DiamondRock Hospitality Co
Form 10-K
February 26, 2010

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-32514

DIAMONDROCK HOSPITALITY COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Maryland	**20-1180098**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*
6903 Rockledge Drive, Suite 800 Bethesda, Maryland	**20817**
(Address of Principal Executive Offices)	*(Zip Code)*

Registrant s telephone number, including area code: (240) 744-1150

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the common equity held by non-affiliates of the Registrant (assuming for these purposes, but without conceding, that all executive officers and Directors are affiliates of the Registrant) as of June 19, 2009, the last business day of the Registrant s most recently completed second fiscal quarter, was $697.7 million (based on the closing sale price of the Registrant s Common Stock on that date as reported on the New York Stock Exchange).

The registrant had 128,163,717 shares of its $0.01 par value common stock outstanding as of February 26, 2010.

Documents Incorporated by Reference

Proxy Statement for the registrant s 2010 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2009, is incorporated by reference in Part III herein.

DIAMONDROCK HOSPITALITY COMPANY

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are 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. These forward-looking statements generally are identified by the words believes, project, expects, anticipates, estimates, intends, strategy, plan, may, will, would, will be, will continue, will likel
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 this Annual Report on Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

References in this Annual Report on Form 10-K to we, our, us and the Company refer to DiamondRock Hospitality
Company, including as the context requires, DiamondRock Hospitality Limited Partnership, as well as our other direct and indirect subsidiaries.

PART I

Item 1. *Business*

Overview

We are a lodging-focused real estate company that, as of February 26, 2010, 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 shareholder 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 and 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. (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.

High Quality Urban and Destination Resort Focused Branded Real Estate

We own 20 premium hotels and resorts in North America. These hotels and resorts are primarily categorized as upper upscale as defined by Smith Travel Research and are generally located in high barrier-to-entry markets with multiple demand generators.

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 hotels are operated under a brand owned by one of the top global lodging brand companies (Marriott, Starwood or Hilton) and all but two of our 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.

Conservative Capital Structure

Since our formation in 2004, we have been committed to a flexible capital structure with prudent leverage. During 2004 though early 2007, we took advantage of the low interest rate environment by fixing our interest rates for an extended period of time. Moreover, during the peak years (2006 and 2007) in the commercial real estate market, we maintained low financial leverage by funding several of our acquisitions with proceeds from the issuance of equity. This capital markets strategy allowed us to maintain a balance sheet with a moderate amount of debt as the lodging cycle began to decline. During the peak years, we believed, and present events have confirmed, that it is not prudent to increase the inherent risk of a highly cyclical business through a highly levered capital structure.

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

We have always strived to operate our business with prudent leverage. Our corporate goals and objectives for 2009, a year that experienced a significant industry downturn, were focused on preserving and enhancing our liquidity. Based on a comprehensive action plan, we took a number of steps to achieve that goal, as follows:

We completed a follow-on public offering of our common stock during the second quarter of 2009. The net proceeds to us, after deduction of offering costs, were approximately $82.1 million.

We initiated two separate $75 million controlled equity offering programs, raising net proceeds as of December 31, 2009 of $123.1 million through the sale of 16.1 million shares of our common stock at an average price of $7.72 per share.

We repaid the entire $57 million outstanding on our senior unsecured credit facility during 2009. As of December 31, 2009 we have no outstanding borrowings on our senior unsecured credit facility.

We refinanced the mortgage on our Courtyard Manhattan/Midtown East hotel with a $43.0 million secured loan from Massachusetts Mutual Life Insurance Company, which matures on October 1, 2014.

We repaid the $27.9 million loan secured by the Griffin Gate Marriott with corporate cash during the fourth quarter of 2009. The loan was scheduled to mature on January 1, 2010.

We repaid the $5 million loan secured by the Bethesda Marriott Suites with corporate cash during the fourth quarter of 2009. The mortgage debt was scheduled to mature in July 2010.

We paid 90% of our 2009 dividend in shares of our common stock, as permitted by the Internal Revenue Service s Revenue Procedure 2009-15, as amplified and superseded by Revenue Procedure 2010-12, which preserved approximately $37 million of corporate cash.

We focused on minimizing capital spending during 2009. Our 2009 capital expenditures were $24.7 million, of which only $4.6 million was funded from corporate cash and the balance funded from escrow reserves.

As a result of the steps listed above, we achieved our 2009 goal to preserve and enhance our liquidity and decreased our net debt by 30 percent in 2009. As of December 31, 2009, we have $177.4 million of unrestricted corporate cash. We believe that we maintain a reasonable amount of fixed interest rate mortgage debt with no maturities until late 2014. As of February 25, 2010, we have $785.9 million of mortgage debt outstanding with a weighted average interest rate of 5.9 percent and a weighted average maturity date of approximately 6 years. In addition, we currently have ten hotels unencumbered by debt and no corporate-level debt outstanding.

Thoughtful Asset Management

We believe that we are able to create significant value in our portfolio by utilizing our management team s extensive experience and our innovative asset management strategies. Our senior management team has an established broad network of hotel industry contacts and relationships, including relationships with hotel owners, financiers, operators, project managers and contractors and other key industry participants.

In the current economic environment, we believe that our extensive lodging experience, our network of industry relationships and our asset management strategies position us to minimize the impact of declining revenues on our hotels. In particular, we are focused on controlling our property-level and corporate expenses, as well as working closely with our managers to optimize the mix of business at our hotels in order to maximize potential revenue. Our property-level cost containment efforts include the implementation of aggressive contingency plans at each of our hotels. The contingency plans include controlling labor expenses, eliminating hotel staff positions, adjusting food and beverage outlet hours of operation and not filling open positions. In addition, our strategy to significantly renovate many of the hotels in our portfolio from 2006 to 2008 resulted in the flexibility to significantly curtail our planned capital expenditures for 2009 and 2010.

We use our broad network of hotel industry contacts and relationships to maximize the value of our hotels. Under the regulations governing REITs, we are required to engage a hotel manager that is an eligible independent contractor through one of our subsidiaries to manage each of our hotels pursuant to a management agreement. Our philosophy is to negotiate management agreements that give us the right to exert significant influence over the management of our properties, annual budgets and all capital expenditures (all, to the extent permitted under the REIT rules), and then to use those rights to continually monitor and improve the performance of our properties. We cooperatively partner with the managers of our hotels in an attempt to increase operating results and long-term asset values at our hotels. In addition to working directly with the personnel at our hotels, our senior management team also has long-standing professional relationships with our hotel managers senior executives, and we work directly with these senior executives to improve the performance of our portfolio.

We believe we can create significant value in our portfolio through innovative asset management strategies such as rebranding, renovating and repositioning. We are committed to regularly evaluating our portfolio to determine if we can employ these value-added strategies at our hotels.

Our Company

We commenced operations in July 2004. Since our formation, we have sought to be open and transparent in our communications with investors, to monitor our corporate overhead and to follow sound corporate governance practices. We believe that we have the among the most transparent disclosure in the industry, consistently going beyond the minimum legal requirements and industry practice; for example, we provide quarterly operating performance data on each of our hotels enabling our investors to evaluate our successes and our failures. In addition, we have been able to acquire and finance our hotels, asset manage them, complete over $225 million of capital expenditures on time and on budget, and comply with the complex accounting and legal requirements of a public company with fewer than 20 employees. Finally, we believe that we have implemented sound corporate governance practices in that we have an active and majority-independent Board of Directors that is elected annually by a majority of our stockholders, we do not have any substantial corporate or statutory anti-takeover devices and our directors and officers own a meaningful amount of our stock.

As of December 31, 2009, we owned 20 hotels that contained 9,586 hotel rooms, located in the following markets: Atlanta, Georgia (3); Austin, Texas; Boston, Massachusetts; Chicago, Illinois (2); Fort Worth, Texas; Lexington, Kentucky; Los Angeles, California (2); New York, New York (2); Northern California; Oak Brook, Illinois; Orlando, Florida; Salt Lake City, Utah; Washington D.C.; St. Thomas, U.S. Virgin Islands; and Vail, Colorado.

Our Relationship with Marriott

Investment Sourcing Relationship

We have an investment sourcing relationship with Marriott, a leading worldwide hotel brand, franchise and management company. Pursuant to this relationship, Marriott has provided us with an early opportunity to bid on hotel acquisition and investment opportunities known to Marriott. Historically, this relationship has generated a number of additional acquisition opportunities, with many of the opportunities being off-market transactions, meaning that they are not made generally available to other real estate investment companies. However, we have not entered into a binding agreement or commitment setting forth the terms of this investment sourcing relationship. As a result, we cannot assure you that our investment sourcing relationship with Marriott will continue or not be modified.

Our senior management team periodically meets with senior representatives of Marriott to explore how to further our investment sourcing relationship in order to maximize the value of the relationship to both parties.

We have not acquired any hotels in over three years. In early 2007, we concluded that the market to acquire hotels became too robust and we suspended our acquisition activities. In 2009, there were limited opportunities to acquire hotels due to the uncertainty of the depth and length of the recession, the difficulty of obtaining hotel financing, the reluctance of owners to sell hotels in a weak market and the willingness of lenders or servicers to grant extensions and modifications to existing loans. We believe that the current market conditions indicate that it is prudent to aggressively pursue hotel acquisition opportunities. We are actively monitoring the acquisition market and believe our investment sourcing relationship with Marriott will prove to be valuable.

Key Money and Yield Support

Marriott has contributed to us certain amounts in exchange for the right to manage hotels we have acquired or the completion of certain brand enhancing capital projects. We refer to these amounts as key money. Marriott has provided us with key money of approximately $22 million in the aggregate in connection with our acquisitions of six of our hotels and the renovations of certain hotels.

In addition, Marriott has provided us with operating cash flow guarantees for certain hotels and has funded shortfalls of actual hotel operating income compared to a negotiated target net operating income. We refer to these guarantees as yield support. Marriott provided us with a total of $3.7 million of yield support for the Oak Brook Hills Marriott Resort, Orlando Airport Marriott and SpringHill Suites Atlanta Buckhead, all of which we earned during fiscal years 2006 and 2007. We are not entitled to any further yield support at any of our hotels.

Investment in DiamondRock

In connection with our July 2004 private placement and our 2005 initial public offering, Marriott purchased an aggregate of 4.4 million shares of our common stock at the same purchase price as all other investors. Marriott has since sold all of its shares in DiamondRock.

Our Corporate Structure

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

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

Environmental Matters

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

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

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

We believe that our hotels are in compliance, in all material respects, with all federal, state and local environmental ordinances and regulations regarding hazardous or toxic substances and other environmental matters, the violation of which could have a material adverse effect on us. We have not received written notice from any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental matters in connection with any of our present properties.

Competition

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

We face competition for the acquisition of hotels from institutional pension funds, private equity funds, REITs, hotel companies and others who are engaged in the acquisition of hotels. Some of these competitors have substantially greater financial and operational resources than we have and may have greater knowledge of the markets in which we seek to invest. This competition may reduce the number of suitable investment opportunities offered to us and increase the cost of acquiring our targeted hotel investments.

Employees

We currently employ 18 full-time employees. We believe that our relations with our employees are good. None of our employees is a member of any union; however, the employees of our hotel managers at the Courtyard Manhattan/Fifth Avenue, Frenchman s Reef & Morning Star Marriott Beach Resort and the Westin Boston Waterfront Hotel are currently represented by labor unions and are subject to collective bargaining agreements.

Legal Proceedings

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

Regulation

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

Insurance

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

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

Available Information

We maintain an internet website at the following address: www.drhc.com. The information on our website is neither part of nor incorporated by reference in this Annual Report on Form 10-K.

We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the Securities and Exchange Commission, or SEC, in accordance with the Securities Exchange Act of 1934, as amended, or Exchange Act. These include our Annual Reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and exhibits and amendments to these reports, and Section 16 filings. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

Item 1A. *Risk Factors*

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we may currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be adversely affected.

Risks Related to the Recession and Credit Crisis

The lack of availability and terms of financing have adversely affected the amounts, sources and costs of capital available to us.

The ownership of hotels is very capital intensive. We finance the acquisition of our hotels with a mixture of equity and long-term debt while we traditionally finance renovations and operating needs with cash provided from operations or with borrowings from our corporate credit facility. Typically, when we acquire a hotel, we seek a five to ten year loan secured by a mortgage on the hotel. These loans have a large balloon payment due at their maturity. Generally, we find it more efficient to place a significant amount of debt on a small number of our hotels and we try to keep a significant number of our hotels unencumbered. With the exception of borrowings under our corporate credit facility in the ordinary course of operating our business, we have only borrowed money to refinance existing debt or to acquire new hotels.

In the current economic environment, it is very difficult for most companies, especially for companies in cyclical industries such as lodging, to borrow money. Over the last 10 years, a significant percentage of hotel loans were made by lenders who quickly sold such loans to securitized lending vehicles, such as commercial mortgage backed security (CMBS) pools. The market for new CMBS issuances has significantly declined, with such lenders making very few loans, significantly shrinking the available debt capital available to hotel owners. In addition, the remaining lenders have also significantly reduced their lending as financial institutions delever and suffer losses on their existing lending portfolios.

The current economic environment has severely constrained the credit markets resulting in the bankruptcies and mergers of large financial institutions and significant investment in and control by government bodies of financial institutions to avoid further liquidity and bank failures. If one or more of the financial institutions that support our existing credit facility fails, we may not be able to find a replacement, which would negatively impact our ability to borrow under the credit facility.

The scarcity of debt capital has limited the market for buying and selling hotels.

The scarcity of capital has limited the market for buying and selling hotels. Currently, buyers of hotels are finding it extremely difficult to borrow. Even if they are able to obtain debt, lenders are lending lesser amounts and are requiring more restrictive terms and conditions. As a result of the difficulties in the debt markets, buyers have less ability to pay the purchase prices that sellers are seeking. This has resulted in a sizeable gap between the prices sellers ask for hotels and the prices buyers are able to pay for hotels. We believe that other owners of hotels might be reluctant to offer their hotels for sale in the market. As a result, we may not be able to carry out our long-term growth strategy of acquiring hotels at attractive prices.

Our liquidity strategy may cause stockholder dilution and reduce our funds from operations in the future.

One of our core strategies is to maintain a conservative capital structure with sufficient liquidity to cover debt service, fund the cost of our corporate overhead and make acquisitions when they become available. In 2009, we raised approximately $205 million through sales of our common stock and we paid 90% of our 2009 dividend in shares of our common stock. In 2010, we will evaluate a number of possible options to maintain liquidity, including:

- paying a portion of our dividend in common stock,
- selling one or more hotels,
- incurring property-level debt or
- issuing common stock.

There can be no assurance we will be able to achieve any element of this liquidity strategy and each of the options that we are evaluating may have adverse consequences.

If we reduce the cash portion of our dividend through paying a portion of our 2010 dividend in the form of common stock there may be negative consequence to our stockholders. Under IRS Revenue Procedure 2010-12 (amplifying and superseding Revenue Procedure 2009-15), up to 90% of any such taxable dividend for 2010 and 2011 could be payable in our common stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend in income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividend in the amount exceeding the cash received, if any, in the dividend. If a U.S. stockholder sells the stock 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. Furthermore, with respect to 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. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. Furthermore, issuing shares of stock in connection with our 2010 dividend may result in substantial dilution to our existing stockholders.

If we sell one of more of our hotels, in the current market, we will likely receive lesser proceeds from such sales than we would receive during a stronger economic environment. Furthermore, we could sell such hotels for less than our investment in the hotels. In addition, by selling a hotel and using the proceeds to repay relatively inexpensive debt, depending on the price received for the hotel and the interest rate on our debt, we may reduce our future funds from operations.

If we issue common stock, we will dilute our existing stockholders.

We also may seek to amend our credit facility to further reduce the risk of breaching one or more of our financial covenants. In exchange for such an amendment, our lenders may ask us to provide mortgages on certain of our unencumbered assets and reduce the size of our credit facility. Either of such changes may result in us having less flexibility in the future. In addition, we may need to pay higher borrowing costs, as we believe the borrowing costs under our credit facility is substantially below the current market.

Our credit facility covenants may constrain our options.

Our corporate credit facility contains several financial covenants, the most constraining of which limits the amount of debt we may incur compared to the value of our hotels (our leverage covenant) and the amount of debt service we pay compared to our cash flow (our debt service coverage covenant). If we were to default under either of these covenants, the lenders may require us to repay all amounts then outstanding under our credit facility and may terminate our credit facility. These two financial covenants constrain us from incurring material amounts of additional debt or from selling properties that generate a material amount of income. In addition, if the profits from our hotels decline between

5 percent and 10 percent, we would likely be in default under one or both of these covenants. If that occurs, we may be forced to sell one or more hotels at unattractive prices, or agree to unfavorable debt terms, which could have a material adverse effect on our business, results of operations, financial condition and ability to pay distributions to our stockholders.

A continued or worsening recession could result in further declines in our average daily room rates, occupancy and RevPAR, and thereby have a material adverse effect on our results of operations.

The current economic environment has adversely affected our operating results by causing declines in average daily room rates, occupancy and RevPAR. The performance of the lodging industry has traditionally been closely linked with the general economy. The combination of the housing crisis, dislocated credit markets, rising unemployment rates, decreases in airline capacity and low consumer confidence are affecting how and where people travel. In addition, companies are expected in the near-term to continue to eliminate or significantly reduce business travel. We are experiencing reduced demand for our hotel rooms. Although we are working closely with our hotel managers to continue the cost containment measures implemented in 2009, we can give you no assurance that we will be able to identify additional cost containment measures and our operating results will not continue to decline. If a property s occupancy or room rates drop to the point where its revenues are insufficient to cover its operating expenses, then we would be required to spend additional funds for that property s operating expenses. Further declines in average daily room rates, occupancy and RevPAR would have a material adverse effect on our results of operations.

In addition, if the operating results continue to decline at our hotels secured by mortgage debt there may not be sufficient operating profit from the hotel to cover the debt service on the mortgage. In such a case, we may be forced to choose from a number of unfavorable options, including using corporate cash, drawing on our corporate credit facility, selling the hotel on disadvantageous terms, including an unattractive price, or defaulting on the mortgage debt and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, results of operations, financial condition and ability to pay distributions to our stockholders.

The market price of our common stock could be volatile and could decline, resulting in a substantial or complete loss on our common stockholders investment.

The market price of our common stock has been highly volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management s attention and resources.

Risks Related to Our Business and Operations

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

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

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

dependence on business and commercial travelers and tourism, both of which vary with consumer and business confidence in the strength of the general economy;

competition from other hotels that may be located in our markets;

an over-supply or over-building of hotels in our markets, which could adversely affect occupancy rates and revenues at our properties;

increases in energy and transportation costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;

increases in operating costs due to inflation and other factors that may not be offset by increased room rates; and

changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance.

In addition, our hotels are mostly in the premium full-service segment of the hotel business that tends to have the best operating results in a strong economy and the worst results in a weak economy as many travelers choose lower cost and more limited service hotels. In periods of weak demand, such as during the current recession, profitability is negatively affected by the relatively high fixed costs of operating premium full-service hotels when compared to other classes of hotels.

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

Our portfolio is highly concentrated in a handful of core markets.

We expect that in 2010 approximately 70% of our earnings will be derived from our hotels in five gateway cities (New York City, Boston, Chicago, Los Angeles and Atlanta) and three destination resorts (Frenchman s Reef, Vail Marriott, and the Lodge at Sonoma) and as such, the operations of these hotels will have a material impact on our overall results of operations. This concentration in our portfolio may lead to increased volatility in our results. If the current downturn in lodging fundamentals is more severe or prolonged in any of these cities compared to the United States as a whole, the popularity of any of these destinations resorts decreases, or a manmade or natural disaster or casualty or other damage occurs to one of our key hotels, our overall results of operations may be adversely affected.

Our hotels are subject to significant competition.

Currently, the markets where our hotels are located are very competitive. However, a material increase in the supply of new hotel rooms to a market can quickly destabilize that market and existing hotels can experience rapidly decreasing RevPAR and profitability. If such over-building occurs in one or more of our major markets, we may experience a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders. In particular, we own the Marriott Chicago Downtown and the Renaissance Austin, each of which is expected to be impacted by new supply in its respective market in 2010. In Chicago, a new JW Marriott is expected to open in mid-2010 and is likely to impact the performance of the Marriott Chicago Downtown by directly competing for loyal Marriott customers, particularly business transient travelers, a typically high ADR segment. In Austin, the Westin Austin at the Domain is expected to open in March 2010 and is likely to be a strong competitor to our Renaissance Austin as it is located near some of the important corporate customers of our hotel.

Additionally, in 2009 and 2010, over 9,000 rooms have been, or will be, added to the Manhattan hotel market. Although the new supply is not expected to be directly competitive to our two Courtyard hotels in Manhattan, since most of these hotels are not located near to our hotels nor they do not have the benefit of a well-recognized national hotel brand, nevertheless there may be some impact on the performance of our hotels if demand for rooms in Manhattan declines.

Investments in hotels are illiquid and we may not be able to respond in a timely fashion to adverse changes in the performance of our properties.

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

- adverse changes in international, national, regional and local economic and market conditions;
- changes in supply of competitive hotels;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of God, including earthquakes, floods, hurricanes and other natural disasters and acts of war or terrorism, including the consequences of terrorist acts such as those that occurred on September 11, 2001, which may result in uninsured losses.

It may be in the best interest of our stockholders to sell one or more of our hotels in the future. We cannot predict whether we will be able to sell any hotel property or investment at an acceptable price or otherwise on reasonable terms and conditions particularly during this current recession and related capital and credit crisis. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a hotel property or loan.

These facts and any others that would impede our ability to respond to adverse changes in the performance of our hotel properties could have a material adverse effect on our operating results and financial condition, as well as our ability to make distributions to our stockholders.

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

One of our major hotels, Frenchman s Reef & Morning Star Marriott Beach Resort, is located on the side of a cliff facing the ocean in the United States Virgin Islands, which is in the so-called hurricane belt in the Caribbean. The hotel was partially destroyed by a hurricane in the mid-1990 s and since then has been damaged by subsequent hurricanes. In addition, three of our hotels, the Los Angeles Airport Marriott, the Torrance Marriott South Bay and The Lodge at Sonoma, a Renaissance Resort & Spa, are located in areas that are seismically active. Finally, eight of our hotels are located in metropolitan markets that have been, or may in the future be, targets of actual or threatened terrorist attacks, including New York City, Chicago, Boston and Los Angeles. These hotels are each material to our financial results. Chicago Marriott, Westin Boston Waterfront Hotel, Los Angeles Airport Marriott, Frenchman s Reef & Morning Star Marriott Beach Resort, Courtyard Manhattan/Midtown East, Conrad Chicago, Torrance Marriott South Bay, the Lodge at Sonoma, and Courtyard Manhattan/Fifth Avenue constituted approximately 15.1%, 11.4%, 8.3%, 8.4%, 3.9%, 3.8%, 3.6%, 2.4% and 2.5%, respectively, of our total revenues in 2009. Additionally, even in the absence of direct physical damage to our hotels, the occurrence of any natural disasters, terrorist attacks, significant military actions, outbreaks of contagious diseases, such as H1N1, SARS or the avian bird flu, or other casualty events affecting the United States, will likely have a material adverse effect on business and commercial travelers and tourists, the economy generally and the hotel and tourism industries in particular. While we cannot predict the impact of the occurrence of any of these events, such impact could result in a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

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

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

We are subject to risks associated with our ongoing need for renovations and capital improvements as well as financing for such expenditures.

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

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

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

In addition, we may not be able to fund capital improvements or acquisitions solely from cash provided from our operating activities because we generally must distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction, each year to maintain our REIT tax status. As a result, our ability to fund capital expenditures, or investments through retained earnings, is very limited. Consequently, we rely upon the availability of debt or equity capital to fund our investments and capital improvements, but due to the current recession and capital markets crisis, these sources of funds may not be available on reasonable terms and conditions.

There are several specific risks associated with the ownership of Frenchman s Reef & Morning Star Marriott Beach Resort (Frenchman s Reef).

Frenchman s Reef is located on the side of a cliff facing the ocean in the United States Virgin Islands, which is in the so-called hurricane belt in the Caribbean. It was partially destroyed by a hurricane in the mid-1990 s and since then has been damaged by subsequent hurricanes. While we maintain insurance against wind damage in an amount we believe is customarily obtained for or by hotel owners, Frenchman s Reef has a deductible of approximately $5 million if it is damaged due to a named windstorm event; therefore, we are self-insured for losses up to $5 million caused by a named windstorm event. While we cannot predict whether there will be another hurricane that will impact this hotel, if there were, then it could have a material adverse affect on the operations of this hotel. Further, in the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our investment. Should a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in Frenchman s Reef, as well as the anticipated future revenue of this hotel. In that event, we might nevertheless remain obligated for mortgage debt or related to Frenchman s Reef. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position with regard to the damaged or destroyed property.

We are currently evaluating a major capital improvement program for several projects at Frenchman s Reef, including infrastructure work, repair or replacement of roofs, replacement of mechanical systems, including the HVAC system, waterproofing, repair of balconies, repair of the boat dock, upgrade of the pool, and renovation of guestrooms and meeting space. The total expenditures for this capital improvement program could exceed $50 million. In addition, the hotel may have to be closed for a number of months in order to complete certain projects under the program. These contemplated capital improvements for Frenchman s Reef will give rise to several risks, including a possible shortage of available cash to fund capital improvements and the related possibility that financing for these capital improvements may not be available to us on affordable terms; logistical difficulties in getting building materials onsite; limited options for high quality builders; construction cost overruns and delays; the renovation investment not resulting in the returns on investment that we expect; disruption in the operations of the hotel, possible closure of the hotel and reduction in demand for the hotel while capital improvements are underway; and disputes with franchisors/hotel managers regarding compliance with relevant management/franchise agreements. These costs could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Even if we are able to obtain sufficient capital to cover the cost of the capital expenditures required at Frenchman s Reef, we may determine that such investment is uneconomical and therefore may decide to sell the hotel. If we sell the hotel, there can be no assurance that we will receive sufficient proceeds to repay the approximately $61.4 million of debt secured by a mortgage on this hotel and would have to use funds from other sources to cover any such shortfall. Alternatively, we may decide to cease debt service payments for this hotel. In such a case, it is likely that the lender would commence foreclosure proceedings against Frenchman s Reef, which could have a material adverse effect on our business, results of operations, financial condition and ability to pay distributions to our stockholders.

As of December 31, 2009, we had not completed certain capital projects at Frenchman s Reef as required by the mortgage loan secured by the hotel (the Loan). The Loan stipulated that we should complete certain capital projects by December 31, 2008 and December 31, 2009, respectively, or request an extension of the due date in accordance with the Loan. The failure to complete the capital projects or receive an extension resulted in a non-monetary Event of Default as of January 1, 2009. During an Event of Default, the lender has the ability to charge default interest of 5 percentage points above the Loan s stated interest rate. In addition, the lender has the right to declare that the Loan is due and payable, which will accelerate the maturity date of the Loan. As of February 26, 2010, the lender had not declared that the Loan is due and payable. We discovered the Event of Default during the fourth quarter of 2009 and are currently in discussions with the Loan master servicer and special servicer to obtain a waiver of the Event of Default and extend the due date of the capital projects to December 31, 2012. We cannot assure you that we will reach agreement with the lender and if we are unable to do so, there is a risk that the lender will exercise its right to accelerate the Loan. The Loan is non-recourse to the Company with the exception of a $2 million corporate guaranty of the completion of certain capital projects. The corporate guaranty is not eliminated in the event of an acceleration of the Loan or lender foreclosure of Frenchman s Reef. If the Loan is accelerated and we do not repay the outstanding balance, which was $61.4 million as of December 31, 2009, the lender may commence foreclosure proceedings against Frenchman s Reef, as well as exercise all of its other rights and remedies under the Loan agreement, mortgage and other related documents. If the lender takes any of these actions it could have a material adverse effect on our business, financial condition, results of operation and our ability to make distributions to our stockholders.

The cost of utilities at Frenchman s Reef declined by over 25% in 2009 relative to 2008 largely as a result of the drop in oil prices. It the price of oil were to increase back to the levels experienced prior to 2009, the cost of utilities would likely increase dramatically and this would have a significant impact on the results of operation. Also, the hotel has experienced disruptions in service from the local utility providers including power outages from time to time. The hotel has generators in place that are able to provide power when these outages occur. We are evaluating a plan that would enable the hotel to be 100% self-sufficient for its own power, reduce maintenance costs and enhance guest comfort. However, there can be no assurance that funds are available on reasonable terms to put this plan into effect or that significant savings can be achieved.

Frenchman s Reef is subject to a tax holiday, which enables us to pay taxes at 10 percent of the statutory tax rate of 37.4 percent in the U.S. Virgin Islands. That tax holiday expired in February 2010. We are diligently working to extend the tax holiday, which, if extended, would relate back to the date of expiration, but we may not be successful. If we are unsuccessful, our hotel will be subject to taxes at the full statutory rate which will substantially reduce the amount of income we receive from Frenchman s Reef.

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

Our success depends in part on the success of Marriott.

Seventeen of our current hotels utilize brands owned by Marriott. As a result, our success is dependent in part on the continued success of Marriott and its brands. In light of the current economic conditions affecting the lodging industry, we believe that building brand value has become even more critical to increase demand and build customer loyalty. If market recognition or the positive perception of these Marriott brands is reduced or compromised, the goodwill associated with Marriott branded hotels may be adversely affected and the results of operations of our hotels may be adversely affected. As a result, we could experience a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

We have pursued, and continue to pursue, hotel investment opportunities referred to us by Marriott, and we intend to work with Marriott as our preferred hotel management company. Marriott is paid a fee based on gross revenues and profitability of the hotels they manage while we only benefit from operating profits at our hotels. Thus, it is possible that Marriott may desire to undertake operating strategies, or encourage us to add amenities or undertake renovations, which are designed to generate significant gross revenues, but an unreasonably small return on investment.

Due to the differences in how each company earns its money, which company is responsible for operating losses and capital expenditures, and tensions between an individual hotel and the brand standards of a large chain, there are natural conflicts between an owner of a hotel and a brand company, such as Marriott. These differing objectives could result in deterioration in our relationship with Marriott and may adversely affect our ability to execute business strategies, which in turn would have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Over the last several years, Marriott has been involved in contractual and other disputes with owners of the hotels it manages. Although we currently maintain good relations with Marriott, we cannot assure you that disputes between us and Marriott regarding the management of our properties will not arise. Should our relationship with Marriott deteriorate, we believe that two of our competitive advantages (namely our ability to work with senior executives at Marriott to improve the asset management of our hotels and our investment sourcing relationship) could be eliminated, which may have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

One component of our long-term business strategy is expansion through acquisitions. However, we may not be successful in identifying or completing acquisitions that are consistent with our strategy. Further, during the current downturn in lodging fundamentals and lack of credit availability, the number of acquisition opportunities are limited. We compete with institutional pension funds, private equity funds, REITs, hotel companies and others who are engaged in the acquisition of hotels. This competition for hotel investments may increase the price we pay for hotels and these competitors may succeed in acquiring those hotels that we seek to acquire. Furthermore, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater financial resources, may not be dependent on third-party financing, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities competing for suitable hotels may increase in the future, which would increase demand for these hotels and the prices we must pay to acquire them. If we pay higher prices for hotels, our returns on investment and profitability may be reduced. Also, future acquisitions of hotels or hotel companies may not yield the returns we expect, especially if we cannot obtain financing without paying higher borrowing costs, and may result in stockholder dilution.

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

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

Recently, the previous Executive Vice President and General Counsel was replaced. Since we are a small company, there may be some disruption suffered by our organization in connection with this change. The new Executive Vice President and General Counsel, Mr. William J. Tennis, was an executive with Marriott prior to accepting his current position with us. In his employment with Marriott, he received restricted stock and stock options in Marriott, which he continues to hold. While we believe that the hiring of Mr. Tennis will serve to enhance our relationship with Marriott, it is possible that a conflict of interest could arise in connection with a contractual or other dispute with Marriott.

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

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

The Employee Free Choice Act could substantially increase the cost of doing business.

A number of members of the United States Congress and President Obama have stated that they support the Employee Free Choice Act. We believe that if the Employee Free Choice Act is enacted, a number of our hotels could become unionized. Currently, we have only three hotels whose manager employs a unionized workforce. In general, the wages and benefits of our non-union hotels are consistent with the wages and benefits of unionized hotels in their respective markets. However, unionized hotels are generally subject to a number of work rules that, if implemented at our non-union hotels, could decrease operating margins at these hotels. If that is the case, we believe that the unionization of our remaining hotels may result in a significant decline in the profitability and value of those hotels, which could have a material adverse effect on our business, results of operations, financial condition and ability to pay distributions to our stockholders.

Risks Related to Our Debt and Financing

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

Our existing credit facility contains financial and operating covenants, such as net worth requirements, fixed charge coverage, debt ratios and other limitations that restrict our ability to make distributions or other payments to our stockholders, sell all or substantially all of our assets and engage in mergers, consolidations and certain acquisitions without the consent of the lenders. In addition, our existing property-level debt contains restrictions (including cash management provisions) that may under circumstances specified in the loan agreements prohibit our subsidiaries that own our hotels from making distributions or paying dividends, repaying loans to us or other subsidiaries or transferring any of their assets to us or another subsidiary. Failure to meet our financial covenants could result from, among other things, changes in our results of operations, the incurrence of additional debt or changes in general economic conditions. The terms of our debt may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders. This could cause one or more of our lenders to accelerate the timing of payments and could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Many of our existing mortgage debt agreements contain cash trap provisions that could limit our ability to make distributions to our stockholders.

Certain of our loan agreements contain cash trap provisions that may get triggered if the performance of our hotels decline further. When these provisions are triggered, substantially all of the profit generated by our hotels is deposited directly into lockbox accounts and then swept into cash management accounts for the benefit of our various lenders. Cash is distributed to us only after certain items are paid, including deposits into leasing and maintenance reserves and the payment of debt service, insurance, taxes, operating expenses, and extraordinary capital expenditures and leasing expenses. This could affect our liquidity and our ability to make distributions to our stockholders.

There is refinancing risk associated with our debt.

Our typical debt contains limited principal amortization; therefore the vast majority of the principal must be repaid at the maturity of the loan in a so-called balloon payment. At the maturity of these loans, the first of which is in late 2014, assuming we do not have sufficient funds to repay the debt, we will need to refinance this debt. If the credit environment is constrained at the time of our debt maturities, we would have a very difficult time refinancing debt. In addition, we locked in our fixed-rate debt at a very favorable point in time when we were able to obtain interest rate, principal amortization and other terms which we are unlikely to see for some time. As a result, when we refinance our debt, prevailing interest rates and other factors may result in paying a greater amount of debt service, which will adversely affect our cash flow, and, consequently, our cash available for distribution to our stockholders. If we are unable to refinance our debt on acceptable terms, we may be forced to choose from number of unfavorable options. These options include agreeing to otherwise unfavorable financing terms on one or more of our unencumbered assets, selling one or more hotels at disadvantageous terms, including unattractive prices, or defaulting on the mortgage and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

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

All of our indebtedness for borrowed money, except our credit facility, is secured by single property first mortgages on the applicable property. In addition, we may place mortgages on our hotel properties to secure our line of credit in the future. If we default on any of the secured loans or the secured credit facility, the lender will be able to foreclose on the property pledged to the relevant lender under that loan. While we have maintained certain of our hotels unencumbered by mortgage debt, we have a relatively high loan-to-value on a number of our hotels which are subject to mortgage loans and, as a result, those mortgaged hotels may be at an increased risk of default and foreclosure due to lower operating performance and cash flows in the current recession.

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

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

In the future, we and our subsidiaries may be able to incur substantial additional debt, including secured debt. We expect, due to current economic conditions, that borrowing costs on new and refinanced debt will be more expensive. Our existing debt, and any additional debt borrowed in the future could subject us to many risks, including the risks that:

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

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

Higher interest rates could increase debt service requirements on our floating rate debt and refinanced debt and could reduce the amounts available for distribution to our stockholders, as well as reduce funds available for our operations, future investment opportunities or other purposes. We may obtain in the future one or more forms of interest rate protection in the form of swap agreements, interest rate cap contracts or similar agreements to hedge against the possible negative effects of interest rate fluctuations. However, hedging is expensive, there is no perfect hedge, and we cannot assure you that any hedging will adequately mitigate the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations. In addition, we may be subject to risks of default by hedging counter-parties.

Risks Related to Regulation, Taxes and the Environment

Noncompliance with governmental regulations could adversely affect our operating results.

Environmental matters.

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

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

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

We may face liability regardless of:

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

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

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

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

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

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

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic reactions.

As a result, the presence of mold to which our hotel guests or employees could be exposed at any of our properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property, which would reduce our cash available for distribution. In addition, exposure to mold by our guests or employees, management company employees or others could expose us to liability if property damage or adverse health concerns arise.

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

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

- the enactment of laws prohibiting or restricting the foreign ownership of property;
- laws restricting us from removing profits earned from activities within the foreign country to the United States, including the payment of distributions, i.e., nationalization of assets located within a country;
- variations in the currency exchange rates, mostly arising from revenues made in local currencies;
- change in the availability, cost and terms of mortgage funds resulting from varying national economic policies;
- changes in real estate and other tax rates and other operating expenses in particular countries; and
- more stringent environmental laws or changes in such laws.

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

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

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

Risks Related to Our Status as a REIT

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

We believe we are qualified to be taxed as a REIT for our taxable year ended December 31, 2009, and we expect to continue to qualify as a REIT for future taxable years, but we cannot assure you that we have qualified, or will remain qualified, as a REIT.

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

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

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

Maintaining our REIT qualification contains certain restrictions and drawbacks.

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

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

Failure to make required distributions would subject us to tax.

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

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

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

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

You may be restricted from transferring our common stock.

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

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

We may be adversely affected by increased use of business related technology which may reduce the need for business related travel.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location. To the extent that such technologies play an increased role in day-to-day business and the necessity for business related travel decreases, hotel room demand may decrease and our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders may be adversely affected.

Risks Related to Our Organization and Structure

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

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

Our charter also authorizes our board of directors to issue up to 200,000,000 shares of common stock and up to 10,000,000 shares of preferred stock, to classify or reclassify any unissued shares of common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares. Furthermore, our board of directors may, without any action by the stockholders, amend our charter from time to time to increase or decrease the aggregate number of shares of stock of any class or series that we have authority to issue. Issuances of additional shares of stock may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium to the market price of our common stock or otherwise be in our stockholders best interests.

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

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

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

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

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

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

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

You have limited control as a stockholder regarding any changes we make to our policies.

Our board of directors determines our major policies, including our investment objectives, financing, growth and distributions. Our board may amend or revise these policies without a vote of our stockholders. This means that our stockholders will have limited control over changes in our policies.

Changes in market conditions could adversely affect the market price of our common stock.

As with other publicly traded equity securities, the value of our common stock depends on various market conditions that may change from time to time. Among the market conditions that may affect the value of our common stock are the following:

- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- the underlying asset value of our hotels;
- investor confidence in the stock and bond markets, generally;
- national and local economic conditions;
- changes in tax laws;
- our financial performance; and
- general stock and bond market conditions.

The market value of our common stock is based primarily upon the market s perception of our growth potential and our current and potential future earnings and cash distributions. Consequently, our common stock may trade at prices that are greater or less than our net asset value per share of common stock. If our future earnings or cash distributions are less than expected, it is likely that the market price of our common stock will diminish.

Further issuances of equity securities may be dilutive to current stockholders.

We expect to issue additional shares of common stock or preferred stock to raise the capital necessary to finance hotel acquisitions, refinance debt, or pay portions of future dividends. In addition, we may issue preferred stock or units in our operating partnership, which are redeemable on a one-to-one basis for our common stock, to acquire hotels. Such issuances could result in dilution of stockholders equity.

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

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

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Our Properties***

Overview

The following table sets forth certain operating information for each of our hotels owned during the year ended December 31, 2009:

Property	**Location**	**Number of Rooms**	**Occupancy**	**ADR ($)**	**RevPAR ($)**	**% Change from 2008 RevPAR**
Chicago Marriott	Chicago, Illinois	1,198	74.2%	$ 175.12	$ 129.92	(14.8)%
Los Angeles Airport Marriott	Los Angeles, California	1,004	73.5%	106.58	78.39	(19.0)%
Westin Boston Waterfront Hotel	Boston, Massachusetts	793	67.9%	194.46	132.05	(6.0)%
Renaissance Waverly Hotel	Atlanta, Georgia	521	60.8%	131.96	80.25	(15.5)%
Salt Lake City Marriott Downtown	Salt Lake City, Utah	510	52.0%	131.66	68.40	(22.9)%
Renaissance Worthington	Fort Worth, Texas	504	65.0%	161.48	104.91	(17.9)%
Frenchman s Reef & Morning Star Marriott Beach Resort	St. Thomas, U.S. Virgin Islands	502	81.6%	212.52	173.39	(8.8)%
Renaissance Austin Hotel	Austin, Texas	492	59.4%	146.03	86.68	(21.6)%
Torrance Marriott South Bay	Los Angeles County, California	487	73.5%	107.82	79.22	(18.4)%
Orlando Airport Marriott	Orlando, Florida	486	73.1%	102.77	75.08	(12.2)%
Marriott Griffin Gate Resort	Lexington, Kentucky	408	62.6%	124.57	78.00	(16.2)%
Oak Brook Hills Marriott Resort	Oak Brook, Illinois	386	43.0%	114.92	49.47	(28.4)%
Westin Atlanta North at Perimeter	Atlanta, Georgia	369	67.7%	100.29	67.91	(19.3)%
Vail Marriott Mountain Resort & Spa	Vail, Colorado	346	56.2%	205.19	115.30	(24.5)%
Marriott Atlanta Alpharetta	Atlanta, Georgia	318	60.0%	122.60	73.53	(16.6)%
Courtyard Manhattan/Midtown East	New York, New York	312	85.3%	222.50	189.72	(29.0)%
Conrad Chicago	Chicago, Illinois	311	74.8%	187.34	140.10	(22.3)%
Bethesda Marriott Suites	Bethesda, Maryland	272	63.7%	167.61	106.83	(20.0)%
Courtyard Manhattan/Fifth Avenue	New York, New York	185	88.7%	232.61	206.28	(21.8)%
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	182	61.9%	193.23	119.52	(23.2)%
TOTAL/WEIGHTED AVERAGE		9,586	67.7%	$ 154.45	$ 104.60	(17.6)%

The following table sets forth information regarding our investment in each of our owned hotels as of December 31, 2009:

Property	**Location**	**Year Opened**	**Number of Rooms**	**Total Investment**	**Total Investment Per Room**
Chicago Marriott	Chicago, Illinois	1978	1,198	$ 343,446	$ 286,683
Los Angeles Airport Marriott	Los Angeles, California	1973	1,004	134,699	134,162
Westin Boston Waterfront Hotel	Boston, Massachusetts	2006	793	351,111	442,763
Renaissance Waverly Hotel	Atlanta, Georgia	1983	521	132,583	254,478
Salt Lake City Marriott Downtown	Salt Lake City, Utah	1981	510	63,959	125,410
Renaissance Worthington	Fort Worth, Texas	1981	504	87,914	174,433
Frenchman s Reef & Morning Star Marriott Beach Resort	St. Thomas, U.S. Virgin Islands	1973/1984	502	91,403	182,078
Renaissance Austin Hotel	Austin, Texas	1986	492	113,568	230,829
Torrance Marriott South Bay	Los Angeles County, California	1985	487	76,459	157,000
Orlando Airport Marriott	Orlando, Florida	1983	486	83,851	172,533
Marriott Griffin Gate Resort	Lexington, Kentucky	1981	408	60,583	148,488
Oak Brook Hills Marriott Resort	Oak Brook, Illinois	1987	386	82,435	213,562
Westin Atlanta North at Perimeter	Atlanta, Georgia	1987	369	65,880	178,537
Vail Marriott Mountain Resort & Spa	Vail, Colorado	1983/2002	346	70,149	202,743
Marriott Atlanta Alpharetta	Atlanta, Georgia	2000	318	41,013	128,972
Courtyard Manhattan/Midtown East	New York, New York	1998	312	80,225	257,131
Conrad Chicago	Chicago, Illinois	2001	311	125,599	403,855
Bethesda Marriott Suites	Bethesda, Maryland	1990	272	48,918	179,846
Courtyard Manhattan/Fifth Avenue	New York, New York	1990	185	45,987	248,578
The Lodge at Sonoma, a Renaissance Resort & Spa	Sonoma, California	2001	182	36,817	202,291
Total			**9,586**	**$ 2,136,599**	**$ 222,887**

Our Hotels

Bethesda Marriott Suites

Bethesda Marriott Suites is located in the Rock Spring Corporate Office Park near downtown Bethesda, Maryland, with convenient access to Washington, D.C. s Beltway (I-495) and the I-270 Technology Corridor. Rock Spring Corporate Office Park contains several million feet of office space and includes corporate headquarters for companies such as Marriott and Lockheed Martin Corp., as well as major offices for the National Institute of Health. The hotel contains 272 guestrooms, all of which are suites, and 5,000 square feet of total meeting space.

The hotel was built in 1990. We completed the refurbishment of guestrooms during 2006. The hotel lobby was renovated in 2007 and converted into a Marriott great room.

We acquired the hotel in 2004. We hold the property pursuant to a ground lease. The current term of the ground lease will expire in 2087.

Chicago Marriott

The Chicago Marriott opened in 1978 and contains 1,198 rooms, 90,000 square-feet of meeting space, and three food and beverage outlets. The 46-story hotel sits amid the world-famous shops and restaurants on Michigan Avenue, in the heart of downtown Chicago.

We undertook a $35 million renovation of the hotel beginning in 2008. The substantially completed renovation included a complete redo of all the meeting rooms and ballrooms, adding 17,000 square feet of new meeting space, reconcepting and relocating the restaurant, expanding the lobby bar and creating a Marriott great room in the lobby.

We acquired the hotel in 2006. We own a fee simple interest in the hotel.

In mid-2010, a JW Marriott is expected to open in downtown Chicago. We expect the JW Marriott to be a significant competitor to the Chicago Marriott as it will compete for loyal Marriott customers, particularly business transient travelers, a typically high ADR segment.

Conrad Chicago

The Conrad Chicago opened in 2001 as a Le Meridien and contains 311 rooms, 33 of which are suites, and 13,000 square-feet of meeting space. The property is located on several floors within the 17-story former McGraw-Hill Building, amid Chicago s Magnificent Mile. The Conrad Chicago rises above the Westfield North Bridge Shopping Centre and the Nordstrom department store on North Michigan Avenue. The property is approximately one half block away from our Chicago Marriott.

The Conrad Chicago changed management to Hilton in November 2005 and had its official Conrad launch in June 2006. Conrad Hotels has approximately 25 luxury properties worldwide, but currently just three are open in the United States. Conrad Hotels are Hilton s competitor to Marriott s Ritz-Carlton brand or Starwood s St. Regis brand.

In 2008, we completed a renovation of the guestrooms, corridors, and front entrance.

We acquired the hotel in 2006. We own a fee simple interest in the hotel.

Courtyard Manhattan/Fifth Avenue

The Courtyard Manhattan/Fifth Avenue is located on 40th Street, just off of Fifth Avenue in Midtown Manhattan, across the street from the New York Public Library. The hotel is situated in a convenient tourist and business location. It is within walking distance from Times Square, Broadway theaters, Grand Central Station, Rockefeller Center and the Empire State Building. The hotel includes 185 guestrooms.

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

We acquired the hotel in 2004. We hold the property pursuant to a ground lease. The term of the ground lease expires in 2085, inclusive of one 49-year extension.

Courtyard Manhattan/Midtown East

The Courtyard Manhattan/Midtown East is located in Manhattan s East Side, on Third Avenue between 52nd and 53rd Streets. The hotel has 312 guestrooms and 1,500 square feet of meeting space.

Prior to 1998, the building was used as an office building, but then was completely renovated and opened in 1998 as a Courtyard by Marriott. We completed a guestroom and public space renovation during 2006.

We acquired the hotel in 2004. We hold a fee simple interest in a commercial condominium unit, which includes a 47.725% undivided interest in the common elements in the 866 Third Avenue Condominium; the rest of the condominium is owned predominately (48.2%) by the building s other major occupant, Memorial Sloan-Kettering Cancer Hospital. The hotel occupies the lobby area on the 1st floor, all of the 12th-30th floors and its pro rata share of the condominium s common elements.

Frenchman s Reef & Morning Star Marriott Beach Resort

The Frenchman s Reef & Morning Star Marriott Beach Resort is a 17-acre resort hotel located in St. Thomas, U.S. Virgin Islands. The hotel is located on a hill overlooking Charlotte Amalie Harbor and the Caribbean Sea. The hotel has 502 guestrooms, including 27 suites, and approximately 60,000 square feet of meeting space. The hotel caters primarily to tourists, but also attracts group business travelers.

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

We acquired the hotel in 2005 and own a fee simple interest in the hotel.

Los Angeles Airport Marriott

The Los Angeles Airport Marriott was built in 1973 and has 1,004 guestrooms, including 19 suites, and approximately 55,000 square feet of meeting space. The hotel guestrooms underwent a significant renovation in 2006 and the meeting rooms were renovated in 2007. The hotel attracts both business and leisure travelers due to its convenient location minutes from Los Angeles International Airport (LAX), the fourth busiest airport in the world. The property attracts large groups due to its significant amount of meeting space, guestrooms and parking spaces.

We acquired the hotel in 2005 and own a fee simple interest in the hotel.

Marriott Atlanta Alpharetta

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

The hotel opened in 2000. The hotel includes 318 guestrooms and 9,000 square feet of meeting space. We renovated the hotel meeting space during 2008.

We acquired the hotel in 2005 and own a fee simple interest in the hotel.

Marriott Griffin Gate Resort

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

The hotel originally opened in 1981. In 2003, the prior owner, Marriott, initiated a major renovation and repositioning of the resort, with an approximate $10 million capital improvement plan. We completed the renovation plan in 2005. The renovation included a complete guestroom and guestroom corridor renovation, as well as a renovation of the exterior façade. We also significantly renovated the public space at the hotel. In 2007, we added a spa, repositioned and redesigned the restaurants, and added meeting space to the hotel.

We acquired the hotel in 2004. We own a fee simple interest in the hotel, The Mansion, and most of the Griffin Gate Golf Club. However, approximately 54 acres of the golf course are held pursuant to a ground lease. The ground lease runs through 2033 (inclusive of four five-year renewal options), and contains a buyout right beginning at the end of the term in 2013 and at the end of each five-year renewal term thereafter. We are the sub-sublessee under another minor ground lease of land adjacent to the golf course, with a term expiring in 2020.

Oak Brook Hills Marriott Resort

In July 2005, we acquired the Oak Brook Hills Resort & Conference Center, replaced the existing manager with an affiliate of Marriott and re-branded the hotel as the Oak Brook Hills Marriott Resort. The hotel underwent a significant renovation in 2006 and early 2007. The resort was built in 1987 and has 386 guestrooms, including 37 suites. The hotel markets itself to national and regional conferences by providing over 40,000 square feet of meeting space at a hotel with a championship golf course that is convenient to both O Hare and Chicago Midway airports and is near downtown Chicago. The resort is located in Oak Brook, Illinois.

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

Orlando Airport Marriott

The Orlando Airport Marriott was built in 1983 and has 486 guestrooms, including 14 suites, and approximately 26,000 square feet of meeting space. The hotel underwent a significant renovation in 2006. The hotel has a resort-like setting yet is well-located in a successful commercial office park five minutes from the Orlando International Airport. The hotel serves predominantly business transient guests as well as small and mid-size groups that enjoy the hotel s amenities as well as its proximity to the airport.

We acquired the hotel in 2005 and own a fee simple interest in the hotel.

Renaissance Austin

The Renaissance Austin opened in 1986 and includes 492 rooms (14 of which were added in 2006), 60,000 square feet of meeting space, a restaurant, lounge and delicatessen. The hotel converted an adjacent lounge into high-end meeting space during 2008. The hotel is situated in the heart of Austin s Arboretum area, near the major technology firms located in Austin, including Dell, Motorola, IBM, Samsung and National Instruments. In close proximity are office complexes, high-end shopping and upscale restaurants. The hotel is 12 miles from downtown Austin, home of the 6th Avenue Historic District, the State Capitol, and the University of Texas.

In 2008, we completed the conversion of a nightclub in the building adjacent to the hotel into 7,000 square feet of high-quality meeting space.

We acquired the hotel in 2006 and own a fee simple interest in the hotel.

In March 2010, the Westin Austin at the Domain is expected to open. We expect this hotel to be a significant competitor to the Renaissance Austin due to its proximity to our important corporate customers.

Renaissance Waverly

The Renaissance Waverly opened in 1983 and includes 521 rooms, 65,000 square feet of meeting space, and multiple food and beverage outlets. The Renaissance Waverly consists of a 13-story rectangular tower with an impressive atrium rising to the top floor. The Renaissance Waverly is connected to the Galleria shopping complex and the 320,000 square-foot Cobb Galleria Centre convention facility. The Galleria office complex is within Atlanta s 2nd largest office sub-market and in close proximity to Home Depot s world headquarters, as well as offices for IBM, Lockheed Martin and Coca-Cola. Within walking distance of the property are the Cumberland Mall, and the new $145 million, 2,750-seat, Cobb Energy Performing Arts Center, which opened in 2007.

We acquired the hotel in 2006 and own a fee simple interest in the hotel.

Renaissance Worthington

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

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

Supply and demand in the Fort Worth hotel market was relatively stable until a newly constructed hotel owned and managed by Omni Hotels, and subsidized by the city of Fort Worth, was opened in January 2009. The Fort Worth Omni is a very strong competitor as it is located next to the convention center.

We acquired a fee simple interest in the hotel in 2005. A portion of the land under the parking garage (consisting of 0.28 acres of the entire 3.46 acre site) is subject to three co-terminus ground leases. Each of the ground leases extends to July 31, 2022 and provides for three successive renewal options of 15 years each. The ground leases provide for adjustments to the fixed ground rent payments every ten years during the term.

Salt Lake City Marriott Downtown

The Salt Lake City Marriott Downtown has 510 guestrooms, including 6 suites, and approximately 22,300 square feet of meeting space. The hotel s rooms underwent a significant renovation in late 2008 and into early 2009. The hotel is located in downtown Salt Lake City across from the Salt Palace Convention Center near Temple Square. Demand for the hotel is generated primarily by the Convention Center, the Church of Jesus Christ of Latter-Day Saints, the University of Utah, government offices and nearby ski destinations.

The hotel is located next to the City Creek Project, one of the largest urban redevelopment projects in the United States. Currently, the owner of the City Creek Project, an affiliate of the Church of Jesus Christ of Latter-Day Saints, has cleared a 20 acre parcel of land between the hotel and Temple Square, the location of the Salt Lake Temple and Salt Lake Tabernacle, and is in the process of constructing a high-end mixed use project consisting of retail, office and residential. The project is expected to be completed in 2012. Until the completion of the project, the hotel is expected to experience some disruption. After the completion of the project, it is expected to be an amenity and demand-driver for the hotel.

We acquired the hotel in 2004. We hold ground lease interests in the hotel and the extension that connects the hotel to City Creek Project. The term of the ground lease for the hotel runs through 2056, inclusive of five ten-year renewal options. The term of the ground lease for the extension of the hotel (containing approximately 1,078 square feet) runs through 2017. In 2009, we acquired a 21% interest in the land under the hotel for approximately $0.9 million. This gives us a right of first refusal in the event that the other owners want to sell their interests in the entity and the right to veto the sale of the land to a third party.

The Lodge at Sonoma, a Renaissance Resort & Spa

The Lodge at Sonoma, a Renaissance Resort & Spa, was built in 2000 and is located in the heart of the Sonoma Valley wine country, 45 miles from San Francisco, in the town of Sonoma, California. Numerous wineries are located within a short driving distance from the resort. The area is served by the Sacramento, Oakland and San Francisco airports. Leisure demand is generated by Sonoma Valley and Napa Valley wine country attractions. Group and business demand is primarily generated from companies located in San Francisco and the surrounding Bay Area, and some ancillary demand is generated from the local wine industry.

We acquired the hotel in 2004. We own a fee simple interest in the hotel, which is comprised of the main two-story Lodge building, including 76 guestrooms and 18 separate cottage buildings, containing the remaining 102 guestrooms and 4 suites. The Raindance Spa is located in a separate two-story building at the rear of the cottages. The hotel also has 22,000 square feet of meeting and banquet space.

Torrance Marriott South Bay

The Torrance Marriott South Bay was built in 1985 and has 487 guestrooms, including 11 suites, and approximately 23,000 square feet of indoor and outdoor meeting space. The hotel underwent a significant renovation in 2006 and 2007. The hotel is located in Los Angeles County in Torrance, California, a major automotive center. Two major Japanese automobile manufacturers, Honda and Toyota, have their U.S. headquarters in the Torrance area and generate significant demand for the hotel. It is also adjacent to the Del Amo Fashion Center mall, one of the largest malls in America.

We acquired the hotel in 2005 and own a fee simple interest in the hotel.

Westin Atlanta North at Perimeter

In May 2006, we acquired the Westin Atlanta North at Perimeter. The 20-story hotel opened in 1987 and contains 369 rooms and 20,000 square-feet of meeting space. The property is located within the Perimeter Center sub-market of Atlanta, Georgia. Comprising over 23 million square-feet of office space, Perimeter Center is one of the largest office markets in the southeast, representing substantial levels of corporate demand including: UPS, Hewlett Packard, Microsoft, Newell Rubbermaid and GE.

We acquired our fee simple interest in the hotel in 2006. We completed guestroom and lobby renovations during 2007.

Westin Boston Waterfront Hotel

In January 2007, we acquired the Westin Boston Waterfront Hotel. The hotel opened in June 2006 and contains 793 rooms and 69,000 square feet of meeting space. The hotel is attached to the recently built 1.6 million square foot Boston Convention and Exhibition Center, or BCEC, and is located in the Seaport District. The Westin Boston Waterfront Hotel includes a full service restaurant, a lobby lounge, a Starbucks licensed café, a 400-car underground parking facility, a fitness center, an indoor swimming pool, a business center, a gift shop and retail space.

The retail space is a separate three-floor, 100,000 square foot building attached to the Westin Boston Waterfront Hotel. In this building, we completed the construction of 37,000 square feet of meeting and exhibition space at a cost of approximately $19 million. We have leased a portion of the retail space to an Irish pub restaurant and an upscale bar, which added valuable amenities for our guests. When the remaining retail space is leased to third-party tenants, we or the tenants will complete the necessary tenant improvements.

We also acquired a leasehold interest in a parcel of land with development rights to build a 320 to 350 room hotel. The expansion hotel, should we decide to build it, will be located on a 11/2 acre parcel of developable land that is immediately adjacent to the Westin Boston Waterfront Hotel. The expansion hotel is expected to have 320 to 350 rooms and 100 underground parking spaces and, upon construction, could also be attached to the BCEC. We are still investigating the cost to construct and the potential returns associated with, an expansion hotel and have not concluded whether or not to pursue this portion of the project.

Vail Marriott Mountain Resort & Spa

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

The hotel is approximately 150 yards from the Eagle Bahn Express Gondola, which transports guests to the top of Vail Mountain, the largest single ski mountain in North America, with over 5,289 acres of skiable terrain. The hotel is located in Lionshead Village, the center of which was recently completely renovated to create a new European-inspired plaza which includes luxury condominiums and a small 36 room hotel, as well as equipment rentals, ski storage, lockers, ski and snowboard school, shopping and an après ski restaurant and bar; dining and shopping opportunities; and a winter ice-skating plaza and entertainment venues.

The hotel opened in 1983 and underwent a luxurious renovation of the public space, guest rooms and corridors in 2002. We acquired the hotel in 2005 and completed the renovation of certain meeting space and pre-function space during 2006.

We own a fee simple interest in the hotel.

Our Hotel Management Agreements

We are a party to hotel management agreements with Marriott for sixteen of the twenty properties. The Vail Marriott Mountain Resort & Spa is managed by an affiliate of Vail Resorts and is under a long-term franchise agreement with Marriott; the Westin Atlanta North at Perimeter is managed by Davidson Hotel Company; the Conrad Chicago is managed by Conrad Hotels USA, Inc., a subsidiary of Hilton; and the Westin Boston Waterfront Hotel is managed by Westin Hotel Management, L.P. a subsidiary of Starwood.

Each hotel manager is responsible for (i) the hiring of certain executive level employees, subject to certain veto rights, (ii) training and supervising the managers and employees required to operate the properties and (iii) purchasing supplies, for which we generally will reimburse the manager. The managers (or the franchisor in the case of the Vail Marriott Mountain Resort & Spa and the Westin Atlanta North at Perimeter) provide centralized reservation systems, national advertising, marketing and promotional services, as well as various accounting and data processing services. Each manager also prepares and implements annual operations budgets subject to our review and approval. Each of our management agreements limit our ability to sell, lease or otherwise transfer the hotels unless the transferee (i) is not a competitor of the manager, (ii) assumes the related management agreements and (iii) meets specified other conditions.

Term

The following table sets forth the agreement date, initial term and number of renewal terms under the respective hotel management agreements for each of our hotels. Generally, the term of the hotel management agreements renew automatically for a negotiated number of consecutive periods upon the expiration of the initial term unless the property manager gives notice to us of its election not to renew the hotel management agreement.

	Date of Agreement	Initial Term	Number of Renewal Terms
Austin Renaissance	6/2005	20 years	Three ten-year periods
Atlanta Alpharetta Marriott	9/2000	30 years	Two ten-year periods
Atlanta Westin North at Perimeter	6/2009	10 years	None
Bethesda Marriott Suites	12/2004	21 years	Two ten-year periods
Boston Westin Waterfront	5/2004	20 years	Four ten-year periods
Chicago Marriott Downtown	3/2006	32 years	Two ten-year periods
Conrad Chicago	11/2005	10 years	Two five-year periods
Courtyard Manhattan/Fifth Avenue	12/2004	30 years	None
Courtyard Manhattan/Midtown East	11/2004	30 years	Two ten-year periods
Frenchman s Reef & Morning Star Marriott Beach Resort	9/2000	30 years	Two ten-year periods
Los Angeles Airport Marriott	9/2000	40 years	Two ten-year periods
Marriott Griffin Gate Resort	12/2004	20 years	One ten-year period
Oak Brook Hills Marriott Resort	7/2005	30 years	None
Orlando Airport Marriott	11/2005	30 years	None
Renaissance Worthington	9/2000	30 years	Two ten-year periods
Salt Lake City Marriott Downtown	12/2001	30 years	Three fifteen-year periods
The Lodge at Sonoma, a Renaissance Resort & Spa	10/2004	20 years	One ten-year period
Torrance Marriott South Bay	1/2005	40 years	None
Waverly Renaissance	6/2005	20 years	Three ten-year periods
Vail Marriott Mountain Resort & Spa	6/2005	151/2 years	None

Amounts Payable under our Hotel Management Agreements

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

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

	Base Management Fee(1)	**Incentive Management Fee(2)**
Austin Renaissance	3%	20%(3)
Atlanta Alpharetta Marriott	3%	25%(4)
Atlanta North at Perimeter Westin	2.5%	10%(5)
Bethesda Marriott Suites	3%	50%(6)
Boston Westin Waterfront	2.5%	20%(7)
Chicago Marriott Downtown	3%	20%(8)
Conrad Chicago	2.5%(9)	15%(10)
Courtyard Manhattan/Fifth Avenue	5.5%(11)	25%(12)
Courtyard Manhattan/Midtown East	5%	25%(13)
Frenchman s Reef & Morning Star Marriott Beach Resort	3%	25%(14)
Los Angeles Airport Marriott	3%	25%(15)
Marriott Griffin Gate Resort	3%	20%(16)
Oak Brook Hills Marriott Resort	3%	20% or 30%(17)
Orlando Airport Marriott	3%	20% or 25%(18)
Renaissance Worthington	3%	25%(19)
Salt Lake City Marriott Downtown	3%	20%(20)
The Lodge at Sonoma, a Renaissance Resort & Spa	3%	20%(21)
Torrance Marriott South Bay	3%	20%(22)
Waverly Renaissance	3%	20%(23)
Vail Marriott Mountain Resort & Spa	3%	20%(24)

(1) As a percentage of gross revenues.

(2) Based on a percentage of hotel operating profits above a negotiated return on our invested capital as more fully described in the following footnotes.

(3) Calculated as a percentage of operating profits in excess of the sum of (i) $5.9 million and (ii) 10.75% of certain capital expenditures.

(4) Calculated as a percentage of operating profits in excess of the sum of (i) $4.1 million and (ii) 10.75% of certain capital expenditures.

(5) Calculated as a percentage of operating profits after a pre-set dollar amount of owner s priority beginning in 2010. The owner s priority is $3.0 million in 2010, $3.7 million on 2011, $4.2 million in 2012, $4.7 million in 2013, $5.0 million in 2014. In 2015 and thereafter, the owner s priority adjusts annually based upon CPI. The incentive management fee cannot exceed 1.5% of total revenue.

(6) Calculated as a percentage of operating profits in excess of the sum of (i) the payment of certain loan procurement costs, (ii) 10.75% of certain capital expenditures, (iii) an agreed-upon return on certain expenditures and (iv) the value of certain amounts paid into a reserve account established for the replacement, renewal and addition of certain hotel goods. The owner s priority expires in 2027.

(7) Calculated as a percentage of operating profits in excess of the sum of (i) actual debt service and (ii) 15% of cumulative and compounding return on equity, which resets with each sale.

(8) Calculated as 20% of net operating income before base management fees. There is no owner s priority.

(9) The base management fee will increase to 3% for fiscal year 2010 and thereafter.

(10) Calculated as a percentage of operating profits after a pre-set dollar amount ($8.7 million in 2009 and $8.8 million in 2010) of owner s priority. Beginning in fiscal year 2011, the incentive management fee will be based on 103% of the prior year cash flow.

(11) The base management fee will be equal to 5.5% of gross revenues for fiscal years 2010 through 2014 and 6% for fiscal year 2015 and thereafter until the expiration of the agreement. Beginning in 2011, the base management fee may increase to 6.0% at the beginning of the next fiscal year if operating profits equal or exceed $5.0 million.

(12) Calculated as a percentage of operating profits in excess of the sum of (i) $5.5 million and (ii) 12% of certain capital expenditures, less 5% of the total real estate tax bill (for as long as the hotel is leased to a party other than the manager).

(13) Calculated as a percentage of operating profits in excess of the sum of (i) $7.9 million and (ii) 10.75% of certain capital expenditures.

(14) Calculated as a percentage of operating profits in excess of the sum of (i) $9.2 million and (ii) 10.75% of certain capital expenditures.

(15) Calculated as a percentage of operating profits in excess of the sum of (i) $10.3 million and (ii) 10.75% of certain capital expenditures.

(16) Calculated as a percentage of operating profits in excess of the sum of (i) $6.1 million and (ii) 10.75% of certain capital expenditures.

(17) Calculated as a percentage of operating profits in excess of the sum of (i) $8.1 million and (ii) 10.75% of certain capital expenditures. The percentage of operating profits is 20% except from 2011 through 2021 when it is 30%.

(18) Calculated as a percentage of operating profits in excess of the sum of (i) $8.9 million and (ii) 10.75% of certain capital expenditures. The percentage of operating profits is 20% except from 2011 through 2021 when it is 25%.

(19) Calculated as a percentage of operating profits in excess of the sum of (i) $7.6 million and (ii) 10.75% of certain capital expenditures.

(20) Calculated as a percentage of operating profits in excess of the sum of (i) $6.2 million and (ii) 10.75% of capital expenditures.

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

(22) Calculated as a percentage of operating profits in excess of the sum of (i) $7.5 million and (ii) 10.75% of certain capital expenditures.

(23) Calculated as a percentage of operating profits in excess of the sum of (i) $10.3 million and (ii) 10.75% of certain capital expenditures.

(24) Calculated as a percentage of operating profits in excess of the sum of (i) $7.4 million and (ii) 11% of certain capital expenditures. The incentive management fee rises to 25% if the hotel achieves operating profits in excess of 15% of our invested capital.

We recorded $19.6 million, $28.6 million and $29.8 million of management fees during the years ended December 31, 2009, 2008 and 2007, respectively. The management fees for the year ended December 31, 2009 consisted of

$4.3 million of incentive management fees and $15.3 million of base management fees. The management fees for the year ended December 31, 2008 consisted of $9.7 million of incentive management fees and $18.9 million of base management fees. The management fees for the year ended December 31, 2007 consisted of $11.1 million of incentive management fees and $18.7 million of base management fees.

Our Franchise Agreements

The following table sets forth the terms of the hotel franchise agreements for our two franchised hotels:

	Date of Agreement	Initial Term(1)	Franchise Fee
Vail Marriott Mountain Resort & Spa	6/2005	16 years	6% of gross room sales plus 3% of gross food and beverage sales
Atlanta Westin North at Perimeter	5/2006	20 years	7% of gross room sales plus 2% of food and beverage sales

(1) There are no renewal options under either franchise agreement.

We recorded $1.9 million, $2.8 million and $2.7 million of franchise fees during the fiscal years ended December 31, 2009, 2008 and 2007, respectively.

Our Ground Lease Agreements

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

The Bethesda Marriott Suites hotel is subject to a ground lease that runs until 2087. There are no renewal options.

The Courtyard Manhattan/Fifth Avenue is subject to a ground lease that runs until 2085, inclusive of one 49-year renewal option.

The Salt Lake City Marriott Downtown is subject to two ground leases: one ground lease covers the land under the hotel and the other ground lease covers the portion of the hotel that extends into the City Creek Project. The term of the ground lease covering the land under the hotel runs through 2056, inclusive of our renewal options, and the term of the ground lease covering the extension runs through 2017. In 2009, we acquired a 21% interest in the land under the hotel for approximately $0.9 million.

The Westin Boston Waterfront is subject to a ground lease that runs until 2099. There are no renewal options.

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

The golf course that is part of the Marriott Griffin Gate Resort is subject to a ground lease covering approximately 54 acres. The ground lease runs through 2033, inclusive of our renewal options. We have the right, beginning in 2013 and upon the expiration of any 5-year renewal term, to purchase the property covered by such ground lease for an amount ranging from $27,500 to $37,500 per acre, depending on which renewal term has expired. The ground lease also grants us the right to purchase the leased property upon a third party offer to purchase such property on the same terms and conditions as the third party offer. We are also the sub-sublessee under another minor ground lease of land adjacent to the golf course, with a term expiring in 2020.

The golf course that is part of the Oak Brook Hills Marriott Resort is subject to a ground lease covering approximately 110 acres. The ground lease runs through 2045 including renewal options.

Finally, a portion of the parking garage relating to the Renaissance Worthington is subject to three ground leases that cover, contiguously with each other, approximately one-fourth of the land on which the parking garage is constructed. Each of the ground leases has a term that runs through July 2067, inclusive of the three 15-year renewal options.

These ground leases generally require us to make rental payments (including a percentage of gross receipts as percentage rent with respect to the Courtyard Manhattan/Fifth Avenue ground lease) and payments for all, or in the case of the ground leases covering the Salt Lake City Marriott Downtown extension and a portion of the Marriott Griffin Gate Resort golf course, our tenant s share of, charges, costs, expenses, assessments and liabilities, including real property taxes and utilities. Furthermore, these ground leases generally require us to obtain and maintain insurance covering the subject property.

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

	Property	Term(1)	Annual Rent
Ground leases under hotel:	Bethesda Marriott Suites	Through 10/2087	$483,161(2)
	Courtyard Manhattan/Fifth Avenue(3)(4)	10/2007-9/2017	$906,000
		10/2017-9/2027	1,132,812
		10/2027-9/2037	1,416,015
		10/2037-9/2047	1,770,019
		10/2047-9/2057	2,212,524
		10/2057-9/2067	2,765,655
		10/2067-9/2077	3,457,069
		10/2077-9/2085	4,321,336
	Salt Lake City Marriott Downtown (Ground lease for hotel)	Through-12/2056	Greater of $132,000 or 2.6% of annual gross room sales
	(Ground lease for extension)	1/2008-12/2012	$10,277
		1/2013-12/2017	11,305
	Westin Boston Waterfront Hotel(5) (Base Rent)	Through-5/2012	$0
		6/2012-5/2016	500,000
		6/2016-5/2021	750,000
		6/2021-5/2026	1,000,000
		6/2026-5/2031	1,500,000
		6/2031-5/2036	1,750,000
		6/2036-6/2099	No base rent
	(Percentage Rent)	Through-6/2016	0% of annual gross revenue
		7/2016-6/2026	1.0% of annual gross revenue
		7/2026-6/2036	1.5% of annual gross revenue
		7/2036-6/2046	2.75% of annual gross revenue
		7/2046-6/2056	3.0% of annual gross revenue
		7/2056-6/2066	3.25% of annual gross revenue
		7/2066-6/2099	3.5% of annual gross revenue
Ground leases under parking garage:	Renaissance Worthington	Through-7/2012	$36,613
		8/2012-7/2022	40,400
		8/2022-7/2037	46,081
		8/2037-7/2052	51,764
		8/2052-7/2056	57,444

Ground leases under golf course:	Marriott Griffin Gate Resort	9/2003-8/2008	$90,750
		9/2008-8/2013	99,825
		9/2013-8/2018	109,800
		9/2018-8/2023	120,750
		9/2023-8/2028	132,750
		9/2028-8/2033	147,000
	Oak Brook Hills Marriott Resort	10/1985-9/2025	$1 (6)

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

(2) Represents rent for the year ended December 31, 2009. Rent will increase annually by 5.5%.

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

(4) The total annual rent includes the fixed rent noted in the table plus a percentage rent equal to 5% of gross receipts for each lease year, but only to the extent that 5% of gross receipts exceeds the minimum fixed rent in such lease year. There was no such percentage rent earned during the year ended December 31, 2009.

(5) Total annual rent under the ground lease is capped at 2.5% of hotel gross revenues during the initial 30 years of the ground lease.

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

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

Debt

As of December 31, 2009, we had approximately $786.8 million of outstanding debt. The following table sets forth our debt obligations on our hotels.

Property	**Principal Balance (in thousands)**	**Debt per Key**	**Interest Rate**	**Maturity Date**	**Amortization Provisions**
Frenchman s Reef & Morning Star Marriott Beach Resort	$ 61,422	$122,355	5.44%	August 2015	30 years
Marriott Los Angeles Airport	82,600	82,271	5.30%	July 2015	Interest Only
Courtyard Manhattan / Fifth Avenue	51,000	275,676	6.48%	June 2016	30 years(1)
Courtyard Manhattan / Midtown East	42,949	137,657	8.81%	October 2014	30 years
Orlando Airport Marriott	59,000	121,399	5.68%	January 2016	30 years(2)
Marriott Salt Lake City Downtown	33,108	64,918	5.50%	January 2015	20 years

Renaissance Worthington	57,103	113,300	5.40%	July 2015	30 years(3)
Chicago Marriott Downtown Magnificent Mile	219,595	183,301	5.975%	April 2016	30 years(4)
Renaissance Austin	83,000	168,699	5.507%	December 2016	Interest Only
Renaissance Waverly	97,000	186,180	5.503%	December 2016	Interest Only
Senior unsecured credit facility			LIBOR + 1.25%	February 2011(5)	Interest Only
Total debt	$ 786,777				

(1) The debt has a five-year interest only period that commenced in May 2006. After the expiration of that period, the debt will amortize based on a thirty-year schedule.

(2) The debt has a five-year interest only period that commenced in December 2005. After the expiration of that period, the debt will amortize based on a thirty-year schedule.

(3) The debt had a four-year interest only period that expired in July 2009. The debt is currently amortizing based on a thirty-year schedule.

(4) The debt had a 3.5 year interest only period that expired in October 2009. The debt is currently amortizing based on a thirty-year schedule.

(5) The senior unsecured credit facility matures in February 2011. Subject to certain conditions, including being in compliance with all financial covenants, we have a one-year extension option that will extend the maturity to 2012.

Item 3. ***Legal Proceedings***

We are not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us. We are involved in routine litigation arising out of the ordinary course of business, all of which is expected to be covered by insurance and none of which is expected to have a material impact on our financial condition or results of operation.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of our stockholders during the fourth quarter of the fiscal year ended December 31, 2009.

PART II

Item 5. ***Market for our common stock and related stockholder matters***

Market Information

Our common stock trades on the New York Stock Exchange, or NYSE, under the symbol DRH . The following table sets forth, for the indicated period, the high and low closing prices for the common stock, as reported on the NYSE:

	Price Range	
	High	**Low**
Year Ended December 31, 2008		
First Quarter	$ 15.14	$ 11.50
Second Quarter	$ 14.41	$ 11.72
Third Quarter	$ 12.07	$ 8.65
Fourth Quarter	$ 9.93	$ 2.63
Year Ended December 31, 2009		
First Quarter	$ 5.35	$ 2.67
Second Quarter	$ 7.75	$ 3.61
Third Quarter	$ 7.72	$ 5.28
Fourth Quarter	$ 8.92	$ 7.26
Year Ending December 31, 2010		
First Quarter (through February 25, 2010)	$ 9.78	$ 7.90

The closing price of our common stock on the NYSE on February 25, 2010 was $8.98 per share.

In order to maintain our qualification as a REIT, we must make distributions to our stockholders each year in an amount equal to at least:

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

90% of the excess of our net income from foreclosure property over the tax imposed on such income by the U.S. Internal Revenue Code of 1986, as amended (the Code), minus;

Any excess non-cash income.

On January 29, 2010, we paid a dividend to our stockholders of record as of December 28, 2009 in the amount of $0.33 per share, which represented 100% of our 2009 taxable income. We relied on the Internal Revenue Service s Revenue Procedure 2009-15, as amplified and superseded by Revenue Procedure 2010-12, that allowed us to pay 90% of the dividend in shares of common stock and the remainder in cash.

As of February 25, 2010, there were 24 record holders of our common stock and we believe we have more than a thousand beneficial holders. In order to comply with certain requirements related to our qualification as a REIT, our charter, subject to certain exceptions, limits the number of common shares that may be owned by any single person or affiliated group to 9.8% of the outstanding common shares.

Equity compensation plan information. The following table sets forth information regarding securities authorized for issuance under our equity compensation plan, the 2004 Stock Option and Incentive Plan, as amended, as of December 31, 2009. See Note 6 to the accompanying consolidated financial statements for a complete description of the 2004 Stock Option and Incentive Plan, as amended.

Equity Compensation Plan Information

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)**
Equity compensation plans approved by security holders	300,225	$ 12.59	4,881,639
Equity compensation plans not approved by security holders			
Total	300,225	$ 12.59	4,881,639

Repurchases of equity securities. During the year ended December 31, 2009, certain of our employees surrendered 146,003 shares of common stock to the Company in connection with the vesting of restricted stock as payment for taxes.

The following graph provides a comparison of cumulative total stockholder return for the period from May 25, 2005 (the date of our initial public offering) through December 31, 2009, among DiamondRock Hospitality Company, the Standard & Poor s 500 Index (the ***S&P 500 Total Return***) and Morgan Stanley REIT Index (the ***RMZ Total Return***).

The total return values were calculated assuming a $100 investment on May 25, 2005 with reinvestment of all dividends in (i) our common stock, (ii) the S&P 500 Total Return, and (iii) the RMZ Total Return. The total return values do not include any dividends declared, but not paid, during the period.

	May 25, 2005	**December 31, 2005**	**December 31, 2006**	**December 31, 2007**	**December 31, 2008**	**December 31, 2009**
DiamondRock Hospitality Company Total Return	$ 100.00	$ 117.58	$ 185.72	$ 163.19	$ 59.00	$ 101.97
RMZ Total Return	$ 100.00	$ 111.73	$ 151.85	$ 126.32	$ 78.36	$ 100.78
S&P 500 Total Return	$ 100.00	$ 106.07	$ 122.82	$ 129.58	$ 81.64	$ 103.24

Item 6. ***Selected Financial Data***

The selected historical financial information as of and for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 has been derived from our audited historical financial statements. The selected historical financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, the consolidated financial statements as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007, and the related notes contained elsewhere in this Annual Report on Form 10-K.

We present the following two non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: (1) EBITDA; and (2) FFO. We caution investors that amounts presented in accordance with our definitions of EBITDA and FFO may not be comparable to similar measures disclosed by other companies, since not all companies calculate these non-GAAP measures in the same manner. EBITDA and FFO should not be considered as an alternative measure of our net income (loss), operating performance, cash flow or liquidity. EBITDA and FFO may include funds that may not be available for our discretionary use due to functional requirements to conserve funds for capital expenditures and property acquisitions and other commitments and uncertainties. Although we believe that EBITDA and FFO can enhance your understanding of our results of operations, these non-GAAP financial measures, when viewed individually, are not necessarily better indicators of any trend as compared to GAAP measures such as net income (loss) or cash flow from operations. In addition, you should be aware that adverse economic and market conditions may harm our cash flow. Under this section, as required, we include a quantitative reconciliation of EBITDA and FFO to the most directly comparable GAAP financial performance measure, which is net income (loss).

	Year Ended				
	December 31, 2009	**December 31, 2008**	**December 31, 2007**	**December 31, 2006**	**December 31, 2005**
	Historical (in thousands, except for per share data)				
Revenues:					
Rooms	$ 365,039	$ 444,070	$ 456,719	$ 316,051	$ 149,336
Food and beverage	177,345	211,475	217,505	143,259	63,196
Other	33,297	37,689	36,709	25,741	14,254
Total revenues	575,681	693,234	710,933	485,051	226,786
Operating expenses:					
Rooms	97,089	105,868	104,672	73,110	36,801
Food and beverage	124,046	145,181	147,463	96,053	47,257
Other hotel expenses and management fees	231,838	257,038	253,817	182,556	95,647
Impairment of favorable lease asset	2,542	695			
Corporate expenses(1)	18,317	13,987	13,818	12,403	13,462
Depreciation and amortization	82,729	78,156	74,315	51,192	27,072
Total operating expenses	556,561	600,925	594,085	415,314	220,239
Operating income	19,120	92,309	116,848	69,737	6,547
Interest income	(368)	(1,648)	(2,399)	(4,650)	(1,548)
Interest expense	51,609	50,404	51,445	36,934	17,367

Gain on early extinguishment of debt			(359)		
(Loss) Income before income taxes	(32,121)	43,553	68,161	37,453	(9,272)
Income tax benefit (expense)	21,031	9,376	(5,264)	(3,750)	1,200
(Loss) Income from continuing operations	(11,090)	52,929	62,897	33,703	(8,072)
Income from discontinued operations, net of tax			5,412	1,508	736
Net (loss) income	$ (11,090)	$ 52,929			