Marriott Resort.

(3) The hotel was newly built and commenced operations on July 1, 2005. Hotel statistics are presented for our ownership period which commenced on July 22, 2005.

(4) The % change from 2004 RevPAR excludes the SpringHill Suites Atlanta Buckhead. The hotel was newly built in 2005 and there are no comparable statistics for 2004.

The following table sets forth information regarding our investment in each of our hotels:

Property	Location	Year Opened	Number of Rooms(1)	Total Investment(1)	2006 Budgeted Capital Expenditures(2)	Total Projected Investment(3)	Total Projected Investment Per Room
Los Angeles Airport Marriott	Los Angeles, CA	1973	1,004	$ 114,681,000	$ 18,073,000	$ 132,754,000	$ 132,225
Salt Lake City Marriott Downtown	Salt Lake City, UT	1981	510	51,123,000	3,703,000	54,826,000	107,502
Frenchman's Reef & Morning Star Marriott Beach Resort	St. Thomas, USVI	1973/1984	504	76,106,000	10,860,000	86,966,000	172,552
Renaissance Worthington	Fort Worth, TX	1981	504	80,811,000	2,853,000	83,664,000	166,000
Torrance Marriott	Los Angeles County, CA	1985	487	67,421,000	7,625,000	75,046,000	154,099
Orlando Airport Marriott	Orlando, FL	1983	486	71,154,000	12,235,000	83,389,000	171,582
Marriott Griffin Gate Resort	Lexington, KY	1981	408	49,779,000	1,933,000	51,712,000	126,745
Oak Brook Hills Marriott Resort	Oak Brook, IL	1987	384	66,165,000	11,483,000	77,648,000	202,208
Vail Marriott Mountain Resort & Spa	Vail, CO	1983/2002	346	65,259,000	3,665,000	68,924,000	199,202
Marriott Atlanta Alpharetta	Atlanta, GA	2000	318	38,833,000	284,000	39,117,000	123,009
Courtyard Manhattan/Midtown East	New York, NY	1998	307	75,382,000	2,667,000	78,049,000	254,231
Bethesda Marriott Suites	Bethesda, MD	1990	274	42,185,000	5,831,000	48,016,000	175,241
SpringHill Suites Atlanta Buckhead	Atlanta, GA	2005	220	34,341,000	40,000	34,381,000	156,277
Courtyard Manhattan/Fifth Avenue	New York, NY	1990	185	41,832,000	2,575,000	44,407,000	240,038
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, CA	2001	182	32,430,000	486,000	32,916,000	180,857
TOTAL			**6,119**	**$ 907,502,000**	**$ 84,313,000**	**$ 991,815,000**	**$ 162,088**

(1) As of December 31, 2005.

(2) 2006 budgeted capital expenditures represents capital expenditures regardless of whether they will be paid for through an escrow account or owner funding.

(3) Total projected investments for each hotel is the gross book value of the hotel as of December 31, 2005 plus 2006 budgeted capital expenditures.

Recent Developments

Chicago Marriott. On March 1, 2006, we signed a purchase agreement to acquire 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 (or approximately $257,000 per room), including the assumption of $220 million of floating-rate debt. We made a $10 million non-refundable deposit upon entering into the purchase agreement. The acquisition is scheduled to close on March 24, 2006. We intend to refinance the existing $220 million floating-rate loan with a 10-year 5.96% fixed-rate loan issued by Wachovia Bank, National Association, an affiliate of Wachovia Capital Markets, LLC, one of the underwriters in this offering. The loan will be interest only for $3^1/_2$ years, after which, the principal will amortize using a 30-year amortization schedule. The new loan will be a limited recourse loan secured by a mortgage on the property. We will finance the remainder of the purchase price through a portion of the net proceeds from this offering. We expect to borrow up to $100 million through a short-term floating-rate loan arranged by Wachovia Bank, National Association, which we will repay with a portion of the net proceeds of this offering.

This hotel earned $21 million of EBITDA on revenues of $84.3 million in 2005. The 2005 EBITDA is calculated as net income of $4.1 million plus interest expense of $8.9 million and depreciation of $8.2 million less an income tax benefit of $0.2 million.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 56,419,000	$ 53,984,000	$ 53,670,000	$ 54,070,000	$ 57,348,000
ADR	$ 176.11	$ 172.19	$ 170.32	$ 167.41	$ 184.44
Occupancy %	74.1%	70.9%	72.6%	74.4%	71.7%
RevPAR	$ 130.48	$ 122.07	$ 123.70	$ 124.62	$ 132.17

The foregoing table includes information for periods prior to our ownership provided to us by the sellers of the hotel.

The hotel was built in 1978 and underwent extensive renovations that were completed in 2005.

We believe the hotel has an excellent location on North Michigan Avenue in Chicago's famed shopping and entertainment district, the Magnificent Mile. The hotel is predominantly marketed to groups and individual business travelers who are seeking a premium full-service hotel located in the heart of this well-known district. According to the sellers' records, last year, over half of the rooms sold at the hotel were sold to corporate and association groups and roughly a quarter were sold to individual corporate travelers. The hotel has 60,000 square feet of flexible meeting space.

We believe that supply and demand dynamics are very favorable in Chicago. For example, the number of hotel rooms added to downtown Chicago over the past five years has been very limited, averaging just over 1% per year. In addition, Chicago is a compelling location for conventions and other city-wide events and over the next few years should benefit from the displacement of conventions caused by Hurricane Katrina. We also believe that this hotel is an irreplaceable asset as the land acquisition and construction cost of building a new large hotel in downtown Chicago would be prohibitive.

We cannot assure you that we will acquire the Chicago Marriott because the completion of the proposed acquisition is subject to a variety of conditions.

Refinancing of Courtyard Manhattan/Fifth Avenue. We have a commitment from Lehman Brothers Bank to refinance the mortgage loan on the Courtyard Manhattan/Fifth Avenue that will mature in January 2007. Pursuant to this commitment, we expect to refinance the $23 million existing floating-rate loan with a $51 million fixed-rate loan that matures in 10 years. At the closing of the refinancing, the interest rate on the loan will be set based on the then current 10-year swap rate plus 90 basis points. We expect that the new fixed-rate loan will require principal repayments based on a 30-year amortization schedule following the first five years of payments of interest only. We expect to close this refinancing early in the second quarter of 2006.

Our Hotels

Los Angeles Airport Marriott

The Los Angeles Airport Marriott has 1,004 guestrooms, including 19 suites, and approximately 55,000 square feet of meeting space. The hotel attracts both business and leisure travelers due to its convenient location minutes from Los Angeles International Airport (LAX), the fourth busiest airport in the world. The property attracts large groups due to its significant amount of meeting space, guestrooms and parking spaces.

The hotel was built in 1973 and the most recent material renovation occurred in 1999. We are presently planning a major renovation of the rooms (replacing soft goods and case goods), bathrooms and corridors in 2006.

Competitor hotels include the Renaissance Los Angeles Airport, Radisson Hotel Los Angeles Airport, Sheraton Hotel Gateway Los Angeles International, Crowne Plaza Los Angeles International Airport, Hilton Los Angeles Airport & Towers and the Westin Los Angeles Airport. In addition, this hotel faces competition from hotels at alternative airport locations. We believe the Los Angeles Airport sub-market is a highly competitive hotel market which fluctuates based on general economic trends and air traffic levels.

We own a fee simple interest in the hotel.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 27,163,000	$ 23,332,000	$ 23,804,000	$ 27,883,000	$ 28,774,000
ADR	$ 118.12	$ 108.53	$ 92.75	$ 96.50	$ 101.99
Occupancy %	62.8%	57.7%	70.2%	79.1%	79.0%
RevPAR	$ 74.20	$ 62.64	$ 65.14	$ 76.30	$ 78.52

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Salt Lake City Marriott Downtown

The Salt Lake City Marriott Downtown has 510 guestrooms, including 6 suites, and approximately 22,300 square feet of meeting space. The hotel is located in downtown Salt Lake City across from the Salt Palace Convention Center near Temple Square. Demand for the hotel is generated primarily by the Convention Center, the Church of Jesus Christ of Latter-Day Saints, the University of Utah, government offices and nearby ski destinations. The hotel is connected to Crossroads Plaza Mall, which is expected to undergo a major reconstruction as part of a redevelopment that is expected to include the construction of up to 900 residential units. We believe the hotel will also benefit from the planned establishment by the Church of Jesus Christ of Latter-Day Saints of a major university, with enrollment of up to 10,000 students, near the hotel. While we believe that the Salt Lake City market has good growth prospects over the next few years, it currently is characterized by over-supply, leading to intense rate competition and lower RevPAR.

The hotel was built in 1981 and, immediately prior to the 2002 Salt Lake Olympic games, the prior owner made significant capital improvements, including the replacement of soft goods in the guestrooms and a refurbishment of the lobby, ballroom and public space.

We hold ground lease interests in the hotel and the extension that connects the hotel to Crossroads Plaza Mall. The term of the ground lease for the hotel runs through 2056, inclusive of five ten-year renewal options. The term of the ground lease for the extension of the hotel (containing approximately 1,078 square feet) runs through 2017, inclusive of the one remaining ten-year renewal option.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 13,917,000	$ 18,019,000	$ 14,504,000	$ 14,570,000	$ 15,778,000
ADR	$ 116.79	$ 130.82	$ 118.55	$ 115.51	$ 118.68
Occupancy %	64.2%	73.1%	65.9%	67.9%	71.4%
RevPAR	$ 74.97	$ 95.66	$ 78.13	$ 78.49	$ 84.76

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Frenchman's Reef & Morning Star Marriott Beach Resort

The Frenchman's Reef & Morning Star Marriott Beach Resort was recently voted "best resort hotel and best resort hotel with a view" by readers of Caribbean Travel & Life. It is a 17-acre resort hotel located in St. Thomas, U.S. Virgin Islands. The hotel is located on a cliff overlooking Charlotte Amalie Bay and the Caribbean Sea. The hotel has 504 guestrooms, including 27 suites, and approximately 60,000 square feet of meeting space. The hotel caters primarily to tourists, but also attracts group business travelers.

The Frenchman's Reef section of the resort was built in 1973 and the Morning Star section of the resort was built in 1984. Following severe damage from a hurricane, the entire resort was substantially rebuilt in 1996 as part of a $60 million capital improvement.

Competitor hotels include the Wyndham Resorts Sugar Bay, Westin St. John Resort, and the Grand Beach Palace. In addition to these direct competitors, the Frenchman's Reef & Morning Star Marriott Beach Resort competes with many other Caribbean resort properties.

We own a fee simple interest in the hotel.

	Fiscal Year				
	2001	**2002**	**2003**	**2004**	**2005**
Room Revenue	$ 20,901,000	$ 21,677,000	$ 23,522,000	$ 24,853,000	$ 27,575,000
ADR	$ 188.28	$ 170.78	$ 171.49	$ 188.49	$ 200.18
Occupancy %	60.3%	69.0%	74.6%	71.5%	78.5%
RevPAR	$ 113.62	$ 117.83	$ 127.86	$ 134.73	$ 157.06

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Renaissance Worthington

The Renaissance Worthington is Fort Worth's only AAA Four Diamond hotel. It has 504 guestrooms, including 30 suites, and approximately 57,000 total square feet of meeting space. The hotel is located in downtown Fort Worth in Sundance Square, a sixteen-block retail area. It is also near Fort Worth's Convention Center, which hosts a wide range of events, including conventions, conferences, sporting events, concerts and trade and consumer shows.

The hotel was opened in 1981 and underwent $4 million in renovations in 2002 and 2003.

While the hotel does not currently face significant competition from its competitors, the City of Fort Worth has announced that it will heavily subsidize the construction of a new hotel to be managed by Omni to be built next to the convention center. We expect that hotel to become the Renaissance Worthington's primary competitor in the market. The Omni is scheduled to open in 2008.

We acquired a fee simple interest in the hotel. A portion of the land under the parking garage (consisting of 0.28 acres of the entire 3.46 acre site) is subject to three co-terminous ground leases. Each of the ground leases extends to July 31, 2022 and provides for three successive renewal options of 15 years each. The ground leases provide for adjustments to the fixed ground rent payments every ten years during the term.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 17,215,000	$ 18,070,000	$ 17,502,000	$ 18,557,000	$ 21,422,000
ADR	$ 133.77	$ 132.88	$ 134.27	$ 138.55	$ 151.48
Occupancy %	70.1%	72.7%	71.1%	73.0%	76.9%
RevPAR	$ 93.84	$ 96.64	$ 95.40	$ 101.15	$ 116.45

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Torrance Marriott

The Torrance Marriott has 487 guestrooms, including 11 suites, and approximately 23,000 square feet of indoor and outdoor meeting space. The hotel is located in Los Angeles County in Torrance, California, a major automotive center. Three major Japanese automobile manufacturers, Honda, Nissan and Toyota, have their U.S. headquarters in the Torrance area and generate significant demand for the hotel. It is also adjacent to the Del Amo Fashion Center mall, one of the largest malls in America. The hotel benefits from the fact that hotel room supply growth in Los Angeles has remained at relatively low levels, averaging only 0.62 percent per year between 1992 and 2003.

The hotel was completed in 1985. We have developed an intensive capital improvement and repositioning plan for this hotel and plan to replace the guestroom soft goods, renovate the lobby, food and beverage outlets and meeting space, and convert the gift shop to a Starbucks outlet. We also see an opportunity to introduce new concepts for two of the property's food and beverage outlets. We believe that our repositioning plan will allow this hotel to improve guest satisfaction, entice more group business, improve local catering sales and command higher rates.

We own a fee simple interest in the hotel.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 15,837,000	$ 13,580,000	$ 13,171,000	$ 13,678,000	$ 14,194,000
ADR	$ 107.71	$ 91.69	$ 90.76	$ 99.63	$ 103.23
Occupancy %	82.9%	82.6%	81.9%	77.4%	80.9%
RevPAR	$ 89.34	$ 75.78	$ 74.30	$ 77.16	$ 83.49

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Orlando Airport Marriott

The Orlando Airport Marriott has 486 guestrooms, including 14 suites, and approximately 26,000 square feet of meeting space. The hotel has a resort-like setting yet is well-located in a successful commercial office park five minutes from the Orlando International Airport. The hotel serves predominantly business transient guests as well as small and mid-size groups that enjoy the hotel's amenities as well as its proximity to the highly efficient and well run airport. We believe that the long-term trends at this hotel are very favorable as new hotel construction in the Orlando Airport sub-market is minimal while the airport is one of the fastest growing airports in the country.

The hotel was built in 1983. We have developed an extensive renovation plan for this hotel, which we believe will help position the hotel to capture higher-rated corporate transient business. We have also begun to implement a complete re-segmentation of the customer base of the hotel by replacing the large, low-rated airline crew segment with higher-rated transient and group business.

We own a fee simple interest in the hotel.

	Fiscal Year				
	2001(1)	2002	2003	2004	2005
Room Revenue	$ 14,121,000	$ 12,543,000	$ 11,602,000	$ 13,119,000	$ 14,166,000
ADR	$ 101.08	$ 89.25	$ 83.55	$ 88.42	$ 102.68
Occupancy %	79.1%	79.6%	78.6%	83.8%	78.1%
RevPAR	$ 79.93	$ 71.00	$ 65.67	$ 74.05	$ 80.19

(1) Represents the period from July 1, 2000 through June 30, 2001.

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Marriott Griffin Gate Resort

Marriott Griffin Gate Resort is a 163-acre regional resort located north of downtown Lexington, Kentucky. The resort has 408 guestrooms, including 21 suites as well as 13,000 square feet of meeting space. The resort contains three distinct components: the seven story main hotel and public areas, the Griffin Gate Golf Club, with the Rees Jones-designed 18-hole golf course, and The Mansion (which was originally constructed in 1854 and was Lexington's first AAA 4-Diamond restaurant). The hotel is near all the area's major corporate office parks and regional facilities of a number of major companies such as IBM, Toyota, Lexel Corporation and Lexmark International. The hotel also is located in proximity to downtown Lexington, the University of Kentucky, the historic Keeneland Horse Track and the Kentucky Horse Park.

The hotel was originally opened in 1981. In 2003, the prior owner, Marriott International, initiated a major renovation and repositioning of the resort, with an approximate $10 million capital improvement plan. We completed the renovation plan in 2005. The renovation included a complete guestroom and guestroom corridor renovation, as well as a renovation of the exterior façade. We also significantly renovated the public space at the hotel.

We own a fee simple interest in the hotel, The Mansion, and most of the Griffin Gate Golf Club. However, there is a ground lease interest under approximately 54 acres of the golf course. The ground lease runs through 2033 (inclusive of four five-year renewal options), and contains a buyout right beginning at the end of the term in 2013 and at the end of each five-year renewal term thereafter. We are the sub-sublessee under another minor ground lease of land adjacent to the golf course, with a term expiring in 2020.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 9,806,000	$ 10,551,000	$ 10,667,000	$ 11,151,000	$ 11,645,000
ADR	$ 103.66	$ 99.91	$ 103.53	$ 110.10	$ 122.22
Occupancy %	63.7%	69.8%	69.4%	68.1%	63.8%
RevPAR	$ 66.03	$ 69.70	$ 71.83	$ 74.99	$ 78.00

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Oak Brook Hills Marriott Resort

In July 2005, we acquired the Oak Brook Hills Resort & Conference Center, replaced the existing manager with an affiliate of Marriott and re-branded the hotel as the Oak Brook Hills Marriott Resort. The resort has 384 guestrooms, including 37 suites. The hotel markets itself to national and regional conferences by providing over 40,000 square feet of meeting space at a hotel with a championship golf course that is convenient to both O'Hare and Chicago Midway airports and is near downtown Chicago. The resort is located in Oak Brook, Illinois.

The hotel was built in 1987. We have begun an extensive renovation at the resort which we intend to complete during 2006. We will renovate the public space, meeting rooms, food and beverage outlets and guest rooms.

The hotel is located on approximately 18 acres that we own in fee simple. The hotel is adjacent to an 18 hole, approximately 110 acre, championship golf course that we lease pursuant to a ground lease which has approximately 40 years remaining, including renewal terms. Rent for the entire initial term of the ground lease has been paid in full.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 11,596,000	$ 9,938,000	$ 9,099,000	$ 8,422,000	$ 8,762,000
ADR	$ 140.30	$ 131.66	$ 128.43	$ 121.95	$ 121.85
Occupancy %	59.0%	53.9%	50.5%	49.1%	51.0%
RevPAR	$ 82.73	$ 70.90	$ 64.83	$ 59.93	$ 62.13

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Vail Marriott Mountain Resort & Spa

The Vail Marriott Mountain Resort & Spa is located at the base of Vail Mountain in Vail, Colorado. The hotel has 346 guestrooms, including 61 suites, and approximately 21,000 square feet of meeting space.

The hotel is approximately 150 yards from the Eagle Bahn Express Gondola, which transports guests to the top of Vail Mountain, the largest single ski mountain in North America, with over 5,289 acres of skiable terrain. The hotel is located in Lions Head Village, the center of which is currently undergoing a massive renovation to create a new European-inspired plaza which will include luxury condominiums and a small 36 room hotel, as well as equipment rentals, ski storage, lockers, ski and snowboard school, shopping and après ski restaurant and bar; dining and shopping opportunities; and a winter ice-skating plaza and entertainment venues. Vail Resorts is scheduling the renovation to be completed before the 2007-2008 season. In total, more than a billion dollars is being invested in the redevelopment of the town of Vail over the next few years and we are optimistic that this investment will increase the value of our hotel.

The hotel opened in 1983 and underwent a luxurious renovation of the public space, guest rooms and corridors in 2002. We are currently planning on completing the renovation, of the meeting space and pre-function space over the next year.

We own a fee simple interest in the hotel.

	Fiscal Year				
	2001(1)	2002	2003	2004	2005
Room Revenue	$ 4,934,000	$ 9,846,000	$ 12,709,000	$ 14,418,000	$ 14,012,000
ADR	$ 219.74	$ 166.46	$ 173.94	$ 188.81	$ 200.04
Occupancy %	26.9%	63.1%	56.3%	60.0%	57.8%
RevPAR	$ 59.03	$ 104.99	$ 97.88	$ 113.38	$ 115.56

(1) The hotel was closed for the second half of 2001 due to a serious fire at the hotel.

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Marriott Atlanta Alpharetta

The Marriott Atlanta Alpharetta is located in the city of Alpharetta, Georgia, approximately 22 miles north of Atlanta. Alpharetta is located in North Fulton County, a rapidly growing, very affluent county, which is characterized by being the national or regional headquarters of a number of large corporations and it contains a large network of small and mid-sized companies supporting these corporations. The hotel is located in the Windward Office Park near several major corporations, including ADP, AT&T, McKesson, Siemens, Nortel and IBM. The hotel provides all of the amenities that are desired by business guests and is one of the few full-service hotels in a market predominately characterized by chain-affiliated select-service hotels.

The hotel opened in 2000 and is in excellent condition. The hotel includes 318 guestrooms and 9,000 square feet of meeting space.

We own a fee simple interest in the hotel.

	Fiscal Year				
	2001	**2002**	**2003**	**2004**	**2005**
Room Revenue	$ 7,859,000	$ 7,862,000	$ 7,852,000	$ 8,403,000	$ 9,334,000
ADR	$ 129.99	$ 119.37	$ 113.87	$ 121.20	$ 132.60
Occupancy %	52.2%	55.8%	59.6%	59.9%	60.6%
RevPAR	$ 67.90	$ 66.64	$ 67.84	$ 72.59	$ 80.42

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Courtyard Manhattan/Midtown East

The Courtyard Manhattan/Midtown East is located in Manhattan's East Side, on Third Avenue between 52nd and 53rd Streets. The hotel has 307 guestrooms and 1,500 square feet of meeting space.

Prior to 1998, the building was used as an office building, but then was completely renovated and opened in 1998 as a Courtyard by Marriott. We will complete a complete guestroom and public space renovation in the first quarter of 2006. We also intend to add four new guestrooms as part of this renovation. We intend to target the higher end of the market as a result of many of these improvements.

Competitor hotels include The Doubletree, The Crowne Plaza at the United Nations, The Roosevelt and Radisson. We compete with these hotels based on a number of factors, including location, brand, price, service and amenities, as well as property condition. We believe New York City is a highly competitive hotel market that has historically been fairly volatile, reflecting the overall business climate in New York City. Several hotels have recently been, or are being, converted into residential condominium units, and as a result, we believe these conversions will reduce the supply of upper-upscale hotel rooms in New York City.

We own a fee simple interest in a commercial condominium unit, which includes a 47.725% undivided interest in the common elements in the 866 Third Avenue Condominium; the rest of the condominium is owned predominately (48.2%) by the building's other major occupant, Memorial Sloan-

Kettering. The hotel occupies the lobby area on the 1st floor, all of the 12th-30th floors and its pro rata share of the condominium's common elements.

	Fiscal Year				
	2001	**2002**	**2003**	**2004**	**2005**
Room Revenue	$ 16,513,000	$ 16,099,000	$ 14,898,000	$ 19,874,000	$ 22,693,000
ADR	$ 176.31	$ 168.79	$ 161.67	$ 199.43	$ 230.52
Occupancy %	83.8%	83.7%	82.5%	89.2%	87.9%
RevPAR	$ 147.77	$ 141.35	$ 133.32	$ 177.85	$ 202.52

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Bethesda Marriott Suites

Bethesda Marriott Suites is located in the Rock Spring Corporate Office Park near downtown Bethesda, Maryland, with convenient access to Washington, D.C.'s Beltway (I-495) and the I-270 Technology Corridor. Rock Spring Corporate Office Park contains several million feet of office space and includes companies such as Marriott and Lockheed Martin Corp., as well as the National Institute of Health. The hotel contains 274 guestrooms, all of which are suites, and 4,300 square feet of total meeting space.

The hotel was built in 1990. We are currently completing the refurbishment of guestrooms, to reposition the hotel for higher-rated business.

We hold a ground lease interest in the property. The current term of the ground lease will expire in 2087.

	Fiscal Year				
	2001	**2002**	**2003**	**2004**	**2005**
Room Revenue	$ 10,713,000	$ 10,031,000	$ 10,918,000	$ 11,443,000	$ 12,414,000
ADR	$ 153.76	$ 138.89	$ 144.65	$ 153.74	$ 160.38
Occupancy %	69.9%	71.0%	75.7%	74.6%	77.4%
RevPAR	$ 107.41	$ 98.68	$ 109.47	$ 114.74	$ 124.13

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

SpringHill Suites Atlanta Buckhead

The SpringHill Suites Atlanta Buckhead is located in the heart of the Buckhead submarket of Atlanta, Georgia. Buckhead is one of the country's largest urban mixed-use development areas, combining major office, retail, hotel, restaurant/entertainment and high-rise residential development within its commercial core area.

The hotel is newly constructed and first opened for business in July 2005. We purchased the hotel upon opening from the developer of the hotel.

We own a fee simple interest in this 220-room all-suite hotel. The hotel also has 2,000 square feet of meeting space.

		Fiscal Year 2005(1)
Room Revenue	$	2,421,000
ADR	$	103.19
Occupancy %		65.8%
RevPAR	$	67.92

(1) The hotel was newly built and commenced operations on July 1, 2005. Hotel statistics are presented for our ownership period for which commenced on July 22, 2005.

Courtyard Manhattan/Fifth Avenue

The Courtyard Manhattan/Fifth Avenue is located on 40th Street, just off of Fifth Avenue in Midtown Manhattan, across the street from the New York Public Library. The hotel is situated in a convenient tourist and business location. It is within walking distance from Times Square, Broadway theaters, Grand Central Station, Rockefeller Center and the Empire State Building.

The hotel opened in 1990 as a Journey's End-branded hotel and has since changed brands a number of times. The prior owner of the hotel invested $3.7 million in 1999 to refurbish the hotel and convert it to a Clarion brand pursuant to a five-year agreement. Upon the end of that agreement, the hotel operated under the name Hotel 5A, a non-franchised brand. We believe the hotel's lack of strong brand affiliation adversely impacted operating results. In 2004, the previous owner engaged a national brokerage firm to market the hotel for sale and, through our senior management team's relationship with the broker, we learned about the opportunity to purchase this hotel before it was broadly marketed.

Between the time we learned of the opportunity to purchase the hotel and the bid date, we informed Marriott of this opportunity, and Marriott agreed to work with us on an exclusive basis to determine if the hotel was physically suitable to be converted to a Courtyard by Marriott hotel brand. The hotel was operating at a significant discount to the comparably located Courtyard Manhattan/Midtown East, located at 366 Third Avenue. The ADR at the hotel in 2004 was $58 lower than that of the Courtyard Manhattan/Midtown East in 2004. Prior to the bid date, we worked with Marriott to develop a significant rebranding, renovation and repositioning plan to convert the hotel to a Courtyard by Marriott and take advantage of the hotel's excellent location and the strength of the Marriott brand. Marriott provided $1 million of Key Money to enter into a long-term hotel management agreement with Marriott. We submitted a bid, won the bid process and acquired the hotel in December 2004, and the hotel was re-branded as a Courtyard by Marriott in January 2005.

We are completing significant capital improvements in 2005 and 2006 in connection with the re-branding, renovation and repositioning plan. The capital improvement plan included a complete soft goods renovation of the guestrooms, purchasing new furniture and bedding for the guestrooms, renovation of the bathrooms with granite vanity tops, installation of a new exercise facility, construction of a boardroom meeting space and modifications to make the hotel more accommodating to persons with disabilities.

We hold a ground lease interest in the hotel. The term of the ground lease expires in 2085, inclusive of one 49-year extension. The hotel includes 185 guestrooms.

	Fiscal Year				
	2001	2002	2003	2004	2005
Room Revenue	$ 7,625,000	$ 7,842,000	$ 7,134,000	$ 8,684,000	$ 11,326,000
ADR	$ 155.44	$ 139.14	$ 129.11	$ 140.96	$ 212,87
Occupancy %	71.1%	81.5%	80.1%	89.3%	84.5%
RevPAR	$ 110.53	$ 113.37	$ 103.41	$ 125.88	$ 179.83

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

The Lodge at Sonoma, a Renaissance Resort & Spa

The Lodge at Sonoma, a Renaissance Resort & Spa, is located in the heart of the Sonoma Valley wine country, 45 miles from San Francisco, in the town of Sonoma, California. Numerous wineries are located within a short driving distance from the resort. The area is served by the Sacramento, Oakland and San Francisco airports. The resort is readily accessible by a variety of local, county, and state highways, including Highway 101. Leisure demand is generated by Sonoma Valley and Napa Valley wine country attractions. Group and business demand is primarily generated from companies located in San Francisco and the surrounding Bay Area, and some ancillary demand is generated from the local wine industry.

We own a fee simple interest in the hotel, which is comprised of the main two-story Lodge building, including 76 guestrooms and 18 separate cottage buildings, containing the remaining 102 guestrooms and 4 suites. The Raindance Spa is located in a separate two-story building at the rear of the cottages. The hotel also has 22,000 square feet of meeting and banquet space.

	Fiscal Year				
	2001(1)	2002	2003	2004	2005
Room Revenue	$ 5,031,000	$ 7,117,000	$ 7,626,000	$ 8,084,000	$ 9,543,000
ADR	$ 168.03	$ 180.00	$ 190.74	$ 187.34	$ 204.03
Occupancy %	48.9%	58.6%	60.4%	65.1%	70.4%
RevPAR	$ 82.11	$ 105.41	$ 115.12	$ 122.03	$ 143.65

(1) The hotel opened on January 27, 2001.

The foregoing table includes information for periods prior to our ownership provided to us by the prior owner.

Mortgage Debt

As of December 31, 2005, we had approximately $416.4 million of outstanding mortgage debt. The following table sets forth our mortgage debt obligations on our hotels.

Property	Principal Balance	Prepayment Penalties	Interest Rate	Maturity Date	Amortization Provisions	Balance at Maturity(12)
Bethesda Marriott Suites	$ 19,305,400	Yes(1)	7.69%	2/23	25 years	$ 19,305,400
Frenchman's Reef & Morning Star Marriott Beach Resort	62,500,000	No(2)	5.44%	8/15	30 years(3)	58,015,332
Marriott Griffin Gate Resort	30,442,250	Yes(4)	5.11%	1/10	25 years	27,691,231
Los Angeles Airport Marriott	82,600,000	No(2)	5.30%	7/15	Interest Only	82,600,000
Courtyard Manhattan/Fifth Avenue	23,000,000	No(5)	LIBOR + 2.70%(6)	1/07(7)	Interest Only	23,000,000
Courtyard Manhattan/Midtown East	44,130,896	No(8)	5.195%	12/09	25 years	40,166,163
Orlando Airport Marriott	59,000,000	No(2)	5.68%	12/15	30 years(9)	54,949,085
Salt Lake City Marriott Downtown	38,016,189	Yes(8)	5.50%	12/14	20 years(10)	25,066,672
Renaissance Worthington	57,400,000	No(2)	5.40%	7/15	30 years(11)	52,362,448
Total	$ 416,394,735					$ 383,156,331

(1) The debt may be prepaid. If it is prepaid prior to August 2012, it is subject to a prepayment fee equal to the greater of (i) one percent of the outstanding principal amount or (ii) a yield maintenance premium determined as set forth in the Deed of Trust.

(2) Prepayment of the debt on the Los Angeles Airport Marriott, Renaissance Worthington and Orlando Airport Marriott is not permitted until the earlier of (i) two years after securitization (the lender intends to sell all or a portion of the debt through one or more public offerings) or (ii) four years from the closing date. Thereafter, we may pay a defeasance deposit in lieu of a prepayment of the debt. Prepayment in full will be permitted at par on the last three payment dates before the maturity date. For the loan secured by the mortgage on Frenchman's Reef & Morning Star Marriott Beach Resort, we may release the lien of mortgage through a defeasance deposit at any time after the earlier of (i) two years after securitization or (ii) thirty months after the closing date of the loan.

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

(4) We may not prepay the loan without the express written consent of the lender, and we have no right to prepay the debt until October 2009. Notwithstanding the foregoing, if the lender accepts prepayment of the debt prior to October 2009, we must pay a penalty equal to the greater of (i) 1% of the outstanding principal and (ii) the present value, as of the prepayment calculation date, of a series of monthly payments over the remaining term of the loan, each equal to the amount of interest that would be due on the portion of the loan being prepaid, assuming an annual interest rate of 5.11% over the discounted reinvestment yield, as such term is defined in the agreement.

(5) The debt may be prepaid at par.

(6) Rate is 7.075% as of December 31, 2005. We have entered into an interest rate cap agreement on this debt. Breakage fees may be payable if the debt is repaid.

(7) The debt allows for three one-year extensions provided that certain conditions are met.

(8) The debt may not be prepaid until three months prior to the maturity date of the mortgage loan (the "Prepayment Release Date"). For Salt Lake City Marriott Downtown, we may prepay the loan on or after the Prepayment Release Date without payment of fees. However, we must pay to the lender, simultaneously with such prepayment, the interest that would have accrued on the outstanding principal balance of the loan at the regular interest rate through the end of the interest period in which such prepayment occurs.

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

(10)

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

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

(12) Assuming no unscheduled payments have been made on the principal in advance of its due date.

OUR PRINCIPAL AGREEMENTS

The following summary of the terms of our principal agreements does not purport to be complete and is subject to and qualified in its entirety by reference to the actual agreements, copies of which are exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information."

Our Hotel Management Agreements

We are a party to hotel management agreements with Marriott for fourteen of the fifteen properties owned as of December 31, 2005. The fifteenth hotel, the Vail Marriott Mountain Resort & Spa, is managed by an affiliate of Vail Resorts and is under a long-term franchise agreement with Marriott. Marriott is responsible for (i) the hiring of certain executive level employees, subject to certain veto rights, (ii) training and supervising the managers and employees required to operate the properties and (iii) purchasing supplies, for which we generally will reimburse Marriott. Marriott provides centralized reservation systems, national advertising, marketing and promotional services, as well as various accounting and data processing services. Marriott also prepares and implements annual operations budgets subject to our review and approval. Each of our management agreements limits our ability to sell, lease or otherwise transfer the hotels unless the transferee (i) is not a competitor of the manager, (ii) assumes the related management agreements and (iii) meets specified other conditions.

Term

The following table sets forth the effective 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 generally automatically renew 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
The Lodge at Sonoma, a Renaissance Resort & Spa	10/2004	20 years	One ten-year period
Courtyard Manhattan/Midtown East	11/2004	30 years	Two ten-year periods
Salt Lake City Marriott Downtown	12/2001	30 years	Three fifteen-year periods
Courtyard Manhattan/Fifth Avenue	01/2005	30 years	None
Marriott Griffin Gate Resort	12/2004	20 years	One ten-year period
Bethesda Marriott Suites	12/2004	21 years	Two ten-year periods
Torrance Marriott	1/2005	40 years	None
Marriott Atlanta Alpharetta	9/2000	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
Renaissance Worthington	9/2000	30 years	Two ten-year periods
Vail Marriott Mountain Resort & Spa	6/2005	15 1/2 years	None
SpringHill Suites Atlanta Buckhead	7/2005	30 years	Two ten-year periods
Oak Brook Hills Marriott Resort	7/2005	30 years	None
Orlando Airport Marriott	11/2005	30 years	None

Amounts Payable under our Hotel Management Agreements

Under our current hotel management agreements, the property manager receives a base management fee and, if certain financial thresholds are met or exceeded, an incentive management fee. The base management fee is generally payable as a percentage of gross hotel revenues for each fiscal year. The incentive management fee is generally based on hotel operating profits and is typically equal to between 20% and 25% of hotel operating profits but the fee only applies to that portion of hotel operating profits above a negotiated return on our invested capital. We refer to this excess of operating profits over a return on our invested capital as "available cash flow."

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

	Base Management Fee(1)	Incentive Management Fee(2)
Courtyard Manhattan/Midtown East	5%	25%(3)
Torrance Marriott	3%	20%(4)
Salt Lake City Marriott Downtown	3%	Not more than 20%(5)
Marriott Griffin Gate Resort	3%	20%(6)
Bethesda Marriott Suites	3%	50%(7)
Courtyard Manhattan/Fifth Avenue	5%(8)	25%(9)
The Lodge at Sonoma, a Renaissance Resort & Spa	3%	20%(10)
Marriott Atlanta Alpharetta	3%	25%(12)
Frenchman's Reef & Morning Star Marriott Beach Resort	3%	25%(13)
Los Angeles Airport Marriott	3%	25%(14)
Renaissance Worthington	3%	25%(15)
Vail Marriott Mountain Resort & Spa	3%	20%(16)
SpringHill Suites Atlanta Buckhead	5%(11)	25%(17)
Oak Brook Hills Marriott Resort	3%	20% or 30%(18)
Orlando Airport Marriott	3%	20% or 25%(19)

(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 10.75% of the sum of (i) $73.7 million and (ii) the amount of certain capital expenditures.

(4) 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.

(5) The incentive management fee is equal to the available cash flow for each fiscal year, subject to a cap of 20% of operating profit for such fiscal year. Commencing with the fiscal year 2002, the operating profit with respect to each fiscal year is reduced by an amount equal to 10.75% of all material capital expenditures funded by the TRS lessee; provided that the material capital expenditures are included in the calculation of the incentive management fee with respect to the fiscal year or fiscal years during which such expenditures occurred (on a pro rata basis).

(6) Calculated as a percentage of operating profits in excess of the sum of (i) $5.5 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.

(8) 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 2007, the base management fee may increase to 5.5% at the beginning of the next fiscal year if operating profits equal or exceed $4.7 million, 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.

(9) Calculated as a percentage of operating profits in excess of 12% of the sum of (i) $38.8 million and (ii) the amount 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).

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

(11) The base management fee will be equal to 6% of gross revenues for fiscal years 2008 through 2016 and 6.5% of gross revenues thereafter. In the event that the property's operating profit is below certain thresholds in 2006 and 2007, the base management fee may be reduced by up to $100,000 per year. In addition, in the event that the hotel's operating profit is above certain thresholds starting in 2008, the base management fee will be increased to 6.5% and if the hotel's operating profit is above an additional threshold starting in 2012, the base management fee will be increased to 7.0%

(12) 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.

(13) Calculated as a percentage of operating profits in excess of the sum of (i) $8.4 million and (ii) 10.75% of certain capital expenditures.

(14) Calculated as a percentage of operating profits in excess of the sum of (i) $9.4 million and (ii) 10.75% of certain capital expenditures.

(15) 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.

(16) Calculated as a percentage of operating profits in excess of 11% of our invested capital. The incentive management fee rises to 25% if the hotel achieves operating profits in excess of 15% of our invested capital.

(17) Calculated as a percentage of operating profits in excess of the sum of (i) $4.1 million and (ii) 12% of certain capital expenditures and pre-conversion expenses.

(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 10.75% of our acquisition costs plus certain capital expenditures. We estimate that the threshold will be approximately $9 million. The percentage of operating profits is 20% except from 2011 through 2025 when it is 25%.

We paid $8,107,902 and $260,724 of management fees during the year ended December 31, 2005 and the period from May 6, 2004 (inception) to December 31, 2004. The management fees for the year ended December 31, 2005 consisted of $634,000 of incentive management fees and $7,473,902 of base management fees. All management fees earned during the period from May 6, 2004 (inception) to December 31, 2004 were base management fees.

Termination Events

Subject to the following exceptions, the hotel management agreements covering our hotels generally are non-terminable by us or the property manager.

Early Termination. Subject to certain qualifications, including based on materiality, our hotel management agreements are generally terminable upon (i) casualty or condemnation of the hotel or (ii) the occurrence of certain events of default. If an event of default occurs and continues beyond the grace period set forth in the hotel management agreement, the non-defaulting party generally has, among other remedies, the option of terminating the applicable hotel management agreement, upon notice to the other party.

Performance Termination. Except for the Salt Lake City Marriott Downtown, all of our hotel management agreements are generally terminable by us earlier than the stated term, subject to certain limitations, as a result of the failure of the hotel to meet certain market and financial performance thresholds over a period of two consecutive years. In the event a performance termination is issued, the property manager may avoid termination of the agreement by making a cure payment to us. Most of our agreements do not provide for a performance termination right during the first five to seven years. The hotel management agreement for Salt Lake City Marriott Downtown does not provide for performance-based termination by us.

Sale or Lease of a Hotel

The hotel management agreements with Marriott generally do not permit us to sell or lease the hotel to any person or entity that the property manager determines in its reasonable judgment:

- does not meet certain financial and liquidity requirements;
- is known in the community as being of bad moral character or has been convicted, or is under the control of a person or entity that has been convicted, of a felony;
- is a competitor with Marriott or any Marriott affiliate; or
- is a "specially designated national or blocked person," as that term is defined by the U.S. Department of Treasury's Office of Foreign Assets Control.

The hotel management agreement covering the Vail Marriott Mountain Resort & Spa provides that we generally may not sell the hotel to any person or entity that the property manager determines:

- has been convicted of a felony in any state or federal court or any foreign jurisdiction;
- does not have sufficient financial resources to perform its obligations under the hotel management agreement;
- is a competitor of the property manager or any affiliate of the property manager in the operation (as distinct from mere ownership) of hotels and/or resorts;
- does not enter into an assumption agreement reasonably satisfactory to the property manager, pursuant to which such person assumes all of our obligations under the hotel management agreement; or
- is generally recognized in the community as being a person with whom a prudent businessperson would not wish to associate in a commercial venture.

Most, but not all of our Marriott management agreements, contain a right of first offer, by which, if we decide to sell the hotel, we are required to notify Marriott and they are free to make an offer to buy the hotel before we market the hotel to third parties. We are free to take Marriott's offer or reject it and have no obligation to return to Marriott if we decide to sell the property for a price less than Marriott's offer.

TRS Lessee, or TRS, Obligations

The hotel management agreements covering our hotels generally require us to fund working capital needs, fixed asset supplies, capital expenditures and any operating losses. Furthermore, the financing of each hotel cannot exceed certain debt service coverage ratios. The hotel management agreements generally also require that the hotel meet the property manager's system standards regarding physical, operational and technological components of the applicable hotel.

Insurance

Most of our hotel management agreements generally provide that we are responsible for obtaining and maintaining property insurance, business interruption insurance, flood insurance, earthquake insurance (if the hotel is located in an "earthquake prone zone" as determined by the U.S. Geological Survey) and other customary types of insurance related to hotels and the manager is responsible for obtaining general liability insurance, workers' compensation and employer's liability insurance.

Damage to Hotels

The hotel management agreements generally provide that if the hotel suffers a "minor casualty," which is defined as repair or replacement cost that does not exceed a specified percentage of the then applicable replacement cost of the hotel, the property manager is required to proceed with necessary insurance claims and repair any such minor damage. In the event of a "total casualty," the agreement is generally terminable at the option of either party upon 90 days written notice to the other party. For any damage events that are more severe than minor but not a "total casualty," we are generally required at our cost and expense, and with all reasonable diligence, to repair and/or replace the damaged portion of the property to the same condition as it had existed previously. A "total casualty" is generally defined as any fire or other casualty that results in damage to the hotel and its contents to the extent that the total cost of repairing and/or replacing the damaged portion of the hotel to the same condition as it had existed previously would be, depending on the agreement, more than 25%, 30% or 40% of the then-total replacement cost of the hotel.

Condemnation of a Property

The hotel management agreements generally provide that if all or substantially all of the hotel is taken (or a portion of the hotel is taken, but the result is that it is unreasonable to continue to operate the hotel) in any eminent domain, condemnation, compulsory acquisition, or similar proceeding, the agreement will terminate and each party will have the right to initiate proceedings to recover compensation for such taking.

Indemnity Provisions

The hotel management agreements generally provide that the property manager will indemnify us for any liabilities stemming from the general corporate matters of the property manager or its majority-owned affiliates, to the extent such matters are not directly and primarily related to the hotel, and infringement and other claims relating to trademarks related to the property manager with respect to the applicable hotel, among other things. In addition to the liabilities above, the hotel management agreement for Salt Lake City Marriott Downtown also provides that the property manager will indemnify us for any liabilities stemming from a failure to maintain adequate insurance coverage and the bad faith or willful misconduct of the property manager's agents or employees, in both cases, to the extent such liability exceeds the insurance proceeds available to pay such claims.

We are generally responsible for indemnifying the property manager against liabilities arising from:

- a failure to procure and maintain insurance that we are required to procure and maintain under the hotel management agreements;
- a failure to make mortgage payments; and
- the presence of hazardous materials on the site of the hotel, except where such hazardous materials are the result of the gross negligence or willful misconduct of a member of the property manager's executive team for that particular hotel, in which case the property manager will indemnify us against any liabilities arising from the presence of hazardous materials on the site of the hotel.

In the case of the hotel management agreement for Salt Lake City Marriott Downtown, (i) the property manager is responsible for indemnifying us against liabilities arising from the placing, discharge, leakage, use or storage of hazardous materials, in violation of applicable environmental laws, at the hotel by the property manager's employees, representatives or agents and (ii) to the extent hazardous material is not the responsibility of the property manager, we are responsible for removing such hazardous material from the hotel and indemnifying the property manager against liabilities arising from the presence of such hazardous material at the hotel.

The hotel management agreement covering the Vail Marriott Mountain Resort & Spa generally provides that the property manager will indemnify us against any liabilities:

- arising from the management and operation of the hotel by the property manager, but only insofar as such liabilities are caused by the gross negligence, willful misconduct or fraud of the property manager's corporate employees;
- not covered by insurance (or subject to a deductible or self-insurance retention) related to the gross negligence, willful misconduct or fraud of the person employed as the general manager of the property; or
- arising as a result of the presence on or under, or escape, seepage, leakage or spillage, discharge, emission or release from the hotel of any hazardous materials or contamination of elements of the hotel by hazardous materials, but only to the extent such liabilities are caused by the gross negligence, willful misconduct or fraud of the property manager's corporate employees or the person employed as the general manager of the property.

The hotel management agreement covering the Vail Marriott Mountain Resort & Spa generally provides that we are generally responsible for indemnifying the property manager against liabilities arising from:

- the ownership, construction, renovation, management or operation of the hotel;
- the presence on or under, or escape, seepage, leakage or spillage, discharge, emission or release from the hotel of any hazardous materials or contamination of elements of the hotel by hazardous materials;
- the holding of the liquor license for the hotel; or
- the termination of any hotel employee in connection with the termination of the hotel management agreement.

Chicago Marriott Management Agreement

In connection with our probable acquisition of the Chicago Marriott, we expect to assume a hotel management agreement, dated November 28, 1989, with Marriott as the hotel manager. The initial term expires in December 2008 and is automatically extended for five additional periods of ten years each. Under this hotel management agreement, Marriott receives a base management fee of 3% of gross revenue as well as an incentive management fee of 20% of hotel operating profits. Unlike all of our other management agreements, the incentive management fee is calculated on the entire operating profit as there is no "owner's priority" and the incentive management fee does not deduct the base management fee from the calculation of hotel operating profits. This agreement may be terminated by Marriott upon the expiration of the initial term or any renewal term upon eighteen months written notice. This agreement may not be terminated by us and does not provide for any performance termination right.

Our Hotel Franchise Agreement

With respect to the Vail Marriott Mountain Resort & Spa, our TRS lessee entered into a franchise agreement with Marriott International, Inc. that expires on December 17, 2021. The franchise agreement is generally non-terminable by us or by Marriott except upon an event of default or in the case of certain events of casualty or condemnation.

In connection with the franchise agreement, our TRS lessee pays Marriott a franchise fee equal to 6% of gross room sales and 3% of gross food and beverage sales. In addition, our TRS lessee pays Marriott an amount equal to 1% of gross room and 1% of gross room sales for use in chain-wide advertising, promotions and sales.

The franchise agreement restricts our ability to directly or indirectly transfer the hotel. In the event of a direct transfer of the hotel to a competitor of Marriott, Marriott may exercise a right of first refusal to acquire the hotel. In the event of an indirect transfer of the hotel (including the acquisition of more than a 20% interest in DiamondRock Hospitality Company) to a competitor of Marriott, Marriott may acquire the hotel at a price determined pursuant to a formula. In the event of a direct transfer of the hotel to an entity that is not a competitor of Marriott, Marriott may either approve or disapprove of the transfer. If Marriott approves of the transfer, the transferee shall enter into a new agreement with Marriott, pay Marriott an application fee and submit to a property improvement plan for the hotel. If Marriott does not approve of the transfer and the transfer is consummated, Marriott may seek various remedies including liquidated damages. In the event of an indirect transfer of the hotel (including the acquisition of more than a 20% interest in DiamondRock Hospitality Company) to a person not a competitor of Marriott, Marriott may either purchase the hotel at a price set by arbitration, terminate the franchise agreement and collect liquidated damages or consent to the transfer.

Our TRS Leases

In order for us to qualify as a REIT, none of the company, the operating partnership or any subsidiary can operate our hotels. Our operating partnership, or subsidiaries of our operating partnership, as lessors, lease our hotels to our TRS lessee and our TRS lessees enter into hotel management agreements with third-party managers to manage the hotels. One exception to this general rule is Frenchman's Reef & Morning Star Marriott Beach Resort, which is owned directly by a TRS that entered into a hotel management agreement. We have engaged a Marriott affiliate as the property manager for each of our hotels except for the Vail Marriott Mountain Resort & Spa, which is subject to a franchise agreement with Marriott. The leases are 5 year leases with provisions typical for an arms length lease entered into by unrelated parties.

Our Ground Lease Agreements

Three of our hotels are subject to ground lease agreements that cover all of the land underlying the respective hotel:

- The Bethesda Marriott Suites hotel 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, inclusive of the remaining ten-year renewal option.

In addition, part of one of the parking garages adjacent to one of our hotels is subject to a ground lease agreement:

- A 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.

Finally, two of the golf courses adjacent to two of our hotels are subject to ground lease agreements:

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.

These ground leases generally require us 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, our tenant's share of, charges, costs, expenses, assessments and liabilities, including real property taxes and utilities. Furthermore, these ground leases generally require us to obtain and maintain insurance covering the subject property.

The following table reflects the annual base rents of our ground leases:

Property	Term(1)	Annual Rent
Ground leases under hotels		
Bethesda Marriott Suites	Through 10/87	$390,015(2)
Courtyard Manhattan/Fifth Avenue(3)(4)	10/97-9/07	800,000
	10/07-9/17	906,000
	10/17-9/27	1,132,812
	10/27- 9/37	1,416,015
	10/37-9/47	1,770,019
	10/47-9/57	2,212,524
	10/57-9/67	2,765,655
	10/67-9/77	3,457,069
	10/77-9/85	4,321,336
Salt Lake City Marriott Downtown		
(Ground Lease for Hotel)	Through 12/56	Greater of $132,000 or 2.6% of annual gross room sales
(Ground Lease for Extension)	Through 12/07	9,343
	1/08-12/12	10,277
	1/13-12/17	11,305
Ground leases under parking garage		
Renaissance Worthington	Through 7/12	36,613
	8/12-7/22	40,400
	8/22-7/37	46,081
	8/37-7/52	51,764
	8/52-7/67	57,444
Ground leases under golf course		
Marriott Griffin Gate Resort	9/03-8/08	90,750
	9/08-8/13	99,825
	9/13-8/18	109,800
	9/18-8/23	120,750
	9/23-8/28	132,750
	9/28-8/33	147,000
Oak Brook Hills Marriott Resort	10/85-9/25	1(5)

(1) These terms assume our exercise of all renewal options.

(2) Represents rent for the year ended December 31, 2005. Rent will increase annually by 5.5%.

(3) The ground lease term is 49 years. We have the right to renew the ground lease for an additional 49 year term on the same terms then applicable to the ground lease.

(4) The total annual rent includes the fixed rent noted in the table plus a percentage rent equal to 5% of gross receipts for each lease year, but only to the extent that 5% of gross receipts exceeds the minimum fixed rent in such lease year.

(5) We have the right to extend the term of this lease for two consecutive renewal terms of ten years each with rent at then market value.

Subject to certain limitations, an assignment of the ground leases covering the Courtyard Manhattan/Fifth Avenue and a portion of the Marriott Griffin Gate Resort golf course and the Oak Brook Hills Marriott Resort golf course do not require the consent of the ground lessor. With respect to the ground leases covering the Salt Lake City Marriott Downtown hotel and extension and Bethesda Marriott Suites, any proposed assignment of our leasehold interest as ground lessee under the ground lease requires the consent of the applicable ground lessor. As a result, we may not be able to sell, assign, transfer or convey our ground lessee's interest in any such property in the future absent the consent of the ground lessor, even if such transaction may be in the best interests of our stockholders.

MANAGEMENT

Our Directors and Senior Executive Officers

Our board of directors consists of six directors, four of whom are independent directors in accordance with the listing standards established by the NYSE. Our directors serve for one-year terms and until their successors are duly elected and qualified. There is no cumulative voting in the election of directors. Consequently, at each annual meeting the successors to each of our six directors will be elected by a plurality of the votes cast at that meeting. Each of our executive officers has served as such since our inception in May 2004, except for Sean M. Mahoney, who has served as an executive officer since August 2004. Each of our directors has served as such since completion of our July 2004 private placement, except for Messrs. McCarten and Williams, who have served as directors since May 2004 and June 2004, respectively. Certain information regarding our directors and senior executive officers is set forth below.

Name	Age	Position
William W. McCarten	57	Chairman of the Board, Chief Executive Officer and Director
John L. Williams	54	President, Chief Operating Officer and Director
Daniel J. Altobello*(1)(2)(3)	65	Director
W. Robert Grafton*(1)(2)(4)	64	Lead Director
Gilbert T. Ray*(2)(3)	61	Director
Maureen L. McAvey*(1)(3)	60	Director
Mark W. Brugger	36	Executive Vice President, Chief Financial Officer and Treasurer
Michael D. Schecter	41	General Counsel and Secretary
Sean M. Mahoney	34	Chief Accounting Officer and Corporate Controller

* Independent Director

(1) Member of our Audit Committee.

(2) Member of our Compensation Committee.

(3) Member of our Nominating and Corporate Governance Committee.

(4) Mr. Grafton serves as our Lead Director.

The following is a summary of certain biographical information concerning our directors and senior executive officers:

William W. McCarten is our Chairman of the Board, Chief Executive Officer and a member of our board of directors. Mr. McCarten worked for the Marriott Corporation, or Marriott International, Inc., and its related entities for over twenty-five years and retired from Marriott in January 2004. From 2001 to 2003, Mr. McCarten served as President of the Marriott Services Group within Marriott International, Inc. From 1995 to 2000, Mr. McCarten served as the Chief Executive Officer of HMSHost Corporation, formerly Host Marriott Services Corporation, a publicly held developer and operator of restaurant and retail concessions in travel and entertainment venues listed on the New York Stock Exchange. In addition, Mr. McCarten served as non-executive Chairman of HMSHost Corporation from 2000 to 2001. As Chief Executive Officer of HMSHost Corporation, Mr. McCarten oversaw the spin-off of that company from Host Marriott Corporation through its merger with Autogrill, S.P.A. From 1993 to 1995, Mr. McCarten was Executive Vice President and

Operating Group President of Host Marriott Corporation. Mr. McCarten was President Host and Travel Plazas for the Marriott Corporation from 1992 to 1993 and served as Executive Vice President Host and Travel Plazas from 1991 to 1992. From 1986 to 1991, Mr. McCarten was Senior Vice President, Finance and Corporate Controller of Marriott Corporation. From 1979 to 1986, Mr. McCarten served in various executive positions at Marriott. Prior to joining Marriott, Mr. McCarten was an accountant with Arthur Andersen & Co. from 1970 to 1979. Mr. McCarten received his B.S. in Accounting from the McIntire School of Commerce at the University of Virginia in 1970, and he served on the Advisory Board of the McIntire School from 1981 to 1996.

John L. Williams serves as our President and Chief Operating Officer and is a member of our board of directors. Mr. Williams worked for the Marriott Corporation, or Marriott International, Inc., and its related entities for over twenty-five years. Mr. Williams most recently served as Executive Vice President of North American Hotel Development for Marriott International. From 1993 to 2004, Mr. Williams served as Senior and Executive Vice President of Development. From 1991 to 1992, Mr. Williams, while on a leave of absence from Marriott, served as the Chief Acquisition Executive for Lodging Opportunities, the initial lodging fund sponsored by the Thayer organization. From 1982 to 1990, Mr. Williams was Vice President of Hotel Development, where he was responsible for the development of Marriott hotels in the western United States (1982-1985) and the northeastern United States (1984-1990). Mr. Williams was a Director of Feasibility from 1980 to 1982. Prior to joining the Marriott Corporation in 1980, Mr. Williams was a senior consultant with Laventhal and Horwath. Mr. Williams received a BS/BA from Denver University with a major in Hotel and Restaurant Management and B.A. in American Studies from Denver University in 1973. In addition, Mr. Williams performed graduate coursework at the University of Missouri at Kansas City with a concentration in finance.

Daniel J. Altobello is a member of our board of directors. Mr. Altobello has been Chairman of Altobello Family LP since 1991. Mr. Altobello also served as Chairman of the Board of Directors of Onex Food Services, Inc., the parent corporation of Caterair International, Inc. and LSG/SKY Chefs from 1995 to 2001. From 1989 to 1995, Mr. Altobello was the Chairman, Chief Executive Officer and President of Caterair International Corporation. He currently serves on the board of directors of JER Investors Trust, Inc., Media Bay, Inc., MESA Air Group, World Airways, Inc. and Friedman, Billings, Ramsey Group, Inc., the parent of Friedman, Billings, Ramsey & Co., Inc. (which is serving as an underwriter in this offering). In addition, Mr. Altobello serves on the Advisory Board of Thayer Capital Partners and on the boards of two non-reporting companies, Associated Asphalt and Mercury Air Group.

W. Robert Grafton is a member of our board of directors and serves as our Lead Director. Mr. Grafton is a retired certified public accountant. He retired from Andersen Worldwide S.C. in 2000. Andersen Worldwide provided global professional auditing and consulting services through its two service entities, Arthur Andersen and Andersen Consulting. Mr. Grafton joined Arthur Andersen in 1963 and was elected a member of the Board of Partners of Andersen Worldwide in 1991. Mr. Grafton was elected Chairman of the Board of Partners in 1994 and served as Managing Partner Chief Executive from 1997 through 2000. Mr. Grafton serves on the board of directors of Carmax Inc., a publicly traded company listed on the New York Stock Exchange, where he also serves as Chairman of the Audit Committee.

Maureen L. McAvey is a member of our board of directors. Ms. McAvey has been a Senior Resident Fellow and ULI/Klingbeil Family Chair for Urban Development at the Urban Land Institute ("ULI") in Washington, DC since 2001. ULI is a premier research and education organization within the real estate and land use industry. Ms. McAvey was a member of the board of trustees of ULI from 1995 to 2001. Prior to joining ULI, from 1998 to 2001, Ms. McAvey was Director, Business Development, for Federal Realty Investment Trust, an owner and manager of retail developments and mixed-use developments and a publicly traded company listed on the New York Stock Exchange.

Ms. McAvey also has served as the Director of Development for the City of St. Louis, a cabinet level position in the Mayor's office and she was Executive Director of the St. Louis Development Corporation. Prior to working for the city of St. Louis, Ms. McAvey led the real estate consulting practices in Boston for Deloitte & Touche and Coopers & Lybrand. Ms. McAvey directed the west coast operations of Carley Capital Group, a national development firm and also has experience as a private developer. Ms. McAvey holds two master's degrees, one from the University of Minnesota and one from the Kennedy School of Government, Harvard University.

Gilbert T. Ray is a member of our board of directors. Mr. Ray was a partner in the law firm of O'Melveny & Myers LLP until his retirement in 2000. He practiced corporate law for almost three decades, and has extensive experience with corporate and tax exempt transactions, as well as international finance. Mr. Ray is a member of the board of directors of Advance Auto Parts, Inc., Watson Wyatt & Company Holdings and IHOP Corp., each a publicly traded company listed on the New York Stock Exchange. In addition, Mr. Ray is a member of the board of directors of Automobile Club of Southern California and Sierra Monolithics, Inc. Mr. Ray is also a trustee of SunAmerica Series Trust, Seasons Series Fund, The John Randolph Haynes and Dora Haynes Foundation, and St. John's Health Center Foundation.

Mark W. Brugger serves as our Executive Vice President, Chief Financial Officer and Treasurer. Previously, Mr. Brugger served as Vice President Project Finance for Marriott International, Inc., from 2000 to 2004. From 2001 to 2004, Mr. Brugger also served as Chief Executive Officer of Synthetic Fuel Enterprises, a wholly-owned subsidiary of Marriott International, Inc. with annual revenues in excess of $300 million. From 1997 to 2000, Mr. Brugger served as Vice President Investment Sales of Transwestern Commercial Services, formerly the Carey Winston Company. From 1995 to 1997, Mr. Brugger was the Land Development Director for Coscan Washington, Inc. Mr. Brugger received a Juris Doctorate from American University School of Law in 1995 and a B.A. from the University of Maryland at College Park in 1992.

Michael D. Schecter serves as our General Counsel and Secretary. Previously, Mr. Schecter served as Senior Counsel of Marriott International, Inc., from 1998 to 2004. From 1991 to 1998, Mr. Schecter was an associate at Sullivan & Cromwell in their Washington, D.C. and Melbourne, Australia offices. From 1990 to 1991, Mr. Schecter served as a law clerk to the Honorable Frank M. Johnson, Jr. of the United States Court of Appeals for the Eleventh Circuit. Mr. Schecter received a Juris Doctorate from Cornell Law School in 1990 and a B.A. from Bates College in 1986.

Sean M. Mahoney serves as our Chief Accounting Officer and Corporate Controller. Previously, Mr. Mahoney served as a senior manager with Ernst & Young LLP in McLean Virginia. During 2002 and 2003 Mr. Mahoney served as a Director in the Dublin, Ireland audit practice of KPMG. From 1993 to 2001, Mr. Mahoney worked in the audit practice of Arthur Andersen LLP. Mr. Mahoney is a member of the American Institute of Certified Public Accountants and is a Virginia C.P.A. Mr. Mahoney received a B.S. from Syracuse University in 1993.

Corporate Governance Profile

We believe that we have organized our corporate structure and governance to align our interests with those of our stockholders. For example:

- our board of directors consists of six directors, four of whom are "independent directors" with independence being determined in accordance with the listing standards established by the NYSE, and our board of directors will make an affirmative determination of the independence of each of our directors on an annual basis;

- a majority of our independent directors designate a Lead Director, whose responsibilities include: assisting our board of directors in complying with our corporate governance guidelines; coordinating the agenda and moderating sessions of our board of director's independent directors; and acting as chief liaison between the independent directors and our chief executive officer, president and chief operating officer;

- our directors are re-elected annually by a plurality of our stockholders;

- we have adopted a Code of Business Conduct and Ethics, which addresses, among other things, corporate opportunity and conflicts of interest issues relevant to our directors, executive officers and employees;

- we do not have a stockholder rights plan;

- we have opted out of the Maryland business combination and control share acquisition statutes; and

- we have adopted corporate governance guidelines, which among other things, specify that our directors should develop a significant ownership stake in our company over time in order to align their interests with those of our stockholders.

Board of Directors and Committees

Our board of directors has a policy that a majority of our directors must be independent. In order to qualify as an "independent director" under independence standards, a director may not have a material relationship with us. In addition, directors must also be "independent" within the meaning of the NYSE's requirements, or the NYSE Corporate Governance Rules. A director is not considered independent if, within the past three years:

- the director was employed by our company (except on an interim basis);

- an immediate family member of the director was an officer of our company;

- the director or an immediate family member was affiliated with or employed by our internal or external auditors;

- the director or an immediate family member was employed by a company when a present officer of our company sat on that company's compensation committee;

- the director or an immediate family member received, during any 12-month period, more than $100,000 in compensation from our company, other than director or committee fees or deferred compensation; or

- the director is an employee, or an immediate family member is an executive officer, of a company that makes payments to or receives payments from our company which exceed the greater of $1 million or 2% of that company's consolidated gross revenue over one fiscal year.

In addition, our board of directors considers, among other factors, whether the director, or an organization with which the director is affiliated, has entered into any commercial, consulting, or similar contracts with our company; whether the director receives any compensation or other fees from our company, other than the director fees described below under "Compensation of Directors"; and whether we and/or any of our affiliates make substantial contributions to tax-exempt organizations with which the director, or the director's spouse, is affiliated.

Our board of directors has determined that each of our four non-management directors are "independent" directors for the purposes of the NYSE Corporate Governance Rules. These four directors comprise a majority of our six-member board of directors.

Directors who qualify as being both "non-management" within the meaning of the NYSE Corporate Governance Rules meet on a regular basis in executive sessions without management participation. The executive sessions occur after each regularly scheduled meeting of our entire board of directors and at such other times that our independent and non-management directors deem appropriate. Each director has the right to call an executive session. The executive sessions are chaired by Mr. Grafton, the lead director of our board of directors.

Our board of directors has established an Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee and has adopted written charters for each committee.

Audit Committee

Our Audit Committee is comprised of Daniel J. Altobello, W. Robert Grafton and Maureen L. McAvey. Mr. Grafton serves as the chairperson of our Audit Committee. Each member of our Audit Committee is "independent" as that term is defined by the SEC and NYSE. Our board of directors determined that each of Mr. Grafton and Mr. Altobello qualifies as an "audit committee financial expert" as such term is defined in the rules of the SEC. In accordance with the SEC's safe harbor relating to audit committee financial experts, a person designated or identified as an audit committee financial expert will not be deemed an "expert" for purposes of federal securities laws. In addition, such designation or identification does not impose on such person any duties, obligations or liabilities that are greater than those imposed on such person as a member of the Audit Committee or board of directors in the absence of such designation or identification and does not affect the duties, obligations or liabilities of any other member of the Audit Committee or board of directors.

Our Audit Committee, pursuant to its written charter, assists our board of directors in its oversight of (i) our accounting and financial reporting processes; (ii) the integrity and audits of our financial statements; (iii) our compliance with legal and regulatory requirements; (iv) the qualifications, independence and performance of our independent auditors; and (v) the performance of our internal audit function. Our Audit Committee, among other things, also:

- is responsible for the appointment, retention and termination of our independent auditors and determines the compensation of our independent auditors;
- annually evaluates the independent auditors' qualifications, performance and independence;
- has sole authority to approve in advance all audit, internal control-related and non-audit services by our independent auditors, the scope and terms thereof, and the fees therefor;
- sets policies with respect to the potential hiring of current or former employees of the independent auditor;
- meets at least quarterly with our senior executive officers, internal auditors and our independent auditors in separate executive sessions;
- annually reviews and assesses the adequacy of our Audit Committee charter and recommends to our board of directors any amendments or modifications to our Audit Committee charter that our Audit Committee deems appropriate; and
- annually evaluates the performance of our Audit Committee and reports the results of such an evaluation to our board of directors.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee is comprised of three independent directors, Daniel J. Altobello, Maureen L. McAvey and Gilbert T. Ray. Mr. Ray serves as the chairperson of our Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee, pursuant to its written charter, is responsible for, among other things:

- identifying and recommending qualified individuals to become members of our board of directors;
- recommending to our board of directors criteria for membership on our board of directors and committee membership, including any specific minimum qualifications;
- recommending to our board of directors the directors for appointment to committees of our board of directors;
- developing and recommending to our board of directors a set of corporate governance guidelines and policies and a code of ethics, and periodically reviewing and recommending any changes to such guidelines and code;
- overseeing the annual performance evaluation of our board of directors;
- establishing policies for the identification and consideration of director candidates recommended by stockholders or securityholders;
- reviewing and assessing our Nominating and Corporate Governance Committee Charter and submitting proposed changes to our board of directors; and
- performing an annual performance evaluation of our Nominating and Corporate Governance Committee and reporting the results to our board of directors.

Compensation Committee

Our Compensation Committee is comprised of three independent directors, Daniel J. Altobello, W. Robert Grafton and Gilbert T. Ray. Mr. Altobello serves as the chairperson of our Compensation Committee. The Compensation Committee, pursuant to its written charter, among other things:

- reviews and approves or makes recommendations to our board of directors with respect to the compensation for our executive officers and non-employee directors;
- reviews and approves or makes recommendations to our board of directors with respect to our incentive-based and equity-based plans; and
- reviews and assesses the adequacy of the Compensation Committee charter and submits proposed changes to our board of directors.

The Compensation Committee also reviews and approves corporate goals and objectives relevant to chief executive officer compensation, evaluates the chief executive officer's performance in light of those goals and objectives, and determines and approves the chief executive officer's compensation levels based on its evaluation. Our Compensation Committee has the authority to retain and terminate any compensation consultant to be used to assist in the evaluation of the chief executive officer or other executive officer compensation.

Compensation Committee Interlocks and Insider Participation

There are no Compensation Committee interlocks and none of our employees participates on the Compensation Committee.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics, or our Code of Ethics, relating to the conduct of our business by our employees, executive officers and directors. Day-to-day responsibility for administering and interpreting our Code of Ethics has been delegated by our board of directors to Mr. Schecter, the compliance officer and our general counsel. Our Code of Ethics generally provides, among other things, that our directors, executive officers and employees must:

- not engage in any unlawful activity in conducting our business;
- protect our assets that are entrusted to them and take steps to ensure that our assets are used only for legitimate business purposes;
- not divert corporate opportunities that are discovered through the use of our property or information to himself or herself unless that opportunity has first been presented to, and rejected by, us;
- not use our property or information for his or her improper personal gain;
- not compete with us;
- not disclose or distribute our confidential information, except when such disclosure is authorized by us or required by law; and
- deal ethically and lawfully with our customers, suppliers, competitors and employees.

Our Code of Ethics also contains compliance procedures, allows for the anonymous reporting of a suspected violation of our Code of Ethics and specifically forbids retaliation against any executive officer or employee who reports suspected misconduct in good faith. The provisions of our Code of Ethics may only be waived or amended by our board of directors or, if permitted, a committee of our board of directors. Such waivers or amendments must be promptly disclosed to our stockholders. We intend to disclose any amendments to our Code of Ethics, as well as any waivers for executive officers, on our website.

A copy of the Code of Ethics is available on our website at http://www.drhc.com under the heading "Corporate Governance" and subheading "Corporate Governance Overview." We intend to disclose on this website any amendment to, or waiver of, any provision of the Code of Ethics applicable to our directors and executive officers that would otherwise be required to be disclosed under the rules of the SEC or the NYSE Corporate Governance Rules. A copy of this Code is also available in print to any stockholder upon written request addressed to Investor Relations, DiamondRock Hospitality Company, 6903 Rockledge Drive, Suite 800, Bethesda, MD 20817.

In addition, our board of directors adopted Corporate Governance Guidelines, a copy of which is also available on our website at http://www.drhc.com under the heading "Corporate Governance" and subheading "Corporate Governance Overview." Our Corporate Governance Guidelines are also available in print to any stockholder upon written request addressed to Investor Relations, DiamondRock Hospitality Company, 6903 Rockledge Drive, Suite 800, Bethesda, MD 20817.

Information on our website is not and should not be considered part of this prospectus.

Conflicts of Interest

Our Code of Ethics also contains a conflicts of interest policy to reduce potential conflicts of interest. Our conflicts of interest policy provides that any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest should be reported promptly to the compliance officer, who must then notify our board of directors or a committee of our board of directors. Actual or potential conflicts of interest involving a director, executive officer or the compliance officer should be disclosed directly to our chairman of our board of directors and the chairperson of our Nominating and Corporate Governance Committee. A "conflict of interest" occurs when a director's, executive officer's or employee's personal interest interferes with our interests. In general, this means that our directors, executive officers and employees must avoid situations that

present a potential or actual conflict between their personal interests and our interests. However, we cannot assure you that this policy will be successful in eliminating the influence of these potential conflicts.

Maryland law provides that a contract or other transaction between a corporation and any of the corporation's directors or any other entity in which that director is also a director or has a material financial interest is not void or voidable solely on the grounds of the common directorship or interest, the fact that the director was present at the meeting at which the contract or transaction is approved or the fact that the director's vote was counted in favor of the contract or transaction, if:

- the fact of the common directorship or interest is disclosed to our board or a committee of our board, and our board or that committee authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even if the disinterested directors constitute less than a quorum;

- the fact of the common directorship or interest is disclosed to stockholders entitled to vote on the contract or transaction, and the contract or transaction is approved by a majority of the votes cast by the stockholders entitled to vote on the matter, other than votes of stock owned of record or beneficially by the interested director, corporation, firm or other entity; or

- the contract or transaction is fair and reasonable to the corporation.

Vacancies on our Board of Directors

Our charter provides that, when we have three independent directors and our common stock is registered under the Exchange Act, we elect to be subject to certain provisions of the MGCL regarding the filling of vacancies on our board of directors. Accordingly, at such time, any and all vacancies on our board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which such vacancy occurred and until a successor is elected and qualified. Any director may resign at any time and may be removed with or without cause by our stockholders upon the affirmative vote of at least two-thirds of all the votes entitled to be cast for the election of directors.

Director Compensation

Cash Compensation. As compensation for serving on our board of directors in 2005, each of our non-employee directors received an annual fee of $20,000 and an additional fee of $1,500 for each meeting of our board of directors or of one of its committees that they attended. For attendance at each telephonic meeting, each of our non-employee directors received $750. Committee chairpersons received an additional $5,000 annual fee, with the exception of our Audit Committee chairperson, who received an additional $15,000 annual fee. Committee chairpersons were paid an additional $1,000 per committee meeting that they chaired. Our Lead Director received an additional $10,000 annual fee. Directors who are also employees are not separately compensated for services as a director.

Equity Compensation. Each of our non-employee directors received a grant of 5,000 unrestricted shares of common stock in connection with the completion of our July 2004 private placement and 2,500 unrestricted shares of common stock in connection with the completion of our initial public offering. In addition, each of our non-employee directors received 1,000 unrestricted shares of common stock for his or her service on our board of directors in 2005.

Expenses and Perquisites. We reimburse our directors for their reasonable out-of-pocket expenses incurred in attending board of directors and committee meetings. In addition, each of the six members of our board of directors holds a Marriott Platinum 5-Star Card, which entitles the board member, and their guests, to unlimited lodging, meals, parking and certain other expenses at all hotels and resorts managed or franchised by Marriott. We reimburse the director for all expenses incurred on these Marriott Platinum 5-Star Cards and all of such reimbursement was considered taxable income to the member who stayed at the hotel or resort. We have a policy of not reimbursing any director for any amounts above $10,000 per year that are charged on the Marriott Platinum 5-Star Card. In 2005, we reimbursed Mr. McCarten for $3,156, Mr. Altobello for $1,833 and Mr. Ray for $932, for charges incurred on their respective Marriott Platinum 5-Star Cards.

Compensation Changes in 2006. In 2006, following an extensive review of compensation practices among comparable public real estate investment companies, our board of directors approved changes to non-employee director compensation that include the elimination of (i) the additional $1,000 fee paid to committee chairpersons for each committee meeting that they chair and (ii) the annual grant of 1,000 unrestricted shares of our common stock. In lieu of receiving the annual grant of 1,000 unrestricted shares, each non-employee director will receive shares of deferred common stock with a market value of $25,000 (with the market value of those shares being determined based on the closing sale price of our common stock at the time such shares are issued). These shares are fully-vested at grant, but will not be distributed until three years from the date of grant. In addition, our board of directors voted to approve the grant of common stock with a market value of $50,000 to any future directors on the date they are first elected or appointed to our board of directors.

The following chart summarizes the fees paid to our non-management directors in 2005 (Messrs. McCarten and Williams receive no separate compensation for being members of our board of directors):

	Annual Fee for Board Membership	Attendance Fees for Board Meetings	Annual Fee for Committee Chairs & Lead Director	Attendance Fees for Committee Meetings	Annual Stock Grant(1)	Special IPO Stock Grant(1)	5-Star Perquisite Value	Total Amounts Paid
W. Robert Grafton (Lead Director & Audit Committee Chairperson)	$ 20,000	$ 10,500	$ 25,000	$ 16,750	$ 11,700	$ 26,250		$ 110,200
Daniel J. Altobello (Compensation Committee Chairperson)	$ 20,000	$ 10,500	$ 5,000	$ 19,750	$ 11,700	$ 26,250	$ 1,833	$ 95,033
Maureen L. McAvey (Director)	$ 20,000	$ 10,500	$ 0	$ 10,500	$ 11,700	$ 26,250		$ 78,950
Gilbert T. Ray (Nomination and Governance Committee Chairperson)	$ 20,000	$ 10,500	$ 5,000	$ 13,250	$ 11,700	$ 26,250	$ 932	$ 87,632

(1) The value of the stock granted to the directors is equal to the closing sale price of our common stock on the NYSE on the date that such stock was granted.

Stock Ownership Guideline. Our board of directors requires each independent director to acquire and at all times thereafter own 11,000 shares of common stock within five years of first being elected to our board of directors.

Executive Compensation

The following table sets forth the compensation paid for 2004 and 2005 to the Chairman of our Board and Chief Executive Officer and each of the four other named executive officers.

Summary Compensation Table

		Annual Compensation		Long-Term Compensation Awards		
Name and Principal Position	**Year**	**Salary($)**	**Bonus($)**	**Securities Underlying Options (#)**	**Restricted Stock/Deferred Stock Unit Awards($)(2)**	**All Other Compensation($)(3)**
William W. McCarten Chairman and Chief Executive Officer(5)	2005 2004(1)	500,000 250,000	612,500 293,750		1,181,250 2,250,000	27,997
John L. Williams President and Chief Operating Officer(6)	2005 2004(1)	400,000 200,000	390,000 188,000		1,102,500 2,100,000	18,000
Mark W. Brugger Executive Vice President And Chief Financial Officer(7)	2005 2004(1)	239,112 117,500	179,335 82,838		866,250 1,650,000	16,215
Michael D. Schecter General Counsel and Corporate Secretary(8)	2005 2004(1)	218,762 107,500	164,072 80,625		603,750 750,000	8,751
Sean M. Mahoney Chief Accounting Officer and Corporate Controller(9)	2005 2004(1)	142,041 58,333	49,715 19,602		262,500 150,000	8,316 30,000(4)

(1) The amounts for 2004 salary and bonus are for the partial year from our inception in May 2004 until December 31, 2004, except for the amounts for Mr. Mahoney, which are for the partial year from August 1, 2004 until December 31, 2004. The employment agreement for each of Messrs. McCarten, Williams, Brugger and Schecter, and the letter of employment for Mr. Mahoney, do not provide for a minimum or target bonus, and any bonus paid is at the sole discretion of our Compensation Committee.

(2) The 2004 restricted stock awards originally vested in equal installments over a three-year period. These awards were amended to provide that none of such stock vested in the first year, two-thirds of such stock will vest on August 1, 2006 and the remaining third will vest on July 7, 2007. Any dividends will be paid to the holders of restricted stock awards. Amounts set forth in the column represent the grant-date value of the restricted stock/deferred stock unit awards. In 2005, the executives received only deferred stock units, which are fully vested, but will not be distributed until the fifth anniversary of their issuance. All dividends on the deferred stock units are "re-invested" with the executives being credited with an additional number of deferred stock units that have a fair market value (based on the closing sale price of our common stock on the day the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares.

(3) 2005 other compensation represents the employer safe harbor 401(k) match and reimbursement of certain compensatory payments to the officers, including reimbursement of tax return preparation fees, annual medical examination costs and use of the Five Star cards discussed under the caption "Director Compensation."

(4) This amount represents a bonus paid to Mr. Mahoney in connection with the commencement of his employment.

(5) Mr. McCarten held 339,510 shares of restricted stock and deferred stock units as of December 31, 2005. The fair value of these shares and units as of December 31, 2005 was $4,060,540. The deferred stock units were 100% vested at the completion of our initial public offering. We do not pay current dividends on the shares underlying the deferred stock units, instead the dividends are effectively "re-invested" as each of the executive officers are credited with an additional number of deferred stock units that have a fair market value (based on the closing sale price of our common stock on the day

the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares (2005 dividends of

$23,130 were re-invested in 2,010 additional deferred stock units). In addition to the re-invested dividends, Mr. McCarten received dividends on unvested restricted stock in 2005 of $46,148 that are excluded from the table above.

(6)
Mr. Williams held 316,876 shares of restricted stock and deferred stock units as of December 31, 2005. The fair value of these shares and units as of December 31, 2005 was $3,789,837. The deferred stock units were 100% vested at the completion of our initial public offering. We do not pay current dividends on the shares underlying the deferred stock units, instead the dividends are effectively "re-invested" as each of the executive officers are credited with an additional number of shares that have a fair market value (based on the closing sale price of our common stock on the day the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares (2005 dividends of $21,588 were re-invested in 1,876 additional deferred stock units). In addition to the re-invested dividends, Mr. Williams received dividends on unvested restricted stock in 2005 of $43,071 that are excluded from the table above.

(7)
Mr. Brugger held 248,974 shares of restricted stock and deferred stock units as of December 31, 2005. The fair value of these shares and units as of December 31, 2005 was $2,977,729. The deferred stock units were 100% vested at the completion of our initial public offering. We do not pay current dividends on the shares underlying the deferred stock units, instead the dividends are effectively "re-invested" as each of the executive officers are credited with an additional number of shares that have a fair market value (based on the closing sale price of our common stock on the day the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares (2005 dividends of $16,962 were re-invested in 1,474 additional deferred stock units). In addition to the re-invested dividends, Mr. Brugger received dividends on unvested restricted stock in 2005 of $33,842 that are excluded from the table above.

(8)
Mr. Schecter held 133,527 shares of restricted stock and deferred stock units as of December 31, 2005. The fair value of these shares and units as of December 31, 2005 was $1,596,983. The deferred stock units were 100% vested at the completion of our initial public offering. We do not pay current dividends on the shares underlying the deferred stock units, instead the dividends are effectively "re-invested" as each of the executive officers are credited with an additional number of shares that have a fair market value (based on the closing sale price of our common stock on the day the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares (2005 dividends of $11,822 were re-invested in 1,027 additional deferred stock units). In addition to the re-invested dividends, Mr. Schecter received dividends on unvested restricted stock in 2005 of $15,383 that are excluded from the table above.

(9)
Mr. Mahoney held 40,447 shares of restricted stock and deferred stock units as of December 31, 2005. The fair value of these shares and units as of December 31, 2005 was $483,746. The deferred stock units were 100% vested at the completion of our initial public offering. We do not pay current dividends on the shares underlying the deferred stock units, instead the dividends are effectively "re-invested" as each of the executive officers are credited with an additional number of shares that have a fair market value (based on the closing sale price of our common stock on the day the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares (2005 dividends of $5,140 were re-invested in 447 additional deferred stock units). In addition to the re-invested dividends, Mr. Mahoney received dividends on unvested restricted stock in 2005 of $3,077 that are excluded from the table above.

Equity Compensation. In June 2004, we adopted our 2004 Stock Option and Incentive Plan for the purpose of attracting and retaining our directors, executive officers and other key employees. This equity plan permits us to make grants of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock awards, unrestricted stock awards, dividend equivalent rights and other share-based awards. We have reserved 2,000,000 shares of our common stock for the issuance of awards under the equity plan and have issued (or committed to issue) 1,170,333 shares of restricted or deferred common stock. Generally, shares that are forfeited or canceled from awards under the equity plan will become available for future awards.

Under our 2004 Stock Option and Incentive Plan, we have only issued shares of restricted stock or deferred stock units. We have not issued any options to purchase shares of our common stock and do not intend to issue any such options in 2006, as we believe issuing restricted or deferred stock units is a more appropriate method of providing long term incentives for our directors, executive officers and other employees.

In 2004 we issued 690,000 shares of restricted stock to Messrs. McCarten, Williams, Brugger and Schecter in connection with our formation and July 2004 private placement and to Mr. Mahoney upon his commencing employment with us in August 2004. These restricted stock awards originally vested on a three year annual vesting schedule. Each of our executive officers agreed to defer the vesting of the initial tranche for a year. Each of these restricted stock awards were amended to provide that two-thirds of the restricted stock awards will vest on August 1, 2006 and the remaining one-third will vest on July 7, 2007. We pay dividends on both the unvested and vested restricted stock on a current basis.

In 2005, in connection with our initial public offering, we issued 382,500 deferred stock unit awards to our five named executive officers. The deferred stock unit awards are fully vested and represent our promise to issue a number of shares of our common stock upon the earlier of (i) a sales event or (ii) July 2010. These awards are subject to forfeiture should the executive be terminated for cause. We do not pay current dividends on the shares of common stock underlying the deferred stock units, instead the dividends are effectively "re-invested" as each of the executive officers are credited with an additional number of deferred stock units that have a fair market value (based on the closing sale price of our common stock on the day the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares.

A summary of the awards to our named executive officers is set forth below:

	2004 Restricted Stock Awards(1)	2005 Deferred Stock Awards(2)
William W. McCarten	225,000 shares	112,500 units
John L. Williams	210,000 shares	105,000 units
Mark W. Brugger	165,000 shares	82,500 units
Michael D. Schecter	75,000 shares	57,500 units
Sean M. Mahoney	15,000 shares	25,000 units

(1) In 2004 in connection with our July 2004 private placement, we issued restricted stock to our executives. The 2004 restricted stock awards originally vested in equal installments over a three-year period. These awards were amended to provide that none of such stock vested in the first year, two-thirds of such stock will vest in the second year and the remaining third will vest in the third year. Any dividends will be paid to the holders of restricted stock awards.

(2) In 2005, the executives received deferred stock units, which are fully vested, but will not be distributed until the fifth anniversary of their issuance or sooner if we undergo a change in control. All dividends on the deferred stock units are "re-invested" with the executives being credited with an additional number of deferred stock units that have a fair market value (based on the closing sale price of our common stock on the day the dividend is paid) equal to the amount of the dividend that would have been awarded for those shares.

The equity plan is administered by our full board of directors but it may also be administered by a committee of at least two non-employee directors appointed by our board of directors. The administrator of the equity plan has full power and authority to select the participants to whom awards will be granted, to make any combination of awards to participants, to accelerate the exercisability or vesting of any award and to determine the specific terms and conditions of each award, subject to the provisions of the equity plan. The administrator may generally delegate to our chief executive officer the authority to grant certain awards under the equity plan to our employees.

All full-time and part-time officers, employees, non-employee directors and other key persons are eligible to participate in the equity plan, subject to the discretion of the administrator.

In the event of a merger, sale or dissolution, or a similar "sale event," all stock options and stock appreciation rights granted under the equity plan will automatically become fully exercisable and all other awards granted under the equity plan will become fully vested and non-forfeitable. In addition, upon the effective time of any such sale event, the equity plan and all awards will terminate unless the parties to the transaction, in their discretion, provide for appropriate substitutions or adjustments of outstanding awards.

No awards may be granted under the equity plan after June 4, 2014. In addition, our board of directors may amend or discontinue the equity plan at any time and the administrator may amend or cancel any outstanding award for the purpose of satisfying changes in law or for any other lawful purpose. No such amendment may adversely affect the rights under any outstanding award without the holder's consent. Other than in the event of a necessary adjustment in connection with a change in our stock or a merger or similar transaction, the administrator may not "reprice" or otherwise reduce the exercise price of outstanding stock options. Further, amendments to the equity plan will be subject to approval by our stockholders if the amendment (i) increases the number of shares available for issuance under the equity plan; (ii) expands the types of awards available under, the eligibility to participate in, or the duration of, the equity plan; (iii) materially changes the method of determining fair market value for purposes of the equity plan; or (iv) requires stockholder approval under the applicable rules of the NYSE or by the Internal Revenue Code (the "Code") to ensure the tax qualification of incentive options.

Perquisites and other benefits. Messrs. McCarten and Williams, as members of our board of directors, were awarded a Marriott Platinum 5-Star Card, which entitles them and their guests, to reimbursement of lodging, meals, parking and certain other expenses at all hotels and resorts managed or franchised by Marriott, subject to certain limitations. See "Director Compensation."

Our named executive officers are entitled to reimbursement annually for the uninsured cost of a medical examination (up to $5,000) and for income tax preparation (up to $2,000). In 2005, we reimbursed our named executive officers an aggregate of $7,706 for medical expenses and $4,750 for income tax preparation.

In addition, all employees, including our named executive officers, receive the following benefits: (i) 100% of the premium for health and dental insurance, (ii) up to $200,000 of life insurance, and (iii) short term disability coverage providing up to $1,000 per week for up to 13 weeks. We maintain a retirement savings plan for all of our employees under section 401(k) of the Code. All of our employees, including our named executive officers, benefit from the same company matching formula. Finally, all of our employees also receive free parking at the corporate headquarters.

Employment Agreements. We have entered into employment agreements with Messrs. McCarten, Williams, Brugger and Schecter, and entered into a letter agreement with Mr. Mahoney. The employment agreement with Mr. McCarten has an initial term of three years and the employment agreements with Messrs. Williams, Brugger and Schecter have an initial term of two years. Thereafter, the term of the agreements with Messrs. McCarten, Williams, Brugger and Schecter will be extended for an additional 12 months on the anniversary of the effective date of each agreement, unless either party gives six months' notice before such date that the term will not be extended. Mr. Mahoney is an at-will employee.

The employment agreements and Mr. Mahoney's letter of employment provide each executive officer with severance benefits if his employment ends under certain circumstances. We believe that the agreements and Mr. Mahoney's letter of employment will benefit us by helping to retain the executives and by allowing them to focus on their duties without the distraction of the concern for their personal situations in the event of a possible change in control of our company.

Each of Messrs. McCarten, Williams, Brugger and Schecter will be entitled to receive severance benefits under their agreements if we terminate such executive's employment without cause or such executive resigns with good reason or if there is a change in control of our company during the term of their agreements and, within 12 months after the change in control, we terminate such executive's employment without cause or such executive resigns with good reason, or if during the 90 day period commencing on the three-month anniversary of the date of the change in control, such executive resigns for any reason. Mr. Mahoney will be entitled to receive severance benefits under his letter of employment if there is a change in control of our company during his employment with us and, within 12 months after the change in control, we terminate Mr. Mahoney's employment without cause, or if during the 90 day period commencing on the six-month anniversary of the date of the change in control, Mr. Mahoney resigns for any reason. Under each of these scenarios, each of the executives is entitled to receive a lump sum payment. Mr. McCarten's lump sum payment will equal two times his annual cash compensation, Mr. Williams' lump sum payment will equal 1.5 times his annual cash compensation and Messrs. Brugger, Schecter and Mahoney's lump sum payments will equal their respective annual cash compensation. In addition, each executive will be entitled to continued life, health and disability insurance coverage for himself, his spouse and dependents for two years, in the case of Mr. McCarten, eighteen months, in the case of Mr. Williams, and one year, in the case of Messrs. Brugger, Schecter and Mahoney. Any unvested portion of any stock option, restricted stock award and incentive award previously issued to the executive shall vest on the date of such termination. These severance benefits may not be deductible by us.

In the event that the severance benefits described above are paid in connection with a change in control of our company, each of Messrs. McCarten, Williams, Brugger and Schecter will be eligible to receive payments to compensate the executive for the additional taxes, if any, imposed on the executive under Section 4999 of the Code by reason of the receipt of excess parachute payments.

The employment agreements for each of Messrs. McCarten, Williams, Brugger and Schecter contain customary non-competition covenants that apply during the term and in most instances for 12 months, or six months in the event of a change in control of our company, after the expiration or termination of such executive's employment with us.

Liability, Exculpation and Indemnification

The MGCL permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates such liability to the maximum extent permitted by the MGCL.

Our charter authorizes us, to the maximum extent permitted by Maryland law, to obligate our company to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any present or former director or officer or (b) any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or any other enterprise as a director, officer, partner or trustee of such corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her serving in any of the foregoing capacities. Our bylaws obligate our company, to the maximum extent permitted by Maryland law, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any present or former director or officer who is made, or is threatened to be made, a party to the proceeding by reason of his service in that capacity or (b) any individual who, while a director or officer of our company and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or any other enterprise as a director, officer, partner or trustee of such corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made, or threatened to be made, a party to the proceeding by reason of his service in that capacity. Our charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of our company in any of the capacities described above and to our employees or agents and any employee or agent of our predecessor.

The MGCL requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he is made, or threatened to be made, a party by reason of his service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under the MGCL, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or on his behalf to repay the amount paid or reimbursed by the corporation if it shall ultimately be determined that the standard of conduct was not met.

Indemnification Agreements

We have entered into indemnification agreements with each of our executive officers and directors that will obligate us to indemnify them to the maximum extent permitted by Maryland law. The form of indemnification agreement provides that:

- If a director or executive officer is a party or is threatened to be made a party to any proceeding, other than a proceeding by or in the right of our company, by reason of such director or executive officer serving (i) as a director and/or officer of our company, (ii) in any capacity with respect to any employee benefit plan of our company, or (iii) as a director, partner, trustee, officer, employee, agent, member or manager of any other entity at the request of our company, we must indemnify such director or executive officer for all expenses and liabilities incurred by him or her, or on his or her behalf, unless it has been established by a court of competent jurisdiction that:
  - the director or executive officer failed to act in good faith;
  - the director or executive officer failed to act in a manner he or she reasonably believed to be in, or not opposed to, the best interests of our company; or
  - with respect to any criminal proceedings, the director or executive officer had reasonable cause to believe that his or her conduct was unlawful.
- If a director or executive officer is a party or is threatened to be made a party to any proceeding by or in the right of our company by reason of such director or executive officer serving (i) as a director and/or officer of our company, (ii) in any capacity with respect to any employee benefit plan of our company, or (iii) as a director, partner, trustee, officer, employee, agent, member or manager of any other entity at the request of our company, we must indemnify such director or executive officer for all expenses and liabilities, including amounts paid in settlement, incurred by him or her, or on his or her behalf, unless it has been established by a court of competent jurisdiction that:
  - the director or executive officer failed to act in good faith;
  - the director or executive officer failed to act in a manner he or she reasonably believed to be in, or not opposed to, the best interests of our company; or

the director or executive officer is liable to our company for an accounting of profits made from the purchase or sale of securities of our company pursuant to applicable provisions of the securities laws.

With respect to a proceeding by or in the right of our company, if a court of competent jurisdiction determines that a director or executive officer is liable to our company, such director or executive officer shall not be entitled to payment of indemnification unless the court in which such proceeding was brought determines, upon application, that such director or executive officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances.

If a director or executive officer is a party or is threatened to be made a party to any proceeding by reason of such director or executive officer serving (i) as a director and/or officer of our company, (ii) in any capacity with respect to any employee benefit plan of our company, or (iii) as a director, partner, trustee, officer, employee, agent, member or manager of any other entity at the request of our company, and such director or executive officer is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such proceeding, we must indemnify such director or executive officer for all expenses reasonably incurred by him or her, or on his or her behalf, in connection with each successfully resolved claim, issue or matter, including any claim, issue or matter in such a proceeding that is terminated by dismissal, with or without prejudice.

We must pay all indemnifiable expenses in advance of the final disposition of any proceeding within 10 calendar days after receiving a request for such an advance. To the extent required by the MGCL, the director or executive officer must agree to reimburse us if a court of competent jurisdiction determines that the director or executive officer is not entitled to indemnification.

We must pay all indemnifiable expenses to the director or executive officer within 45 calendar days following our receipt of his or her request. At our request, the director or executive officer seeking indemnification must provide sufficient documentation to establish that he or she is entitled to such indemnification.

Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

We maintain a director and officer insurance policy with a limit of $25 million per claim as well as in the aggregate.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transactions with Marriott

An affiliate of Marriott International, Inc. owns 4.43 million shares of our common stock, or approximately 8.6% of our outstanding shares of common stock. In connection with our July 2004 private placement, Marriott purchased 3 million shares of our common stock for an aggregate purchase price of $30 million. In addition, concurrently with the completion of our initial public offering, Marriott purchased 1,428,571 shares of our common stock for an aggregate purchase price of approximately $15 million. The value of the shares owned by Marriott, based on the closing sale price of our common stock as of March 17, 2006, is $57,659,994.

Investment Sourcing Relationship with Marriott

Marriott and our company have an investment sourcing relationship pursuant to which Marriott has agreed to provide us, subject to certain limitations, with a "first look" at hotel acquisition and investment opportunities known to it.

Marriott's only binding commitment with regard to this investment sourcing relationship is that, for a two-year period ending July 1, 2006, it has agreed not to enter into any written agreement or series of written agreements granting any third party the right to receive information from Marriott concerning opportunities to purchase full-service, urban select-service or urban extended-stay hotels in the United States, or in any region thereof, prior to such opportunities being presented to us. Marriott has specifically retained the right to enter into written agreements affecting less than 10% of the United States by population and also any non-written agreements with other potential capital sources. Our only binding commitment with regard to this relationship is that we have agreed, for a two-year period ending July 1, 2006, not to enter into a written agreement or series of written agreements granting any third party the right to receive information from us concerning potential opportunities to provide hotel management services for full-service, urban select-service or urban extended-stay hotels throughout the United States, or in any region thereof prior to such opportunity being presented to Marriott. We have specifically retained the right to enter into agreements affecting less than 10% of the United States and also any non-written agreements with other brand or hotel management companies. However, for any given investment, we are under no obligation to use Marriott as the hotel management company and we may invest in hotels that do not operate under one of Marriott's brands. We do not expect to renew this agreement.

In connection with this investment sourcing relationship, Marriott assigned to us its interests as purchaser under the purchase and sale contract pursuant to which we acquired the Courtyard Manhattan/Midtown East hotel. The purchase price for the hotel was approximately $78.9 million. Marriott provided us $3.3 million in connection with the acquisition, including $2.5 million in key money and $800,000 as a contribution to the hotel's furniture, fixtures and equipment account. We also acquired, directly from Marriott, the Marriott Griffin Gate Resort for approximately $49.8 million and The Lodge at Sonoma, a Renaissance Resort & Spa for approximately $32.3 million, which were purchased by Marriott within two years of our acquisition. Marriott's purchase prices for the Marriott Griffin Gate Resort and The Lodge at Sonoma, a Renaissance Resort & Spa were approximately $47.5 million and approximately $32.5 million, respectively. In addition, Marriott had a 10% equity interest in an affiliate of Capital Hotel Investments, LLC, from whom we purchased the Los Angeles Airport Marriott, Frenchman's Reef & Morning Star Marriott Beach Resort, the Renaissance Worthington and the Marriott Atlanta Alpharetta (collectively, the "Capital Hotel Investment Portfolio"). Marriott had also provided mezzanine debt to Capital Hotel Investments, LLC, or affiliates thereof, totaling approximately $106 million, with $44.2 million of such debt allocated to the properties comprising the Capital Hotel Investment Portfolio. Such mezzanine debt was repaid by Capital Hotel

Investments, LLC from the cash proceeds received by Capital Hotel Investments, LLC from our purchase of the Capital Hotel Investment Portfolio.

In determining the purchase prices that we paid for the hotels we acquired from Marriott, our senior management team collectively employed the same disciplined methodology that it generally uses to determine the purchase price of all the hotels that we acquire. Our senior management team initially creates a projection of future cash flows for each potential acquisition primarily based on:

- historical cash flows provided to us by the seller and the hotel manager; and

- our senior management team's belief as to future rates of occupancy and growth in ADR, as well as our senior management team's expectation of future increases in operating expenses, in a hotels' given market.

Our senior management team's belief as to future cash flows and expenses is based on their extensive experience in the hotel industry, which includes their ability to evaluate the reasonableness of the projections provided to us by the seller and the hotel manager. Our senior management team then applies a multiple to those projected cash flows. This multiple reflects our senior management team's knowledge of recent sale prices for hotels in similar markets. Although our entire senior management team participates in the determination of a recommended purchase price, Mr. Williams, our President and Chief Operating Officer, is ultimately responsible for presenting our senior management team's recommendation of the purchase price for a potential acquisition to our board of directors, which makes the final determination.

Marriott has provided us with key money of approximately $10.5 million in the aggregate in connection with our acquisitions of the Courtyard Manhattan/Midtown East ($2.5 million), the Courtyard Manhattan/Fifth Avenue ($1.0 million), the Torrance Marriott ($3.0 million), the Oak Brook Hills Marriott Resort ($2.5 million), SpringHill Suites Atlanta Buckhead ($0.5 million) and the Orlando Airport Marriott ($1.0 million). In connection with our acquisitions of the Courtyard Manhattan/Midtown East and The Lodge of Sonoma Renaissance Resort & Spa, Marriott also contributed $800,000 and $400,000, respectively, to the hotels' furniture, fixtures and equipment reserves. The $7.0 million in key money contributed by Marriott in connection with our acquisition of the Torrance Marriott, Oak Brook Hills Marriott Resort, SpringHill Suites Atlanta Buckhead and Orlando Airport Marriott is recoverable subject to a 10% reduction per year in the event that the applicable management agreement with Marriott terminates within 10 years and such termination is not a result of a default by Marriott. In addition, Marriott provided us with separate cash flow guarantees for the Oak Brook Hills Marriott Resort, SpringHill Suites Atlanta Buckhead and Orlando Airport Marriott. These three guarantees provide that Marriott will be obligated to pay up to $3.7 million in the aggregate should the hotels fail to generate certain pre-agreed amounts of projected cash flow.

Management Agreements

In order to qualify as a REIT, we cannot operate our hotels or participate in the decisions affecting the daily operations of our hotels. Thus far, although we are free to enter into hotel management agreements with any third party, with respect to all the properties that we currently own, we have entered into management agreements with Marriott (and with an affiliate of Vail Resorts under a franchise agreement with Marriott). Our management agreements with Marriott typically provide for an initial term that expires upon the end of the twentieth, thirtieth or fortieth full fiscal year after the effective date of the hotel management agreement. The term of the hotel management agreement is generally automatically renewed for a negotiated number of consecutive 10-year periods upon the expiration of the initial term unless the property manager gives notice to our TRS lessee of its election not to renew the hotel management agreement at least 300 days prior to the expiration of the then-current term.

The following table sets forth the effective 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 generally automatically renew 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
The Lodge at Sonoma, a Renaissance Resort & Spa	10/2004	20 years	One ten-year period
Courtyard Manhattan/Midtown East	11/2004	30 years	Two ten-year periods
Salt Lake City Marriott Downtown	12/2001	30 years	Three fifteen-year periods
Courtyard Manhattan/Fifth Avenue	01/2005	30 years	None
Marriott Griffin Gate Resort	12/2004	20 years	One ten-year period
Bethesda Marriott Suites	12/2004	21 years	Two ten-year periods
Torrance Marriott	1/2005	40 years	None
Marriott Atlanta Alpharetta	9/2000	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
Renaissance Worthington	9/2000	30 years	Two ten-year periods
Vail Marriott Mountain Resort & Spa	6/2005	$15^1/_2$ years	None
SpringHill Suites Atlanta Buckhead	7/2005	30 years	Two ten-year periods
Oak Brook Hills Marriott Resort	7/2005	30 years	None
Orlando Airport Marriott	11/2005	30 years	None

Amounts Payable under our Hotel Management Agreements

Under our current hotel management agreements, the property manager receives a base management fee and, if certain financial thresholds are met or exceeded, an incentive management fee. The base management fee is generally payable as a percentage of gross hotel revenues for each fiscal year. The incentive management fee is generally based on hotel operating profits and is typically equal to between 20% and 25% of hotel operating profits but the fee only applies to that portion of hotel operating profits above a negotiated return on our invested capital. We refer to this excess of operating profits over a return on our invested capital as "available cash flow."

The following table sets forth the base management fee and incentive management fee, generally due and payable each fiscal year, for each of our properties.

	Base Management Fee(1)	Incentive Management Fee(2)
Courtyard Manhattan/Midtown East	5%	25%(3)
Torrance Marriott	3%	20%(4)
Salt Lake City Marriott Downtown	3%	Not more than 20%(5)
Marriott Griffin Gate Resort	3%	20%(6)
Bethesda Marriott Suites	3%	50%(7)
Courtyard Manhattan/Fifth Avenue	5%(8)	25%(9)
The Lodge at Sonoma, a Renaissance Resort & Spa	3%	20%(10)
Marriott Atlanta Alpharetta	3%	25%(12)
Frenchman's Reef & Morning Star Marriott Beach Resort	3%	25%(13)
Los Angeles Airport Marriott	3%	25%(14)
Renaissance Worthington	3%	25%(15)
Vail Marriott Mountain Resort & Spa	3%	20%(16)
SpringHill Suites Atlanta Buckhead	5%(11)	25%(17)
Oak Brook Hills Marriott Resort	3%	20% or 30%(18)
Orlando Airport Marriott	3%	20% or 25%(19)

(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 10.75% of the sum of (i) $73.7 million and (ii) the amount of certain capital expenditures.

(4) 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.

(5) The incentive management fee is equal to the available cash flow for each fiscal year, subject to a cap of 20% of operating profit for such fiscal year. Commencing with the fiscal year 2002, the operating profit with respect to each fiscal year is reduced by an amount equal to 10.75% of all material capital expenditures funded by the TRS lessee; provided that the material capital expenditures are included in the calculation of the incentive management fee with respect to the fiscal year or fiscal years during which such expenditures occurred (on a pro rata basis).

(6) Calculated as a percentage of operating profits in excess of the sum of (i) $5.5 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.

(8) 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 2007, the base management fee may increase to 5.5% at the beginning of the next fiscal year if operating profits equal or exceed $4.7 million, 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.

(9) Calculated as a percentage of operating profits in excess of 12% of the sum of (i) $38.8 million and (ii) the amount 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).

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

(11) The base management fee will be equal to 6% of gross revenues for fiscal years 2008 through 2016 and 6.5% of gross revenues thereafter. In the event that the property's operating profit is below certain thresholds in 2006 and 2007, the base management fee may be reduced by up to $100,000 per year. In addition, in the event that the hotel's operating profit is

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above certain thresholds starting in 2008, the base management fee will be increased to 6.5% and if the hotel's operating profit is above an additional threshold starting in 2012, the base management fee will be increased to 7.0%

(12) 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.

(13) Calculated as a percentage of operating profits in excess of the sum of (i) $8.4 million and (ii) 10.75% of certain capital expenditures.

(14) Calculated as a percentage of operating profits in excess of the sum of (i) $9.4 million and (ii) 10.75% of certain capital expenditures.

(15) 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.

(16) Calculated as a percentage of operating profits in excess of 11% of our invested capital. The incentive management fee rises to 25% if the hotel achieves operating profits in excess of 15% of our invested capital.

(17) Calculated as a percentage of operating profits in excess of the sum of (i) $4.1 million and (ii) 12% of certain capital expenditures and pre-conversion expenses.

(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 10.75% of our acquisition costs plus certain capital expenditures. We estimate that the threshold will be approximately $9 million. The percentage of operating profits is 20% except from 2011