DiamondRock Hospitality Co
Form 424B5
January 20, 2011

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	$133,650,000	$15,517(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

11,000,000 Shares

Common Stock

DiamondRock Hospitality Company

Common Stock

DiamondRock Hospitality Company is offering 11,000,000 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 January 18, 2011, was $12.54 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-4 of this prospectus supplement and page 10 of our Annual Report on Form 10-K for the year ended December 31, 2009, as well as in the other periodic reports we file from time to time with the Securities and Exchange Commission, or SEC, which are incorporated by reference herein.

	Per Share	Total
Price to Public	$ 12.15	$ 133,650,000
Underwriting discounts and commissions	$ 0.08	$ 880,000
Proceeds, before expenses, to DiamondRock Hospitality Company	$ 12.07	$ 132,770,000

We have granted the underwriter a 30-day option to purchase up to an additional 1,650,000 shares of common stock from us at the initial public offering price less the underwriting discount if the underwriter sells more than 11,000,000 shares of common stock in this offering.

None of the SEC, 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 underwriter expects to deliver the shares on or about January 21, 2011.

Goldman, Sachs & Co.

The date of this prospectus supplement is January 18, 2011.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. You should read this entire document, including the prospectus supplement, the accompanying prospectus and the documents incorporated herein by reference. In the event that the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement. To the extent the information included or incorporated by reference in this prospectus supplement differs or varies from the information included or incorporated by reference in the accompanying prospectus, the information included or incorporated by reference in this prospectus supplement updates and supersedes such information.

This prospectus supplement and the accompanying prospectus contain, or incorporate by reference, forward-looking statements. Such forward-looking statements should be considered together with the cautionary statements and important factors included or referred to in this prospectus supplement, the accompanying prospectus and the documents incorporated herein by reference. Please see Forward-Looking Statements in this prospectus supplement and Forward-Looking Statements in the accompanying prospectus.

References in this prospectus to we, our, us and our company refer to DiamondRock Hospitality Company, includi as the context requires, DiamondRock Hospitality Limited Partnership, our operating partnership, as well as our other direct and indirect subsidiaries, including our taxable REIT subsidiaries.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriter have authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. This prospectus supplement and the accompanying prospectus are not an offer to sell or the solicitation of an offer to buy any securities other than the registered shares to which they relate, nor is this prospectus supplement or the accompanying prospectus an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus supplement and the accompanying prospectus include and incorporate by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements regarding estimates, projections, our business plans, objectives, expected operating results, and the assumptions upon which those statements are based, are forward-looking statements. These forward-looking statements generally are identified by the words believes, project, expects, anticipates, estimates, intends, strategy, plan, may, be, will continue, will likely result, and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2009 and in our other reports we file from time to time with the SEC and incorporate by reference in this prospectus supplement. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

OUR COMPANY

We are a lodging-focused real estate company that, as of the date of this prospectus, owns a portfolio of 23 premium hotels and resorts that contain 10,743 guestrooms and a senior mortgage loan secured by another hotel. We are an owner, as opposed to an operator, of the 23 hotels in our portfolio. As an owner, we receive all of the operating profits or losses generated by our hotels after we pay fees to the hotel managers, which are based on the revenues and profitability of the hotels.

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 barriers-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 23 hotels is concentrated in key gateway cities and in destination resort locations. All of our owned hotels operate under a brand owned by one of the leading global lodging brand companies (Marriott International, Inc. (Marriott), Starwood Hotels & Resorts Worldwide, Inc. (Starwood) or Hilton Worldwide (Hilton)).

We differentiate ourselves from our competitors because of our adherence to three basic principles:

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

Our properties are concentrated in five key gateway cities (New York City, Los Angeles, Chicago, Boston and Atlanta) and in destination resort locations (such as the U.S. Virgin Islands and Vail, Colorado). We believe that gateway cities and destination resorts will achieve higher long-term growth because they are attractive business and leisure destinations. We also believe that these locations are better insulated from new supply due to relatively high barriers-to-entry, including expensive construction costs and limited prime hotel development sites.

We believe that higher quality lodging assets create more dynamic cash flow growth and superior long-term capital appreciation.

In addition, a core tenet of our strategy is to leverage global hotel brands. We strongly believe in the value of powerful global brands because we believe that they are able to produce incremental revenue and profits compared to similar unbranded hotels. Dominant global hotel brands typically have very strong reservation and reward systems and sales organizations, and all of our owned hotels are operated under a brand owned by one of the top global lodging brand companies (Marriott, Starwood or Hilton) and all but three of our owned hotels are managed by the brand company directly. Generally, we are interested in owning hotels that are currently operated under, or can be converted to, a globally recognized brand.

Recent Developments

Agreement to Purchase a New York City Hotel

On January 18, 2011, we entered into a purchase and sale agreement to acquire, upon completion, a hotel property under development on West 42nd Street in Times Square, New York City. Upon completion by the third party developer, the hotel is expected to contain approximately 250 to 300 guest rooms. The contractual purchase price will range from approximately $112.5 million to $135 million, depending upon the number of guest rooms, or approximately $450,000 per guest room. If certain required permits, approvals and consents are obtained, the number of guest rooms could be increased to approximately 400 guest rooms, which would result in the contractual purchase price increasing to approximately $178 million, or $445,000 per guest room. The purchase and sale agreement is for a fixed-price (which varies only by total guest rooms built and the completion date for the hotel, and we are not assuming any construction risk (including not assuming the risk of construction cost overruns).

The site of the to-be-developed hotel is at the intersection of 42nd Street and Broadway, directly across from the Conde Nast building and less than one block from Bryant Park. We believe the hotel will attract both business and leisure travelers visiting New York City due to its location in Times Square, as well as its close proximity to the many businesses located near the hotel, including the Bank of America Tower located at One Bryant Park and the Verizon Building at 1095 Avenue of the Americas. In addition, we believe this acquisition will further our strategy of enhancing our full-service portfolio with urban select service hotels in top MSAs.

Upon entering into the purchase and sale agreement, we committed to make a $20.0 million deposit. Upon the completion of certain construction milestones, we will be required to make an additional deposit of $5.0 million. If certain permits, approvals and consents necessary for the hotel to contain more than 250 guest rooms are obtained, we will be required to make an additional deposit equal to $45,000 per guest room for each guest room in excess of 250. All deposits will be interest bearing. We will forfeit our deposits if we do not close on the acquisition of the hotel upon substantial completion of construction, unless we do not close as a result of the seller failing to meet certain conditions, including substantial completion of the hotel within a specified time frame and construction of the hotel within the contractual scope.

We will submit a franchise application to one of the global hotel operating companies and expect to brand the hotel with a well known upscale select service brand following our acquisition of the hotel, subject to negotiation of a satisfactory franchise agreement. An affiliate of the third-party developer is expected to operate the hotel upon completion.

We currently expect that the development of the hotel will take approximately 24 to 30 months with an anticipated opening date in 2013. We cannot assure you that we will acquire the hotel as our acquisition of the hotel is subject to the satisfaction of certain closing conditions, including the substantial completion of the hotel by the third-party developer, construction of the hotel within the contractual scope and other customary closing conditions. *See* Risk Factors.

Acquisition Pipeline

We have access to and are actively pursuing a pipeline of potential acquisitions consistent with our investment strategy. As of the date of this prospectus, we have identified and are in various stages of either reviewing, bidding on and/or negotiating several potential hotel acquisition opportunities. We cannot assure you that we will acquire any of the hotel properties that we are currently in the process of reviewing, bidding on and/or negotiating to acquire. *See* Risk Factors.

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 Annual Report on Form 10-K for the year ended December 31, 2009, 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.

We may not acquire any of the hotel properties in our current acquisition pipeline.

We currently intend to use a substantial portion of the net proceeds from this offering to acquire one or more hotel properties in our acquisition pipeline. We cannot assure you that we will acquire any of the hotel properties in our acquisition pipeline because the acquisition of any hotel property in our pipeline is subject to:

- our negotiating and executing with the seller a mutually acceptable definitive and binding purchase and sale agreement with respect to the hotel property;
- our ability to negotiate and execute a new management agreement and franchise agreement, or assume the existing agreements, for the hotel property;
- our completion of satisfactory due diligence with respect to the hotel property; and
- satisfaction of customary closing conditions, including the receipt of third-party consents and approvals.

There can be no assurance that the sellers will be willing to proceed with a transaction, that we will be able to negotiate and execute a satisfactory definitive purchase and sale agreement with the sellers, that we will be able to negotiate and execute new management agreements and franchise agreements (or assume the existing agreements), that our due diligence will be satisfactory, or that the conditions to closing will be satisfied.

We have no immediate designated use for a substantial portion of the net proceeds of this offering.

We have not yet committed a substantial portion of the net proceeds of this offering to the acquisition of specific hotel properties, and you will be unable to evaluate the economic merits of investments we make with the net proceeds before making an investment decision to purchase our common stock in this offering. As a result, we will have broad authority to invest a substantial portion of the net proceeds of this offering in real estate investments that we may identify in the future, and we may use those proceeds to make investments with which you may not agree. In addition, our investment policies may be amended or revised from time to time at the discretion of our board of directors, without a vote of our stockholders. These factors increase the uncertainty, and thus the risk, of an investment in our common stock. Our failure to apply a substantial portion of the net proceeds of this offering effectively or to find suitable hotel properties to acquire in a timely manner or on acceptable terms could result in returns that are substantially below expectations or result in losses.

Until appropriate investments can be identified, we may invest a substantial portion of the net proceeds of the offering in interest-bearing short-term securities or money-market accounts that are consistent with our intention to qualify as a REIT. These investments are expected to provide a lower net return than we seek to achieve from future hotel property acquisitions. We may also use a portion of the proceeds for general working capital purposes.

If we are unable to acquire any of the hotel properties in our acquisition pipeline, we may experience delays in locating and securing attractive alternative investments.

We may not be able to acquire hotel properties in our acquisition pipeline that we have identified, which are in various stages of review and negotiation, including the to-be-developed hotel that we currently have under contract to purchase. In addition, the to-be-developed hotel that we have entered into an agreement to acquire upon substantial completion is not expected to be completed and acquired for approximately 24 to 30 months. If we are unable to acquire any of these hotel properties, we may experience delays in locating and securing attractive alternative real estate investments. In addition, these potential acquisitions, whether or not they are successful, require substantial time and attention from our management. In addition, we will incur significant expenses in connection with our review and negotiation, including expenses for due diligence and legal fees. To the extent we do not acquire hotel properties that we are currently reviewing and negotiating to acquire, these expenses will not be offset by revenues from these hotel properties.

We face risks associated with the development of a hotel by a third-party developer.

We are exposed to the risks associated with the failure of the third-party developer to complete the development, as we expect, of the to-be-developed hotel described under Our Company Recent Developments . These include the risk that the third-party developer will default on its obligations under the purchase and sale agreement with us or default on an obligation to a lender, which may have a security interest in the property senior to us. In either of these cases, we may lose the opportunity to acquire the hotel and may have no recourse to the developer. In addition, the hotel is not expected to be opened for approximately 24 to 30 months. If we acquire this hotel, there can be no assurance that the market where it is located will not be experiencing a downturn when the acquisition is completed in approximately 24 to 30 months and the hotel may not perform as we expect.

If we do not complete the acquisition of the to-be-developed hotel that we have entered into an agreement to acquire upon completion, we will have incurred substantial expenses without our stockholders realizing the expected benefits.

If we are unable to complete the acquisition of the to-be-developed hotel described under Our Company Recent Developments , we may incur significant legal, accounting and other transaction costs in connection with this acquisition without our stockholders realizing the expected benefits. We cannot assure you that we will acquire this hotel because the proposed acquisition is subject to a variety of factors, including substantial construction completion of the hotel by the third-party developer and construction of the hotel within the contractual scope. In addition, even if we complete the acquisition of the hotel, we cannot assure you that the hotel will contain more than 250 guest rooms because the additional rooms are subject to the receipt of required permits, approvals and consents.

THE OFFERING

Issuer	DiamondRock Hospitality Company
Common Stock Offered by Us	11,000,000 shares(1)
Common Stock to be Outstanding after this Offering	165,570,543 shares(1)(2)
NYSE Symbol	DRH

(1) Excludes 1,650,000 shares issuable upon exercise of the underwriter s option to purchase additional shares.

(2) Includes 154,570,543 shares of common stock outstanding as of January 18, 2011. Excludes 1,548,698 unvested restricted shares of our common stock issued to our executive officers and other employees pursuant to our equity incentive plan, 4,880,173 shares available for future issuance under our equity incentive plan and 15,306 vested deferred common stock units outstanding as of January 18, 2011 issued pursuant to our equity incentive plan to our non-employee directors.

USE OF PROCEEDS

We expect that the net proceeds from this offering will be approximately $132.5 million after deducting underwriting discounts and our estimated expenses of approximately $250,000 (or approximately $152.4 million if the underwriter exercises its option to purchase additional shares in full).

We expect 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 $20.0 million to pay the deposit required under the purchase and sale agreement for the to-be-developed hotel that we have under contract to purchase upon completion of development and the remainder for investment in future acquisitions of hotel properties or other assets in accordance with our investment policies and for general working capital purposes. Except as disclosed herein, we have not entered into any definitive agreements regarding future acquisitions.

Prior to the full investment of the net proceeds in future acquisitions, 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. These initial investments are expected to provide a lower net return than we will seek to achieve from future acquisitions. In the event the underwriter exercises any or all of its option to purchase additional shares, we expect to use the additional net proceeds for general corporate purposes, which may include investment in hotel properties 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. For purposes of the preceding sentence, however, under recently issued IRS guidance we do not need to redetermine the fair market value of real property in connection with a loan modification that is occasioned by a default or made at a time when we reasonably believe the modification to the loan will substantially reduce a significant risk of default on the original loan. 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 may 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. However, under current law it is not clear how to determine what portion of such a loan will be treated as a qualifying real estate asset. Under recently issued guidance, the IRS has stated that it will not challenge a REIT s treatment of a loan as being in part a real estate asset for purposes the 75% asset test if the REIT treats the loan as being a real estate asset in an amount that is equal to the lesser of the fair market value of the real property securing the loan on the date we agreed to acquire the loan, as described in the preceding paragraph, and the fair market value of the loan. In addition to being a nonqualifying asset for 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.

Temporary Reduction in the Holding Period to Avoid Tax on C Corporation Built-in Gains

As discussed in Federal Income Tax Considerations Related to Our REIT Election Taxation of Our Company of the accompanying prospectus, we may be subject to a tax at the highest regular corporate rate on the gain we recognize from the disposition of an asset acquired from a C corporation in a transaction in which we took the C corporation s tax basis to the extent of the appreciation in the asset at the time we acquired it from the C corporation. In general, this tax applies for a period of 10 years beginning with the first day of the first taxable year that a C corporation is treated as a REIT, or the day the property of a C corporation is transferred to a REIT, as applicable (the recognition period). For tax years beginning in 2011, the recognition period is reduced to 5 years.

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 U.S. 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 U.S. 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 U.S. 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, dividends to U.S. stockholders that are individuals, trusts, or estates generally will constitute qualified dividend income taxed as net capital gains if the U.S. stockholder satisfies certain holding period requirements, we designate the dividends as qualified dividend income and the dividends are attributable to (i) qualified dividend income we receive from other corporations, such as Bloodstone TRS, Inc. and potentially certain other taxable REIT subsidiaries, during the taxable year, or (ii) our undistributed earnings or built-in gains taxed at the corporate level during the preceding taxable year. The preferential treatment of qualified dividend income is applicable for taxable years beginning on or before December 31, 2012, 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 at the time the distribution is actually made. 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 distributions (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 will be 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.

Medicare Tax on Unearned Income

Under recently-enacted U.S. federal income tax legislation, for taxable years beginning after December 31, 2012, a U.S. stockholder that is an individual is subject to a 3.8% tax on the lesser of (1) his or her net investment income for the relevant taxable year or (2) the excess of his or her modified gross income for the taxable year over a certain threshold (between $125,000 and $250,000 depending on the individual s U.S. federal income tax filing status). A similar regime applies to certain estates and trusts. Net investment income generally would include dividends on our stock and gain from the sale of our stock. If you are a U.S. stockholder that is an individual, an estate or a trust, you are urged to consult your tax advisors regarding the applicability of this tax to your income and gains in respect of your investment in our common stock.

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 may 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 these 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 their 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 our 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 disposition, non-U.S. stockholders held, 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 the 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 generally incur a 30% tax on his or her net U.S. source 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, at a time that may be disadvantageous, in order to satisfy any tax imposed on such distribution. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. With respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock, by withholding or disposing of part of the shares in such distribution and using the proceeds of such disposition to satisfy the withholding tax imposed.

Further, while Revenue Procedure 2010-12 applies only to taxable dividends payable by us in a combination of cash and stock with respect to the taxable years 2008 through 2011, it is unclear whether and to what extent we will be able to pay taxable dividends in cash and stock in later years. Moreover, various tax aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.