DiamondRock Hospitality Co
Form 424B5
May 25, 2010

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered/Proposed maximum offering price per unit/ Proposed maximum offering price	Amount of registration fee
Common Stock, par value $0.01 per share	$168,000,000	$11,978.40(1)

(1) This filing fee is calculated in accordance with Rule 457(r) and relates to the Registration Statement on Form S-3 (No. 333-161298) filed by DiamondRock Hospitality Company on August 12, 2009.

PROSPECTUS SUPPLEMENT
(to Prospectus dated August 12, 2009)

Filed Pursuant to Rule 424(b)5
Registration No. 333-161298

20,000,000 Shares

Common Stock

DiamondRock Hospitality Company

Common Stock

DiamondRock Hospitality Company is offering 20,000,000 shares of its common stock. Our common stock is traded on the New York Stock Exchange under the symbol DRH. The last reported sale price of our common stock on the New York Stock Exchange on May 24, 2010, was $9.24 per share.

We are organized and conduct our operations to qualify as a real estate investment trust, or REIT, for federal income tax purposes. To assist us in complying with certain federal income tax requirements applicable to REITs, our charter contains certain restrictions relating to the ownership and transfer of our stock, including an ownership limit of 9.8% on our common stock.

Investing in our common stock involves risks. See Risk Factors beginning on page S-3 of this prospectus supplement and page 10 of our Annual Report on Form 10-K for the year ended December 31, 2009, which is incorporated by reference herein.

	Per Share	**Total**
Initial Price to Public	$ 8.40	$ 168,000,000
Underwriting discounts and commissions	$ .357	$ 7,140,000
Proceeds, before expenses, to DiamondRock Hospitality Company	$ 8.043	$ 160,860,000

We have granted the underwriters a 30-day option to purchase up to an additional 3,000,000 shares of common stock from us at the initial public offering price less the underwriting discount if the underwriters sell more than 20,000,000 shares of common stock in this offering.

None of the Securities Exchange Commission, any state securities commission, or any other regulatory body has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about May 28, 2010

Joint Book-Running Managers

Wells Fargo Securities **BofA Merrill Lynch**
Citi **Deutsche Bank Securities**

Co-Managers

KeyBanc Capital Markets
FBR Capital Markets
PNC Capital Markets LLC
Morgan Stanley
JMP Securities

The date of this prospectus supplement is May 25, 2010.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

You may rely on the information contained in this prospectus supplement and accompanying prospectus. Neither we nor any of the underwriters have authorized anyone to provide information different from that contained in this prospectus supplement and accompanying prospectus. When you make a decision about whether to invest in our common stock, you should not rely upon any information other than the information in this prospectus supplement and accompanying prospectus. Neither the delivery of this prospectus supplement and accompanying prospectus nor sale of common stock means that information contained in this prospectus supplement and accompanying prospectus or the documents incorporated by reference herein or therein is correct after the date of this prospectus supplement and accompanying prospectus. This prospectus supplement and accompanying prospectus is not an offer to sell or solicitation of an offer to buy these shares of common stock in any circumstances under which the offer of solicitation is unlawful.

References in this prospectus supplement and accompanying 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 existing taxable REIT subsidiaries.

DIAMONDROCK HOSPITALITY COMPANY

We are a lodging-focused real estate company that owns a portfolio of 20 premium hotels and resorts that contain approximately 9,600 guestrooms. We are an owner, as opposed to an operator, of hotels. As an owner, we receive all of the operating profits or losses generated by our hotels, after we pay fees to the hotel manager, which are based on the revenues and profitability of the hotels.

Our vision is to be the premier allocator of capital in the lodging industry. Our mission is to deliver long-term stockholder returns through a combination of dividends and long-term capital appreciation. Our strategy is to utilize disciplined capital allocation and focus on acquiring, owning, and measured recycling of high-quality, branded lodging properties in North America with superior long-term growth prospects in markets with high barrier-to-entry for new supply. In addition, we are committed to enhancing the value of our platform by being open and transparent in our communications with investors, monitoring our corporate overhead and following sound corporate governance practices.

Consistent with our strategy, we continue to focus on opportunistically investing in premium full-service hotels and, to a lesser extent, premium urban limited-service hotels, located throughout North America. Our portfolio of 20 hotels is concentrated in key gateway cities and in destination resort locations and are all operated under a brand owned by one of the leading global lodging brand companies (Marriott International, Inc., Starwood Hotels & Resorts Worldwide, Inc. or Hilton Worldwide).

We seek to differentiate ourselves from our competitors through our adherence to three basic principles: high-quality urban- and destination resort-focused branded hotel real estate; a conservative capital structure; and thoughtful asset management.

Recent Developments

Agreement to Purchase the Hilton Minneapolis Hotel

On May 24, 2010, we entered into a purchase and sale agreement to acquire a leasehold interest in the Hilton Minneapolis Hotel, which we refer to in this prospectus supplement as the Hilton Minneapolis. The contractual purchase price for the Hilton Minneapolis is $152.0 million. In addition to the contractual purchase price, we agreed to fund the seller s cost to defease the existing mortgage debt secured by the Hilton Minneapolis since we will not assume the existing mortgage debt as part of our acquisition. We expect the defeasance cost to be paid at closing and be approximately $3.5 million. Upon entering into the purchase and sale agreement, we committed to make a $15.2 million deposit that will become non-refundable on June 17, 2010 unless we terminate the purchase and sale agreement prior to that date. We expect the acquisition to close early in our third fiscal quarter of 2010, subject to satisfactory completion of our due diligence review of the property and other customary closing conditions, including the receipt of third-party consents.

The 821-room Hilton Minneapolis is the largest hotel in the state of Minnesota and features 77,000 square feet of meeting space, including the largest hotel ballroom in the state. The Hilton Minneapolis is located near the Minneapolis Convention Center, steps from shopping, dining, and all downtown attractions via the climate-controlled Skyway. The hotel s current ownership made additional investments into the hotel in 2007 that consisted of significant renovations, including guestrooms, common areas and meeting space.

The historical operating results of the Hilton Minneapolis for each of the four years ended December 31, 2009 and the three months ended March 31, 2009 and March 31, 2010 are as follows:

	Years Ended December 31,				Quarters Ended March 31,	
	2006	**2007**	**2008**	**2009**	**2009**	**2010**
Total Revenues (in 000s)	$ 44,209	$ 47,051	$ 48,582	$ 42,776	$ 8,388	$ 8,577
Average Daily Rate	$ 132.89	$ 138.18	$ 144.64	$ 132.53	$ 114.03	$ 107.56
Occupancy	71.2%	71.9%	73.0%	67.4%	58.6%	61.8%
RevPAR	$ 94.61	$ 99.40	$ 105.54	$ 89.37	$ 66.82	$ 66.50

We expect to finance the purchase price and related defeasance cost of this acquisition with a portion of the net proceeds from this offering. See Use of Proceeds.

Acquisition of Mortgage Debt

On May 14, 2010 and May 18, 2010, we entered into agreements to acquire the $69.0 million senior mortgage loan secured by the 443-room Allerton Hotel located in downtown Chicago, Illinois from an affiliate of Wells Fargo Securities, LLC, which is one of the co-bookrunning underwriters in this offering at an $8.5 million discount to par value. Upon completion of the acquisition we intend to pursue the foreclosure action against the Allerton Hotel recently filed in the Cook County Circuit Court. We expect to own fee title to the Allerton Hotel upon completion of the foreclosure proceedings.

The iconic Allerton Hotel opened in 1924 and is located at 701 North Michigan Avenue in the heart of Chicago s famed Magnificent Mile. The Allerton Hotel, which was declared a Chicago landmark in 1998, is currently operated as an independent non-branded hotel. The Allerton Hotel was acquired by the current owner in late 2006. Since 2006, the Allerton Hotel has undergone significant renovations, including rooms, common areas, meeting space and HVAC infrastructure.

The outstanding principal balance of the senior mortgage loan is approximately $69.0 million and we will purchase the senior mortgage loan for an aggregate purchase price of $60.5 million. Further, the purchase price of the senior mortgage loan is significantly below replacement cost of the hotel. The senior mortgage loan is currently in payment default. In the event the senior mortgage loan is repaid in full, we will receive proceeds of approximately $69.0 million plus additional accrued interest from December 2009 and reimbursement of certain costs incurred.

On May 24, 2010, we deposited the purchase price for the senior mortgage loan in escrow, which amount will be released to the sellers upon the closing of the acquisition on May 25, 2010. There can be no assurances that either we will acquire the Allerton Hotel through a foreclosure procedure or that the senior mortgage loan will be repaid in full by the borrower.

New Unsecured Credit Facility

On April 16, 2010, we signed a commitment letter with Wells Fargo Bank, National Association (an affiliate of Wells Fargo Securities, LLC, which is one of the co-bookrunning underwriters in this offering) and Bank of America, N.A. (an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, which is also one of the co-bookrunning underwriters in this offering) to serve as joint lead arrangers and joint bookrunners of a new $200 million senior unsecured revolving credit facility. Our operating partnership, DiamondRock Hospitality Limited Partnership, would be the borrower under the proposed credit agreement and we and certain of our material subsidiaries would guarantee our operating partnership s obligations under the credit agreement.

The proposed credit agreement would have a term of 36 months, which may be extended for an additional year upon the payment of applicable fees and satisfaction of certain customary conditions. We would also have the ability to increase the amount of the credit agreement up to a maximum amount of $275 million with the lenders approval. The proposed credit agreement is expected to provide for customary covenants including a maximum leverage ratio of 55% (increasing to 60% after December 30, 2011), a minimum fixed charge coverage ratio that will range from 1.2x to 1.5x during the term of the agreement and a minimum tangible net worth covenant. Indebtedness under the proposed credit facility is expected to bear interest at rates, depending on our fixed charge coverage ratio, of either 3.50% or 3.75% over LIBOR, with a LIBOR floor of 1.50%.

The proposed new credit facility, which will replace our existing credit facility, is subject to lender due diligence, definitive documentation and closing requirements; accordingly, no assurance can be given that this proposed facility will be procured on the terms, including the amount available to be borrowed, described above, or at all. Our existing credit facility, which provides an option for a one-year extension, is scheduled to expire in February 2011. We are in compliance with the financial covenants in our existing credit facility.

Guidance Update

We expect to update our previous full-year guidance during our second quarter earnings call with respect to Adjusted EBITDA, Adjusted FFO and Adjusted FFO Per Share to take into account the closing of the transactions described in this prospectus supplement and the completion of this offering.

RISK FACTORS

Investment in our common stock offered pursuant to this prospectus supplement involves risks. You should carefully consider the risk factors and other information contained in this prospectus supplement and the accompanying prospectus, as well as the risk factors and other information included in our most recent Annual Report on Form 10-K, which is incorporated by reference herein, and the other information contained in, or incorporated by reference into, this prospectus supplement and accompanying prospectus, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, before acquiring any of our common stock.

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

If we are unable to complete the acquisition of the Hilton Minneapolis, we may incur significant due diligence, legal, accounting and other transaction costs in connection with this acquisition. We cannot assure you that we will acquire the Hilton Minneapolis because the proposed acquisition is subject to a variety of factors, including completion of our due diligence review and the satisfaction of closing conditions, including the receipt of third-party consents and approvals.

If we are unable to complete the acquisition of the Hilton Minneapolis, we have no designated use for the majority of the net proceeds of this offering, which could result in significant dilution to you and our existing stockholders.

We intend to use the majority of the net proceeds from this offering to acquire the Hilton Minneapolis. We anticipate that the closing of the acquisition of the Hilton Minneapolis will occur early in our third fiscal quarter of 2010, after the date of the expected closing of this offering. However, we cannot assure you that we will acquire this hotel because the proposed acquisition is subject to a variety of factors, including completion of our due diligence review and the satisfaction of closing conditions, including the receipt of third-party consents and approvals.

If we do not complete this acquisition within our anticipated time frame or at all, we may experience delays in locating and securing attractive alternative investments. These delays would result in significant dilution and may cause our future operating results to fall short of expectations. If we are unable to complete the purchase of the Hilton Minneapolis, we will have no specific designated use for the majority of the net proceeds from this offering and investors will be unable to evaluate in advance the manner in which we invest the net proceeds or the economic merits of the properties we may ultimately acquire with the net proceeds.

If we do not complete the acquisition of the senior mortgage loan secured by the Allerton Hotel, we will have incurred substantial expenses without our stockholders realizing the expected benefits.

If we are unable to complete the acquisition of the senior mortgage loan secured by the Allerton Hotel, we may incur significant due diligence, legal, accounting and other transaction costs in connection with this acquisition. We cannot assure you that we will acquire the senior mortgage loan secured by the Allerton Hotel because the proposed acquisition is subject to a variety of factors, including completion of our due diligence review and the satisfaction of closing conditions, including the receipt of third-party consents and approvals.

We have no prior experience investing in mortgage loans and therefore may have difficulty executing our investment strategy associated with our purchase of the senior mortgage loan secured by the Allerton Hotel.

We have no prior experience investing in mortgage loans. As a result, we cannot assure you that we will be able to successfully foreclose on, or otherwise take control of, the Allerton Hotel, which is securing the senior mortgage loan.

Mortgage loans are subject to increased risks of loss and may adversely affect our business, financial condition and results of operations.

We are acquiring the senior mortgage loan secured by the Allerton Hotel with the expectation of subsequently foreclosing on, or otherwise taking control of, the Allerton Hotel. This investment, and any other similar investment in mortgage loans that we may undertake in the future, may negatively affect our financial condition due to the impact of losses from non-performing loans, and they are subject to increased risks of loss, including risks associated with foreclosure. Foreclosure on a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on a foreclosed mortgage loan. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process. Foreclosure may also create a negative public perception of the related mortgaged property, resulting in a diminution of its value. These types of investments and associated foreclosure actions may also require a substantial amount of resources and negotiations, which may divert the attention of our management team from other activities. If we experience delays in obtaining ownership of the Allerton Hotel, and if the senior mortgage loan continues in payment default, we will receive little, if any, current cash return on our investment in the senior mortgage loan which may cause our future operating results to fall short of expectations.

Foreclosure proceedings can be lengthy and expensive, and there can be no assurances that we will be able to own the Allerton Hotel through foreclosure proceedings.

The foreclosure process can be lengthy and expensive. The borrowers may resist our foreclosure actions by asserting numerous claims, counterclaims and defenses against us, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some states, foreclosure actions can take up to several years to conclude. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, staying the foreclosure action and further delaying the foreclosure process.

If we are unable to successfully foreclose on the Allerton Hotel, we will hold the senior mortgage loan secured by the hotel as a debt investment, which is subject to many risks.

If we are unable to successfully foreclose on the Allerton Hotel, we will hold the senior mortgage loan secured by the hotel as a debt investment, which is subject to, among other risks, (i) the risk of borrower default, (ii) the risks and costs attendant to foreclosure, (iii) the risk of delays and expenses due to interposed defenses or counterclaims, and the possibility that a foreclosure sale may be challenged as a fraudulent conveyance, regardless of the parties intent, (iv) the risk that we may be limited in our ability to collect certain funds due to us from a borrower that is a debtor in a case filed under Title 11 of the U.S. Code, 111 U.S.C. §§ 101 et seq., as amended, and (v) the risk that the borrower may not maintain adequate insurance coverage against liability for personal injury and property damage in the event of casualty or accident.

The Offering

Issuer	DiamondRock Hospitality Company
Common Stock Offered by Us	20,000,000 shares(1)
Common Stock to be Outstanding after this Offering	151,301,886 shares(1)(2)
NYSE Symbol	DRH

(1) Excludes 3,000,000 shares issuable upon exercise of the underwriters overallotment option.

(2) Includes 131,301,886 shares of common stock outstanding as of May 24, 2010. Excludes 1,548,159 unvested restricted shares of our common stock issued to our executive officers and other employees pursuant to our equity incentive plan, 4,666,654 shares available for future issuance under our equity incentive plan and 482,715 vested deferred common stock units outstanding as of May 24, 2010 issued pursuant to our equity incentive plan to our executive officers in connection with our initial public offering.

USE OF PROCEEDS

We expect that the net proceeds from this offering will be approximately $160.4 million after deducting underwriting discounts and our estimated expenses of approximately $500,000 (or approximately $184.5 million if the underwriters exercise their option to purchase additional shares in full). We intend to contribute the net proceeds from the sale of the common stock pursuant to this prospectus supplement to our operating partnership. Our operating partnership will subsequently use $155.5 million of the net proceeds to pay the purchase price and related defeasance cost of the Hilton Minneapolis and the remainder of the net proceeds for general corporate purposes.

If the acquisition of the Hilton Minneapolis is not consummated, the net proceeds from this offering will be used for other general corporate purposes, which may include potential future acquisitions. As of the date of this prospectus supplement, and except as disclosed herein, we have not entered into any definitive agreements regarding potential acquisitions.

Pending these uses, we intend to invest the net proceeds in interest-bearing, short-term investment grade securities or money-market accounts that are consistent with our intention to maintain our qualification as a REIT. Such investments may include, for example, government and government agency certificates, interest-bearing bank deposits and mortgage loan participations. In the event that the underwriters exercise any or all of their over-allotment, we expect to use the additional net proceeds for general corporate purposes, which may from time to time include investments in hotels and other assets consistent with our investment policies.

SUPPLEMENT TO FEDERAL INCOME TAX CONSIDERATIONS

The following summary outlines certain U.S. federal income tax considerations relating to an investment in our common stock, including the federal income tax consequences under current law that are likely to be material to a purchaser of our common stock in this offering who is a U.S. stockholder (as hereinafter defined) and who will hold its shares as a capital asset. This summary does not contain a complete discussion of the federal tax aspects of the investment that may be important to you. Moreover, it does not address any foreign, state or local tax consequences of an investment in our common stock. The provisions of the Internal Revenue Code of 1986, as amended, or the Code, concerning the federal income tax treatment of a REIT and its stockholders are highly technical and complex; the following discussion sets forth only certain aspects of those provisions. This summary is intended to provide you with general information only and is not intended as a substitute for careful tax planning. The discussion below assumes that you will hold our common stock as a capital asset. We do not address the federal income tax consequences that may be relevant to stockholders subject to special treatment under the Code, including, without limitation, insurance companies, regulated investment companies, financial institutions, broker-dealers, tax-exempt or non-U.S. investors (except as specifically discussed below), foreign governments, stockholders that hold our stock as a hedge, part of a straddle, conversion transaction, or other arrangement involving more than one position, or through a partnership or other pass-through entity, or U.S. expatriates.

This summary is based on provisions of the Code, applicable final and temporary Treasury Regulations, judicial decisions and administrative rulings and practice, all in effect as of the date of this prospectus supplement, and should not be construed as legal advice. No assurance can be given that future legislative or administrative changes or judicial decisions will not affect the accuracy of the descriptions or conclusions contained in this summary. In addition, any such changes may be retroactive and apply to transactions entered into prior to the date of their enactment, promulgation or release. We do not expect to seek a ruling from the Internal Revenue Service, or IRS, regarding any of the federal income tax issues discussed in this prospectus supplement, and no assurance can be given that the IRS will not challenge any of the positions we take and that such a challenge will not succeed. ***Prospective purchasers of our stock are urged to consult their own tax advisors prior to any investment in our common stock concerning the potential federal, state, local and foreign tax consequences of the investment with specific reference to their own tax situations.*** This summary supplements and should be read together with the general discussion of the tax considerations relating to our qualification as a REIT described in the accompanying prospectus under the title Federal Income Tax Considerations Related to Our REIT Election.

Investments in Certain Debt Instruments

We may, from time to time, opportunistically invest in non-performing or distressed debt secured by real estate assets with a view to subsequently taking control of the properties. Interest income constitutes qualifying mortgage interest for purposes of the 75% gross income test applicable to REITs to the extent that the obligation upon which such interest is paid is secured by a mortgage on real property. See Federal Income Tax Considerations Related to Our REIT Election Qualification as a REIT Income Tests in the accompanying prospectus for a discussion of the gross income tests applicable to REITs. If we receive interest income with respect to a mortgage loan that is secured by both real property and other property, and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date that we committed to acquire, or agreed to modify in a manner that is treated as an acquisition for U.S. federal income tax purposes, the mortgage loan, then the interest income will be apportioned between the real property and the other collateral, and our income from the loan will qualify for purposes of the 75% gross income test only to the extent that the interest is allocable to the real property. Even if a loan is not secured by real property, or is undersecured, the income that it generates may nonetheless qualify for purposes of the 95% gross income test. To the extent that we derive interest income from a mortgage loan where all or a portion of the amount of interest payable is contingent, such income generally will qualify for purposes of the gross income tests only if it is based upon the gross receipts or sales, and not the net income or profits, of the borrower.

In addition, if the outstanding principal balance of a mortgage loan exceeds the fair market value of the real property securing the loan at the time we commit to acquire, or agree to modify in a manner that is treated as an acquisition for U.S. federal income tax purposes, the mortgage loan, then a portion of such loan likely will not be a qualifying real estate asset for purposes of the 75% asset test applicable to REITs. See Federal Income Tax

Considerations Related to Our REIT Election Qualification as a REIT Asset Tests in the accompanying prospectus for a discussion of the asset tests applicable to REITs. Although the law on the matter is not entirely clear, it appears that the nonqualifying portion of the mortgage loan will be equal to the portion of the highest principal amount of the loan outstanding during the taxable year that exceeds the fair market value of the associated real property that is security for that loan. In addition to being a nonqualifying asset purposes of the 75% asset test, the nonqualifying portion may be treated as a security for purposes of the 25% securities test, the 5% value test, and the 10% value test described in Federal Income Tax Considerations Related to Our REIT Election Qualification as a REIT Asset Tests in the accompanying prospectus.

The application of the REIT provisions of the Code to mezzanine loans, which are loans secured by equity interests in an entity that directly or indirectly owns real property rather than by a direct mortgage of the real property, is not entirely clear. A safe harbor in IRS Revenue Procedure 2003-65 provides that if a mezzanine loan meets certain requirements then it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests and interest income derived from it will be treated as qualifying mortgage interest for purposes of the 75% gross income test. However, to the extent that mezzanine loans do not meet all of the requirements for reliance on the safe harbor set forth in Revenue Procedure 2003-65, such loans may not be real estate assets and the interest income derived therefrom may not be qualifying income for purposes of the 75% gross income test, which could adversely affect our REIT qualification if we acquired such loans. As such, the REIT provisions of the Code may limit our ability to acquire mortgage, mezzanine or other loans that we might otherwise desire to acquire.

Taxation of U.S. Stockholders Holding Common Stock

The term U.S. stockholder means an investor that, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation, created or organized in or under the laws of the United States, any of its states or the District of Columbia, (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust, (a) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (b) that has a valid election in effect under the applicable Treasury Regulations to be treated as a United States person under the Code. In addition, as used herein, the term U.S. stockholder does not include any entity that is subject to special treatment under the Code.

Distributions by us, other than capital gain dividends, will constitute ordinary dividends to the extent of our current or accumulated earnings and profits as determined for federal income tax purposes. In general, these dividends will be taxable as ordinary income and will not be eligible for the dividends-received deduction for corporate stockholders. Our ordinary dividends generally will not qualify as qualified dividend income taxed as net capital gain for U.S. stockholders that are individuals, trusts, or estates. However, distributions to U.S. stockholders that are individuals, trusts, or estates generally will constitute qualified dividend income taxed as net capital gains to the extent the U.S. stockholder satisfies certain holding period requirements and to the extent the dividends are attributable to (i) qualified dividend income we receive from other corporations, such as Bloodstone TRS, Inc. and other taxable REIT subsidiaries, and (ii) dividends paid from our undistributed earnings or from built-in gains taxed at the corporate level and provided we properly designate the distributions as such. The preferential treatment of qualified dividend income is applicable for taxable years beginning on or before December 31, 2010, unless extended by Congress. We do not anticipate distributing a significant amount of qualified dividend income. The discussion in this section applies equally to distributions payable in cash and taxable stock distributions. See Taxation of Certain Stock Dividends below.

To the extent that we make a distribution in excess of our current and accumulated earnings and profits (a return of capital distribution), the distribution will be treated first as a tax-free return of capital, reducing the tax basis in a U.S. stockholder s shares. To the extent a return of capital distribution exceeds a U.S. stockholder s tax basis in its shares, the distribution will be taxable as capital gain realized from the sale of such shares.

Dividends declared by us in October, November or December and payable to a stockholder of record on a specified date in any such month shall be treated both as paid by us and as received by the stockholder on December 31 of the year, provided that the dividend is actually paid by us during January of the following calendar year.

We will be treated as having sufficient earnings and profits to treat as a dividend any distribution up to the amount required to be distributed in order to avoid imposition of the 4% excise tax generally applicable to REITs if certain distribution requirements are not met. Moreover, any deficiency dividend will be treated as an ordinary or a capital gain dividend, as the case may be, regardless of our earnings and profits. As a result, stockholders may be required to treat certain distributions as taxable dividends that would otherwise result in a tax-free return of capital.

Capital Gain Dividends

Distributions that are properly designated as capital gain dividends will be taxed as long-term capital gains (to the extent they do not exceed our actual net capital gain for the taxable year) without regard to the period for which the stockholder has held its shares. However, corporate stockholders may be required to treat up to 20% of certain capital gain dividends as ordinary income. In addition, U.S. stockholders may be required to treat a portion of any capital gain dividend as unrecaptured Section 1250 gain, taxable at a maximum rate of 25%, if we incur such gain. Capital gain dividends are not eligible for the dividends-received deduction for corporations.

The REIT provisions do not require us to distribute our long-term capital gain, and we may elect to retain and pay income tax on our net long-term capital gains received during the taxable year. If we so elect for a taxable year, our stockholders would include in income as long-term capital gains their proportionate share of such portion of our undistributed long-term capital gains for the taxable year as we may designate. A U.S. stockholder would be deemed to have paid its share of the tax paid by us on such undistributed capital gains, which would be credited or refunded to the stockholder. The U.S. stockholder s basis in its shares would be increased by the amount of undistributed long-term capital gains (less the capital gains tax paid by us) included in the U.S. stockholder s long-term capital gains.

Passive Activity Loss and Investment Interest Limitations

Our distributions and gain from the disposition of our shares will not be treated as passive activity income and, therefore, U.S. stockholders will not be able to apply any passive losses against such income. With respect to non-corporate U.S. stockholders, our dividends (to the extent they do not constitute a return of capital) that are taxed at ordinary income rates will generally be treated as investment income for purposes of the investment interest limitation; however, net capital gain from the disposition of our shares (or distributions treated as such), capital gain dividends, and dividends taxed at net capital gains rates generally will be excluded from investment income except to the extent the U.S. stockholder elects to treat such amounts as ordinary income for federal income tax purposes. U.S. stockholders may not include on their own federal income tax returns any of our tax losses.

Sale or Disposition of Shares

In general, any gain or loss realized upon a taxable disposition of shares of our common stock by a stockholder that is not a dealer in securities will be a long-term capital gain or loss if the shares have been held for more than one year and otherwise as a short-term capital gain or loss. However, any loss upon a sale or exchange of the shares by a stockholder who has held such stock for six months or less (after applying certain holding period rules) will be treated as a long-term capital loss to the extent of our distributions or undistributed capital gains required to be treated by such stockholder as long-term capital gain. All or a portion of any loss realized upon a taxable disposition of shares may be disallowed if other shares are purchased within 30 days before or after the disposition.

Unrelated Business Taxable Income

In General

In general, a tax-exempt organization is exempt from federal income tax on its income, except to the extent of its unrelated business taxable income or UBTI, which is defined by the Code as the gross income derived from any trade or business which is regularly carried on by a tax-exempt entity and unrelated to its exempt purposes, less any directly connected deductions and subject to certain modifications. For this purpose, the Code generally excludes from UBTI any gain or loss from the sale or other disposition of property (other than stock in trade or property held primarily for sale in the ordinary course of a trade or business), dividends, interest, rents from real property, and certain other items. However, a portion of any such gains, dividends, interest, rents, and other items generally is UBTI to the extent derived from debt-financed property, based on the amount of acquisition indebtedness with respect to such debt-financed property. ***Before making an investment in shares of our common stock, a tax-exempt stockholder should consult its own tax advisors with regard to UBTI and the suitability of the investment in our shares.***

Distributions we make to a tax-exempt employee pension trust or other domestic tax-exempt stockholder or gains from the disposition of our shares held as capital assets generally will not constitute UBTI unless the exempt organization s shares are debt-financed property (e.g., the stockholder has borrowed to acquire or carry its shares). This general rule does not apply, however, to distributions to certain pension trusts that are qualified trusts (as defined below) and that hold more than 10% (by value) of our shares. For these purposes, a qualified trust is defined as any trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code. If we are treated as a pension-held REIT, such qualified trusts will be required to treat a percentage of their dividends received from us as UBTI if we incur UBTI. We will be treated as a pension-held REIT if (i) we would fail the requirement that, during the last half of each taxable year, no more than 50% in value of our stock may be owned, directly or indirectly, by or for five or fewer individuals (the 5/50 Test) if qualified trusts were treated as individuals for purposes of the 5/50 Test and (ii) we are predominantly held by qualified trusts. Stock ownership for purposes of the 5/50 Test is determined by applying the constructive ownership provisions of Section 544(a) of the Code, subject to certain modifications. The term individual for purposes of the 5/50 Test includes a private foundation, a trust providing for the payment of supplemental unemployment compensation benefits, and a portion of a trust permanently set aside or to be used exclusively for charitable purposes. A qualified trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code generally is not treated as an individual; rather, shares held by it are treated as owned proportionately by its beneficiaries. We will be predominantly held by qualified trusts if either (i) a single qualified trust holds more than 25% by value of our stock or (ii) one or more qualified trusts, each owning more than 10% by value of our stock, hold in the aggregate more than 50% by value of our stock.

In the event we are a pension-held REIT, a qualified trust owning 10% or more of our shares should expect to recognize UBTI as a result of its investment, and we cannot assure you that we will never be treated as a pension-held REIT. The percentage of any dividend received from us treated as UBTI would be equal to the ratio of (a) the gross UBTI (less certain associated expenses) earned by us (treating us as if we were a qualified trust and, therefore, subject to tax on UBTI) to (b) our total gross income (less certain associated expenses). A *de minimis* exception applies where the ratio set forth in the preceding sentence is less than 5% for any year; in that case, no dividends are treated as UBTI. Our gross UBTI for theses purposes would include the rent we receive from Bloodstone TRS, Inc. and, therefore, could be substantial.

Special Issues

Social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans that are exempt from taxation under paragraphs (7), (9), (17), and (20), respectively, of Section 501(c) of the Code are subject to different UBTI rules, which generally will require them to characterize distributions from us as UBTI.

Information Reporting Requirements and Backup Withholding Tax

We will report to our U.S. stockholders and to the IRS the amount of distributions paid during each calendar year, and the amount of tax withheld, if any. Under the backup withholding rules, a U.S. stockholder may be subject to backup withholding at the current rate of 28% with respect to distributions paid, unless such stockholder (i) is a corporation or other exempt entity and, when required, proves its status or (ii) certifies under penalties of perjury that the taxpayer identification number the stockholder has furnished to us is correct and the stockholder is not subject to backup withholding and otherwise complies with the applicable requirements of the backup withholding rules. A U.S. stockholder that does not provide us with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the stockholder s income tax liability.

Taxation of Non-U.S. Stockholders Holding Common Stock

The rules governing U.S. federal income taxation of our stockholders who are beneficial owners of our common stock and who are not U.S. stockholders or entities treated as partnerships for federal income tax purposes, such as nonresident alien individuals, foreign corporations, and foreign trusts and estates (non-U.S. stockholders), are complex. This section is only a summary of such rules. ***We urge prospective non-U.S. stockholders to consult their own tax advisors to determine the impact of federal, state, local and foreign income tax laws on ownership of our common stock, including any reporting requirements.***

Distributions

A non-U.S. stockholder that receives a distribution that is not attributable to gain from our sale or exchange of United States real property interests (as defined below) and that we do not designate as a capital gain dividend or retained capital gain generally will recognize ordinary income to the extent that we pay the distribution out of our current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution ordinarily will apply unless an applicable tax treaty reduces or eliminates the tax. Under some treaties, lower withholding rates do not apply to dividends from REITs. However, if a distribution is treated as effectively connected with the non-U.S. stockholder s conduct of a U.S. trade or business, the non-U.S. stockholder generally will be subject to federal income tax on the distribution at graduated rates (in the same manner as U.S. stockholders are taxed on distributions) and also may be subject to the 30% branch profits tax in the case of a corporate non-U.S. stockholder. We plan to withhold U.S. income tax at the rate of 30% on the gross amount of any distribution paid to a non-U.S. stockholder that is neither a capital gain dividend nor a distribution that is attributable to gain from the sale or exchange of United States real property interests unless either (i) a lower treaty rate applies and the non-U.S. stockholder files with us any required IRS Form W-8 (for example, an IRS Form W-8BEN) evidencing eligibility for that reduced rate or (ii) the non-U.S. stockholder files with us an IRS Form W-8ECI claiming that the distribution is effectively connected income.

A non-U.S. stockholder generally will not incur tax on a return of capital distribution in excess of our current and accumulated earnings and profits that is not attributable to the gain from our disposition of a United States real property interest if the excess portion of the distribution does not exceed the adjusted basis of the non-U.S. stockholder s common stock. Instead, the excess portion of the distribution will reduce the adjusted basis of that common stock. However, a non-U.S. stockholder will be subject to tax on such a distribution that exceeds both our current and accumulated earnings and profits and the non-U.S. stockholder s adjusted basis in the common stock, if the non-U.S. stockholder otherwise would be subject to tax on gain from the sale or disposition of its common stock, as described below. Because we generally cannot determine at the time we make a distribution whether the distribution will exceed our current and accumulated earnings and profits, we normally will withhold tax on the entire amount of any distribution at the same rate as we would withhold on a dividend. However, a non-U.S. stockholder may obtain a refund of amounts that we withhold if we later determine that a distribution in fact exceeded our current and accumulated earnings and profits.

We may be required to withhold 10% of any distribution that exceeds our current and accumulated earnings and profits. Consequently, although we intend to withhold at a rate of 30% on the entire amount of any distribution that is neither attributable to the gain from our disposition of a United States real property interest nor designated by us as a capital gain dividend, to the extent that we do not do so, we will withhold at a rate of 10% on any portion of a distribution not subject to withholding at a rate of 30%.

Subject to the exception discussed below for 5% or smaller holders of regularly traded classes of stock, a non-U.S. stockholder will incur tax on distributions that are attributable to gain from our sale or exchange of United States real property interests under special provisions of the Foreign Investment in Real Property Tax Act of 1980, or

FIRPTA. The term United States real property interests includes interests in U.S. real property and shares in U.S. corporations at least 50% of whose assets consist of interests in U.S. real property. Under those rules, a non-U.S. stockholder is taxed on distributions attributable to gain from sales of United States real property interests as if the gain were effectively connected with the non-U.S. stockholder s conduct of a U.S. trade or business. A non-U.S. stockholder thus would be taxed on such a distribution at the normal capital gain rates applicable to U.S. stockholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A corporate non-U.S. stockholder not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax on such a distribution. We generally must withhold 35% of any distribution subject to these rules that we could designate as a capital gain distribution (35% FIRPTA Withholding). A non-U.S. stockholder may receive a credit against its tax liability for the amount we withhold.

A non-U.S. stockholder that owns no more than 5% of our common stock at all times during the one-year period ending on the date of a distribution will not be subject to 35% FIRPTA Withholding with respect to such distribution that is attributable to gain from our sale or exchange of United States real property interests, provided that our common stock continues to be regularly traded on an established securities market in the United States. Instead, any such distributions made to such non-U.S. stockholder will be subject to the general withholding rules discussed above, which generally impose a withholding tax equal to 30% of the gross amount of each distribution (unless reduced by treaty).

Dispositions

If the gain on the sale of the common stock were taxed under FIRPTA, a non-U.S. stockholder would be taxed on that gain in the same manner as U.S. stockholders with respect to that gain, subject to applicable alternative minimum tax, and a special alternative minimum tax in the case of nonresident alien individuals. A non-U.S. stockholder generally will not incur tax under FIRPTA on a sale or other disposition of our stock if we are a domestically controlled qualified investment entity, which means that, during the five-year period ending on the date of the distribution or dispositions, non-U.S. stockholders hold, directly or indirectly, less than 50% in value of our shares. We cannot assure you that we are or will be in the future a domestically controlled qualified investment entity. Alternatively, the gain from a sale of our common stock by a non-U.S. stockholder will not be subject to tax under FIRPTA if (i) our common stock is considered regularly traded under applicable Treasury Regulations on an established securities market, such as the New York Stock Exchange, and (ii) the non-U.S. stockholder owned, actually or constructively, 5% or less of our common stock at all times during a specified testing period. Since the completion of our initial public offering, we believe our common stock has been regularly traded on an established securities market. Accordingly, a non-U.S. stockholder should not incur tax under FIRPTA with respect to gain on a sale of our common stock unless it owns, or has owned during the applicable testing period, actually or constructively, more than 5% of our common stock provided that our common stock continues to be regularly traded on an established securities market.

In addition, even if we are a domestically controlled qualified investment entity, upon a disposition of our common stock, a non-U.S. stockholder may be treated as having gain from the sale or exchange of a United States real property interest if the non-U.S. stockholder (i) disposes of an interest in our common stock during the 30-day period preceding the ex-dividend date of a distribution, any portion of which, but for the disposition, would have been treated as gain from sale or exchange of a United States real property interest and (ii) directly or indirectly acquires, enters into a contract or option to acquire, or is deemed to acquire, other shares of our common stock within 30 days before or after such ex-dividend date. The foregoing rule does not apply if the exception described above for distributions to 5% or smaller holders of regularly traded classes of stock is satisfied.

Furthermore, a non-U.S. stockholder generally will incur tax on gain not subject to FIRPTA if (i) the gain is effectively connected with the non-U.S. stockholder s U.S. trade or business, in which case the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to such gain, or (ii) the non-U.S. stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the non-U.S. stockholder will incur a 30% tax on his or her capital gains.

Purchasers of our stock from a non-U.S. stockholder generally will be required to withhold and remit to the IRS 10% of the purchase price unless at the time of purchase (i) any class of our stock is regularly traded on an established securities market in the United States (subject to certain limits if the shares sold are not themselves part of such a regularly traded class) or (ii) we are a domestically controlled qualified investment entity. The non-U.S. stockholder may receive a credit against its tax liability for the amount withheld.

Taxation of Certain Stock Dividends

We have in the past and we may again in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. Under IRS Revenue Procedure 2010-12, up to 90% of any such taxable dividend with respect to the taxable years 2008 through 2011 could be payable in our stock. Taxable stockholders receiving such dividends are required to include the full amount of the dividend as ordinary income to the extent of our current or accumulated earnings and profits for U.S. federal income tax purposes. As a result, U.S. stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. Accordingly, U.S. stockholders receiving a distribution of our shares may be required to sell shares received in such distribution or may be required to sell other stock or assets owned by them,