

DiamondRock Hospitality Co
Form 424B3
April 21, 2006

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Filed pursuant to Rule 424(b)(3)
Registration No. 333-123809

PROSPECTUS

20,850,000 Shares of Common Stock

This prospectus relates to up to 20,850,000 shares of common stock of DiamondRock Hospitality Company that the selling stockholders named in this prospectus may offer for sale from time to time. The registration of these shares does not necessarily mean the selling stockholders will offer or sell all or any of these shares of common stock. We will not receive any of the proceeds from the sale of any shares of common stock by the selling stockholders, but will incur expenses in connection with the offering.

The selling stockholders from time to time may offer and resell the shares held by them directly or through agents or broker-dealers on terms to be determined at the time of sale. To the extent required, the names of any agent or broker-dealer and applicable commissions or discounts and any other required information with respect to any particular offer will be set forth in a prospectus supplement that will accompany this prospectus. A prospectus supplement also may add, update or change information contained in this prospectus.

We expect to qualify as a real estate investment trust, or REIT, for federal income tax purposes and will elect to be taxed as a REIT under the federal income tax laws for the taxable year ended December 31, 2005 and subsequent taxable years.

Our common stock is listed on the New York Stock Exchange under the symbol "DRH". The last reported sale price on April 20, 2006 was \$13.80 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 17 of this prospectus for certain risk factors relevant to an investment in shares of our common stock.

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.

The date of this prospectus is April 21, 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. 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 own sixteen hotels comprising 7,311 rooms. 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 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 24, 2006, we acquired 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 our public offering of common stock, which closed on April 4, 2006, 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%.

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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 | 102.68 | 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% | \$ 141.89 | \$ 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.

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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 17 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.

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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.

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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 24, 2006, we acquired the 1,192 room Chicago Marriott Downtown Magnificent Mile for a purchase price of \$295 million plus approximately \$11 million of net consideration in the form of an assumed property tax liability and other adjustments (or approximately \$257,000 per room), including the assumption of \$220 million of floating-rate debt. We refinanced the existing \$220 million floating-rate loan with a 10-year 5.98% fixed-rate loan issued by Wachovia Bank, National Association. The loan is interest only for 3½ years, after which, the principal will amortize using a 30-year amortization schedule. The new loan is a limited recourse loan secured by a mortgage on the property. The remainder of the purchase price, after the application of our \$10 million deposit, was financed by a \$79.5 million short-term floating-rate loan made by Wachovia Investment Holdings, LLC, which was repaid with a portion of the net proceeds of our public offering of common stock, which closed on April 4, 2006. We refer to that offering in this prospectus as "our follow-on offering."

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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.

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.

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 was paid to stockholders of record as of March 24, 2006.

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.

Selling Stockholders

This prospectus relates to up to 20,850,000 shares of common stock that the selling stockholders named in this prospectus may offer for sale from time to time.

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, which we refer to as the registration rights agreement, we were required, among other things, to file with the SEC by April 7, 2005, the resale shelf registration statement of which this prospectus is a part, 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 3.0 million shares of common stock purchased by Marriott in our July 2004 private placement. The resale shelf registration statement of which this prospectus is a part was initially filed in April 2005 and became effective in September 2005. We are required, under the registration rights agreement, to use our commercially reasonable efforts to maintain the resale shelf registration statement of which this prospectus is a part continuously effective under the Securities Act for a specified period.

Lock-Up Agreements and Resale Blackout Periods

Lock-up Agreements. Our senior executive officers and directors and Marriott have entered into lock-up agreements that prohibit them from selling, pledging, transferring or otherwise disposing of our common stock or securities convertible into our common stock for a period of 90 days after the date of the prospectus relating to our follow-on offering. Merrill Lynch & Co., Friedman, Billings, Ramsey & Co., Inc. and Wachovia Capital Markets, LLC, on behalf of the underwriters in our follow-on offering, may, in their discretion, release all or any portion of the common stock subject to the lock-up agreements with our directors and officers at any time without notice or stockholder approval.

Resale Blackout Periods. We will be permitted, under limited circumstances, to suspend the use, from time to time, of this prospectus, and therefore suspend sales under the registration statement of which this prospectus is a part, for certain periods, referred to as "blackout periods," if a majority of the independent directors of our board, in good faith, determines that we are in compliance with the terms of the registration rights agreement and that it is in our best interest to suspend the use of the registration statement of which this prospectus is a part and certain other specified events have occurred, and we provide selling stockholders written notice of the suspension. The cumulative blackout periods in any 12-month period may not exceed an aggregate of 90 days and furthermore may not exceed 30 days in any 90-day period. We may not institute a blackout period more than six times in any 24-month period.

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 our follow-on 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 follow-on offering of 19,320,000 shares of our common stock at \$13.00 per share, with approximately \$238.2 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 our follow-on 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

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The follow-on offering of 19,320,000 shares of our common stock at \$13.00 per share, with approximately \$238.2 million of net proceeds to us.

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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).

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| | 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 | 49,963,221 |
| Total operating expenses | 222,321,020 | 11,334,338 | 396,009,460 |
| Operating income (loss) | 7,129,243 | (4,260,474) | 41,016,748 |
| Interest income | (1,548,635) | (1,333,837) | (1,548,635) |
| Interest expense | 17,367,079 | 773,101 | 38,888,515 |
| Income (loss) before income taxes | (8,689,201) | (3,699,738) | 3,676,868 |
| Income tax benefit | 1,353,261 | 1,582,113 | 576,734 |
| Net income (loss) | \$ (7,335,940) | \$ (2,117,625) | \$ 4,253,602 |
| 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) | \$ 54,216,823 |
| 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 | \$ 1,262,562,399 |
| Cash and cash equivalents | 9,431,741 | 76,983,107 | 176,261,641 |
| Total assets | 966,012,282 | 391,691,179 | 1,528,287,314 |
| Total debt | 431,177,057 | 180,771,810 | 667,177,057 |
| Total other liabilities | 71,446,797 | 15,331,951 | 159,746,797 |
| Shareholders' equity | 463,388,428 | 195,587,418 | 701,363,460 |

(1)

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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.

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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) | \$ 4,253,602 |
| Real estate related depreciation and amortization | 27,590,234 | 1,053,283 | 49,963,221 |
| FFO | \$ 20,254,294 | \$ (1,064,342) | \$ 54,216,823 |

(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) | \$ 4,253,602 |
| Interest expense | 17,367,079 | 773,101 | 38,888,515 |
| Income tax benefit | (1,353,261) | (1,582,113) | (576,734) |
| Depreciation and amortization | 27,590,234 | 1,053,283 | 49,963,221 |
| 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;

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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.

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.

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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;

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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.

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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.

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;

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;

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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 will not receive any proceeds from the sale by the selling stockholders of the shares of common stock offered by this prospectus.

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 was paid to stockholders of record as of March 24, 2006.

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 and payment of \$86,400,000 in connection with the acquisition of the Chicago Marriott;
- (ii) the repayment of \$33 million of outstanding debt under our credit facility;
- (iii) the sale of our common stock in our follow-on offering; and
- (iv) the expenditure of \$57.7 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 | \$ 91,561,641 |
| 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; 70,139,864 shares issued and outstanding, as adjusted after our follow-on offering(2) | 508,199 | 701,399 |
| Additional paid-in capital | 491,951,223 | 729,987,923 |
| Accumulated deficit | (29,070,994) | (29,070,994) |
| Total shareholders' equity | 463,388,428 | 701,618,328 |
| Total capitalization | \$ 894,565,485 | \$ 1,340,795,385 |

(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 747,000 unvested restricted shares of our common stock issued to our executive officers and other employees pursuant to our equity incentive plan, 400,108 vested shares of deferred common stock issued to our senior executive officers in connection with our initial public offering and 818,892 shares of common stock available for future awards under our equity incentive plan.

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 our follow-on 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 follow-on offering of 19,320,000 shares of our common stock at \$13.00 per share, with approximately \$238.2 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 our follow-on 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

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The follow-on offering of 19,320,000 shares of our common stock at \$13.00 per share, with approximately \$238.2 million of net proceeds to us.

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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).

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| | 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 | 49,963,221 |
| Total operating expenses | 222,321,020 | 11,334,338 | 396,009,460 |
| Operating income (loss) | 7,129,243 | (4,260,474) | 41,016,748 |
| Interest income | (1,548,635) | (1,333,837) | (1,548,635) |
| Interest expense | 17,367,079 | 773,101 | 38,888,515 |
| Income (loss) before income taxes | (8,689,201) | (3,699,738) | 3,676,868 |
| Income tax benefit | 1,353,261 | 1,582,113 | 576,734 |
| Net income (loss) | \$ (7,335,940) | \$ (2,117,625) | \$ 4,253,602 |
| 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) | \$ 54,216,823 |
| 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 | \$ 1,262,562,399 |
| Cash and cash equivalents | 9,431,741 | 76,983,107 | 176,261,641 |
| Total assets | 966,012,282 | 391,691,179 | 1,528,287,314 |
| Total debt | 431,177,057 | 180,771,810 | 667,177,057 |
| Total other liabilities | 71,446,797 | 15,331,951 | 159,746,797 |
| Shareholders' equity | 463,388,428 | 195,587,418 | 701,363,460 |

(1)

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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.

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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 | Year Ended December 31, 2005 |
| Net income (loss) | \$ (7,335,940) | \$ (2,117,625) | \$ 4,253,602 | \$ 4,253,602 |
| Real estate related depreciation and amortization | 27,590,234 | 1,053,283 | 49,963,221 | 49,963,221 |
| FFO | \$ 20,254,294 | \$ (1,064,342) | \$ 54,216,823 | \$ 54,216,823 |

(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 | Year Ended December 31, 2005 |
| Net income (loss) | \$ (7,335,940) | \$ (2,117,625) | \$ 4,253,602 | \$ 4,253,602 |
| Interest expense | 17,367,079 | 773,101 | 38,888,515 | 38,888,515 |
| Income tax benefit | (1,353,261) | (1,582,113) | (576,734) | (576,734) |
| Depreciation and amortization | 27,590,234 | 1,053,283 | 49,963,221 | 49,963,221 |
| EBITDA | \$ 36,268,112 | \$ (1,873,354) | \$ 92,528,604 | \$ 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 own sixteen hotels comprising 7,311 rooms. 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 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 24, 2006, we acquired 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 our follow-on offering, 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 24, 2006, we acquired the 1,192 room Chicago Marriott Downtown Magnificent Mile for a purchase price of \$295 million plus approximately \$11 million of net consideration in the form of an assumed property tax liability and other adjustments (or approximately \$257,000 per room), including the assumption of \$220 million of floating-rate debt. We refinanced the existing \$220 million floating-rate loan with a 10-year 5.98% fixed-rate loan issued by Wachovia Bank, National Association. The loan is interest only for 3½ years, after which, the principal will amortize using a 30-year amortization schedule. The new loan is a limited recourse loan secured by a mortgage on the property. The remainder of the purchase price, after the application of our \$10 million deposit, was financed by a \$79.5 million short-term floating-rate loan made by Wachovia Investment Holdings, LLC which we repaid with a portion of the net proceeds of our follow-on 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.

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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.

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.

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, February and March 2006, we drew an additional \$24 million under the credit facility, \$3 million of which was repaid in March 2006.

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 |
| | <hr/> |
| Total revenues | \$ 229,450,263 |
| | <hr/> |

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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% |

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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 |

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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, February and March 2006, we drew an additional \$24 million under the credit facility, \$3 million of which was repaid in March 2006.

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

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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 our follow-on offering, 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.

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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, February and March 2006, we drew an additional \$24 million under our credit facility. In March, we repaid \$3 million of borrowings 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 Financings

We refinanced the \$220 million floating-rate loan that we assumed in connection with the acquisition of Chicago Marriott with a 10-year 5.98% fixed-rate loan issued by Wachovia Bank, National Association. The loan is interest only for 3¹/₂ years, after which the principal will amortize using a 30-year amortization schedule. The new loan is a limited recourse loan secured by a mortgage on the property. We borrowed \$79.5 million through a short-term floating-rate loan arranged by Wachovia Investment Holdings, LLC to fund a portion of the purchase price for the Chicago Marriott, which we repaid with a portion of the net proceeds of our follow-on 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

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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 |
| | | <hr style="border: 1px solid black;"/> |
| Total | \$ | 611.6 |
| | | <hr style="border: 1px solid black;"/> |

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.

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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 |
| March 9, 2006 | Draw under senior secured credit facility | 5.0 million |
| March 13, 2006 | Draw under senior secured credit facility | 3.0 million |
| March 24, 2006 | Repayment of senior secured credit facility | (3.0 million) |
| March 24, 2006 | Proceeds from Chicago Marriott mortgage | 220.0 million |
| March 24, 2006 | Proceeds from Wachovia short-term loan | 79.5 million |
| April 4, 2006 | Proceeds from our follow-on offering | 239.2 million |
| April 4, 2006 | Repayment of senior secured credit facility | (33.0 million) |
| April 4, 2006 | Repayment of Wachovia short-term loan | (79.5 million) |
| April 11, 2006 | Payment of first quarter dividends | (9.3 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.

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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 was paid to stockholders of record as of March 24, 2006.

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.

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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 ratably 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 and will fund shortfalls of actual hotel operating income, which is net of management fees, compared to a negotiated target net operating income. We refer to these guarantees as "Yield Support," 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

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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 | \$ |
| 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 | | | | | \$ 363,850,931 |

(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

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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 |

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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 own sixteen hotels comprising 7,311 rooms. 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 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 24, 2006, we acquired 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 our follow-on offering, 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,

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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. Schechter 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. Schechter 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

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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.

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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.

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