ASHFORD HOSPITALITY TRUST INC
Form 10-K
February 28, 2012
Table of Contents

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, 2011

OR

¨ **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: 001-31775

ASHFORD HOSPITALITY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland	**86-1062192**
(State or other jurisdiction of incorporation or organization)	*(IRS employer identification number)*
14185 Dallas Parkway, Suite 1100 **Dallas, Texas**	**75254**
(Address of principal executive offices)	*(Zip code)*

(972) 490-9600

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock	**New York Stock Exchange**
Preferred Stock, Series A	**New York Stock Exchange**
Preferred Stock, Series D	**New York Stock Exchange**

Preferred Stock, Series E	**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.

þ Yes ¨ No

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 þ No

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. þ Yes ¨ No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) þ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

As of June 30, 2011, the aggregate market value of 56,401,846 shares of the registrant s common stock held by non-affiliates was approximately $702,203,000.

As of February 21, 2012, the registrant had 68,032,289 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement pertaining to the 2012 Annual Meeting of Shareholders are incorporated herein by reference into Part III of this Form 10-K.

Table of Contents

ASHFORD HOSPITALITY TRUST, INC.

YEAR ENDED DECEMBER 31, 2011

INDEX TO FORM 10-K

Table of Contents

This Annual Report is filed by Ashford Hospitality Trust, Inc., a Maryland corporation (the Company). Unless the context otherwise requires, all references to the Company include those entities owned or controlled by the Company. In this report, the terms the Company, we, us or our mean Ashford Hospitality Trust, Inc. and all entities included in its consolidated financial statements.

FORWARD-LOOKING STATEMENTS

Throughout this Form 10-K and documents incorporated herein by reference, we make forward-looking statements that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition and liquidity, results of operations, plans, and objectives. Statements regarding the following subjects are forward-looking by their nature:

- our business and investment strategy;
- our projected operating results;
- completion of any pending transactions;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- market trends;
- projected capital expenditures; and
- the impact of technology on our operations and business.

Such forward-looking statements are based on our beliefs, assumptions, and expectations of our future performance taking into account all information currently known to us. These beliefs, assumptions, and expectations can change as a result of many potential events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, results of operations, plans, and other objectives may vary materially from those expressed in our forward-looking statements. Additionally, the following factors could cause actual results to vary from our forward-looking statements:

- factors discussed in this Form 10-K, including those set forth under the sections titled Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business, and Properties;
- general volatility of the capital markets and the market price of our common stock;
- changes in our business or investment strategy;

availability, terms, and deployment of capital;

availability of qualified personnel;

changes in our industry and the market in which we operate, interest rates, or the general economy; and

the degree and nature of our competition.

When we use words or phrases such as will likely result, may, anticipate, estimate, should, expect, believe, intend, or similar ex intend to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Table of Contents

PART I

Item 1. ***Business***

GENERAL

Ashford Hospitality Trust, Inc., together with its subsidiaries, is a self-administered real estate investment trust (REIT) focused on investing in the hospitality industry across all segments and in all methods including direct real estate, securities, equity and debt. Additional information can be found on our website at www.ahtreit.com. We commenced operations in August 2003 with the acquisition of six hotel properties (the Initial Properties) in connection with our initial public offering. We own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. Ashford OP General Partner LLC, a wholly-owned subsidiary of the Company, serves as the sole general partner of our operating partnership.

Since the initial public offering and through 2006, we acquired a total of 67 hotel properties through purchase transactions. In April 2007, we acquired a 51-property hotel portfolio from CNL Hotels and Resorts, Inc. (CNL). Pursuant to the CNL purchase agreement, we acquired 100% of 33 properties and interests ranging from 70% to 89% in 18 properties through existing joint ventures. In connection with the CNL transaction, we acquired the 15% remaining joint venture interest in one hotel property not owned by CNL at the acquisition, and in May 2007, we acquired two other hotel properties previously owned by CNL (collectively, the CNL Acquisition). In December 2007, we completed an asset swap with Hilton Hotels Corporation (Hilton), whereby we surrendered our majority ownership interest in two hotel properties in exchange for Hilton s minority ownership interest in nine hotel properties. Effective December 2, 2011, one of our joint venture partners assigned to us its 11% ownership interest in the joint venture, in which we previously had an 89% ownership interest. The joint venture held a single hotel property under a triple-net lease arrangement. As of December 31, 2011, our consolidated financial statements included 92 directly owned hotel properties and four hotel properties that we owned through majority-owned investments in joint ventures. These hotels represent 20,656 total rooms, or 20,395 net rooms, excluding those attributable to joint venture partners. Our hotels are primarily operated under the widely recognized upscale and upper upscale brands of Crowne Plaza, Hilton, Hyatt, Marriott and Sheraton. Currently, all of our hotels are located in the United States.

In March 2011, in connection with the foreclosure on a mezzanine loan held in a joint venture with Prudential Real Estate Investors (PREI), we and PREI each invested additional funds and each contributed an existing mezzanine loan to form a new joint venture, the PIM Highland JV, which acquired the 28-hotel property portfolio (the Highland Portfolio) securing the two mezzanine loans. We have an ownership interest of 71.74% in PIM Highland JV s common equity and a $25.0 million preferred equity interest. Our investment in the PIM Highland JV is accounted for using the equity method. The Highland Portfolio consists of high quality full and select service hotel properties with 8,084 total rooms, or 5,800 net rooms excluding those attributable to our joint venture partner.

Additionally, in March 2011, we acquired 96 hotel condominiums units at WorldQuest Resort in Orlando, Florida for $12.0 million and subsequently during the period sold two units. At December 31, 2011, we also wholly owned one mezzanine loan of $3.1 million and one note receivable of $8.1 million in connection with a joint venture restructuring.

Beginning in March 2008, we entered into various derivative transactions with financial institutions to hedge our debt, to improve cash flows, and to capitalize on the historical correlation between changes in LIBOR and RevPAR (Revenue Per Available Room). Through December 31, 2011, we recorded cash and accrued income of $196.1 million from the derivative transactions.

For federal income tax purposes, we elected to be treated as a REIT, which imposes limitations related to operating hotels. As of December 31, 2011, all of our 96 hotel properties were leased or owned by our

Table of Contents

wholly-owned subsidiaries that are treated as taxable REIT subsidiaries for federal income tax purposes (collectively, these subsidiaries are referred to as Ashford TRS). Ashford TRS then engages third-party or affiliated hotel management companies to operate the hotels under management contracts. Hotel operating results related to these properties are included in the consolidated statements of operations. Through December 1, 2011, the hotel property held by a joint venture in which we previously had an ownership of 89% was leased on a triple-net lease basis to a third-party tenant who operated the hotel property. Rental income from this operating lease is included in the consolidated results of operations for the period from January 1, 2011 through December 1, 2011. Effective December 2, 2011, we acquired the remaining 11% ownership interest from our joint venture partner at no cost to us. The triple-net lease agreement was canceled and the operating results of this hotel property have been included in our consolidated statements of operations since December 2, 2011. With respect to our unconsolidated joint venture, PIM Highland JV, the 28 hotels are leased to PIM Highland JV s wholly-owned subsidiary, which is treated as a taxable REIT subsidiary for federal income tax purposes.

We do not operate any of our hotels directly; instead we employ hotel management companies to operate them for us under management contracts. Remington Lodging & Hospitality, LLC, together with its affiliates, (Remington Lodging), is our primary property manager, and is beneficially wholly owned by Mr. Archie Bennett, Jr., our Chairman, and Mr. Monty J. Bennett, our Chief Executive Officer. As of December 31, 2011, Remington Lodging managed 45 of our 96 legacy hotel properties, while third-party management companies managed the remaining 51 hotel properties. In addition, Remington Lodging also managed 19 of the 28 PIM Highland JV hotel properties and the WorldQuest condominium properties.

SIGNIFICANT TRANSACTIONS IN 2011 AND RECENT DEVELOPMENTS

Restructuring and Extension of a Mortgage Loan In December 2011, we successfully restructured a $203.4 million mortgage loan and extended the maturity date from December 2011 to March 2014. There is also a one-year extension option subject to the satisfaction of certain conditions. The restructuring provides for a new interest rate of LIBOR plus 4.5% with no LIBOR floor. At the closing of the restructuring, we paid down the loan by $25.0 million to $178.4 million. In connection with the restructuring and extension of the mortgage loan, we entered into an interest rate cap agreement through the new maturity date with a strike rate of 6.25% on $178.4 million notional amount for $68,000.

In addition, we are engaged in negotiations with the existing lenders to restructure and extend the $167.2 million non-recourse portfolio mortgage loan that matures in May 2012. On a parallel path, we are also in discussions with third party lenders to refinance this loan.

Reinstatement of Share Repurchase Program and Increased Authorization In September 2011, our Board of Directors authorized the reinstatement of our 2007 share repurchase program and authorized an increase in our repurchase plan authority from $58.4 million to $200 million (excluding fees, commissions and all other ancillary expenses). Under this plan, the board has authorized: (i) the repurchase of shares of our common stock, Series A preferred stock, Series D preferred stock and Series E preferred stock, and/or (ii) discounted purchases of our outstanding debt obligations, including debt secured by our hotel assets. We intend to fund any repurchases or discounted debt purchases with the net proceeds from asset sales, cash flow from operations, existing cash on the balance sheet, and other sources. As of December 31, 2011, no shares of our common or preferred stock have been repurchased under the share repurchase program since its reinstatement.

New Credit Facility In September 2011, we obtained a new $105.0 million senior credit facility which matures in September 2014 with a one-year extension option and replaces our previous credit line that was scheduled to mature in April 2012. The new credit facility provides for a three-year revolving line of credit priced at 275 to 350 basis points over LIBOR or Base Rate, as defined in the agreement, which is the same as our previous credit line. The new credit facility includes the opportunity to expand the borrowing capacity by up to $45.0 million to an aggregate size of $150.0 million upon a request by us and the consent of each lender, provided there is no default or event of default and each representation and warranty made or deemed made by us remains true and correct in all material respects on the effective date of such increase. The previous credit line was repaid in full in July 2011. The financial covenant tests with respect to the fixed charge coverage ratio and the leverage tests are similar to our previous credit line. On February 21, 2012, we closed on expanding the borrowing capacity to an aggregate $145.0 million.

Credit Default Swap Transactions In August 2011, we entered into credit default swap transactions for a notional amount of $100.0 million to hedge financial and capital market risk for an upfront cost of $8.2 million that was subsequently returned to us by our counterparty. A credit default swap is a derivative contract that works like an insurance policy against the credit risk of an entity or obligation. The credit risk underlying the credit default swaps are referenced to the CMBX index. The CMBX is a group of indices that references underlying bonds from 25 Commercial Mortgage-Backed Securities (CMBS), tranched by rating class. The CMBX is traded via pay-as-you-go credit default swaps, which involve ongoing, two-way payments over the life of the contract between the buyer and the seller of protection. The reference obligations are CMBS bonds. The seller of protection assumes the credit risk of the reference obligation from the buyer of protection in exchange for payments of an annual premium. If there is a default or a loss, as defined in the credit default swap agreements, on the underlying bonds, then the buyer of protection is protected against those losses. The only liability for Ashford, the buyer of protection, is the annual premium and any change in value of the underlying CMBX index (if the trade is terminated prior to maturity). For the CMBX trades that we have completed, we were the buyer of protection in all trades. Assuming the underlying bonds pay off at par over their remaining average life, our total exposure for these trades is approximately $8.5 million. The fair value of the credit default swaps is obtained from a third party who publishes various information including the index composition and price data. The change in the market value of the credit default swaps is settled net through posting cash collateral or reclaiming cash collateral between us and our counterparty when the change in the market value is over $250,000. As of December 31, 2011, the credit default swap had a net carrying value of a liability of $2,000, and since inception we have recognized an unrealized loss of $1.3 million. See Notes 10 and 11 of Notes to Consolidated Financial Statements in Item 8.

Sale of Additional Shares of Our Common Stock In July 2011, we reissued 7.0 million of our treasury shares at $12.50 per share and received net proceeds of $83.2 million. The net proceeds were used to repay the $50.0 million outstanding balance on our senior credit facility and for general corporate purposes, including investments, capital expenditures and working capital.

In January 2011, an underwriter purchased 300,000 shares of our common stock through the partial exercise of the underwriter s 1.125 million share over-allotment option in connection with the issuance of 7.5 million shares of common stock completed in December 2010, and we received net proceeds of $2.8 million, which were used for general corporate purposes.

Investments in Securities and Other We continually seek new and alternative strategies to leverage our industry and capital markets knowledge in ways that we believe will be accretive to our company. We believe that we can utilize the same real-time information we use to manage our portfolio and capital structure to invest capital in the public markets. To implement this investment strategy, during the second quarter of 2011, our Board of Directors authorized the formation of an investment subsidiary to invest in public securities and other investments. These investments are carried at fair market value. Our maximum aggregate net investment amount is limited to $20 million. As of December 31, 2011, based on the closing price of the securities, we recorded total investments in securities and other of $21.4 million and liabilities associated with investments in securities of $2.2 million. Through December 31, 2011, we recognized unrealized losses of $391,000. We also recognized realized losses of $981,000 and investment income of $2,000, or a net investment loss of $979,000. See Notes 10 and 11 of Notes to Consolidated Financial Statements in Item 8.

Preferred Stock Offering and Redemption of Series B-1 Convertible Preferred Stock In April 2011, we completed the offering of 3.35 million shares (including 350,000 shares pursuant to the underwriters exercise of an over-allotment option) of our 9.00% Series E Cumulative Preferred Stock at a net price of $24.2125 per share, and we received net proceeds of $80.8 million after underwriting fees. Of the net proceeds from the offering, $73.0 million was used to redeem 5.9 million shares of the total 7.3 million shares of our Series B-1 convertible preferred stock outstanding on May 3, 2011. The remaining proceeds were used for other general corporate purposes. The remaining 1.4 million outstanding Series B-1 convertible preferred shares were converted into 1.4 million shares of our common stock, which was treated as a stock dividend of $17.4 million to the Series B-1 preferred shareholder in accordance with the applicable accounting guidance.

In October 2011, we issued and sold an additional 1.3 million shares of our 9.00% Series E Cumulative Preferred Stock at a price of $23.47 per share, in an underwritten public offering pursuant to an effective registration statement. We received net proceeds of $28.9 million after underwriting fees. The proceeds from the offering may be used for general corporate purposes, including, without limitation, repayment of debt or other maturing obligations, financing future hotel related investments, capital expenditures and working capital. A portion of the proceeds may also be used for repurchasing shares of our common stock under our existing repurchase program.

At-the-Market Preferred Stock Offering On September 30, 2011, we entered into an at-the-market (ATM) program with an investment banking firm, pursuant to which we may issue up to 700,000 shares of 8.55% Series A Cumulative Preferred Stock and up to 700,000 shares of 8.45% Series D Cumulative Preferred Stock at market prices up to $30.0 million. No shares of our preferred stock have been sold under this program as of the date of this report.

Repayment of a Mezzanine Loan In April 2011, we entered into a settlement agreement with the borrower of the mezzanine loan which was secured by a 105-hotel property portfolio and scheduled to mature in April 2011. The borrower paid off the loan for $22.1 million. The difference between the settlement amount and the carrying value of $17.9 million was recorded as a credit to impairment charges in accordance with applicable accounting guidance.

Acquisition of Hotel Properties Securing Mezzanine Loans Held in Unconsolidated Joint Ventures In July 2010, as a strategic complement to our existing joint venture with Prudential Real Estate Investors (PREI) formed in 2008, we contributed $15.0 million for an ownership interest in a new joint venture with PREI. The new joint venture acquired a portion of the tranche 4 mezzanine loan associated with JER Partners 2007 privatization of the JER/Highland Hospitality portfolio (the Highland Portfolio). The mezzanine loan was secured by the same 28 hotel properties as our then existing joint venture investment in the tranche 6 mezzanine loan. Both of these mezzanine loans had been in default since August 2010. After negotiating with the borrowers, senior secured lenders and senior mezzanine lenders for a restructuring, we, through a new joint venture, the PIM Highland JV, with PRISA III Investments, LLC (PRISA III) (an affiliate of PREI), invested $150.0 million and PRISA III invested $50.0 million of new capital to acquire the 28 high quality full and select service hotel properties comprising the Highland Portfolio on March 10, 2011. We and PRISA III have ownership interests of 71.74% and 28.26%, respectively, in the new joint venture. In addition to the common equity splits, we and PRISA III each have a $25.0 million preferred equity interest earning an accrued but unpaid 15% annual return with priority over common equity distributions. Our investment in the PIM Highland JV is accounted for using the equity method and the carrying value was $179.5 million at December 31, 2011. The PIM Highland JV recognized a gain of $82.1 million related to a bargain purchase and settlement of a pre-existing relationship, of which our share was $46.3 million. The purchase price allocation has been finalized as of December 31, 2011. See Note 5 of Notes to Consolidated Financial Statements in Item 8.

Litigation Settlement In March 2011, we entered into a Consent and Settlement Agreement (the Settlement Agreement) with Wells Fargo Bank, N.A. (Wells) to resolve potential disputes and claims between us and Wells relating to our purchase of a participation interest in certain mezzanine loans. Wells denied the allegations in our complaint and further denies any liability for the claims asserted by us; however, the Settlement Agreement was entered into to resolve our claims against Wells and to secure Wells consent to our participation in the Highland Hospitality Portfolio restructuring. Pursuant to the Settlement Agreement, Wells agreed to pay us $30.0 million over the next five years, or earlier, if certain conditions are satisfied. As part of the Settlement Agreement, we and Wells have agreed to a mutual release of claims. We received the settlement payment of $30.0 million and paid legal costs of $6.9 million in June 2011. The settlement amount was recorded as Other income and the legal costs of $6.9 million were recorded as Corporate general and administrative expenses in the consolidated statements of operations.

Acquisition of Condominium Properties In March 2011, we acquired real estate and certain other rights in connection with the acquisition of the WorldQuest Resort, a condominium hotel project. More specifically, we acquired 96 condominium units, hotel amenities, land and improvements, developable raw land, developer rights and Rental Management Agreements (RMAs) with third party owners of condominium units in the project. Units owned by third parties with RMAs and all of the 96 units we acquired participate in a rental pool program whereby the units are rented to guests similar to a hotel operation. Under the terms of the RMA, we share in a percentage of the guest room revenues and are reimbursed for certain costs. In the third quarter 2011, we sold two of the completed units at a price of $175,000 each and realized a gain of $96,000. All of the units owned at December 31, 2011, are included in Investment in hotel properties, net in the consolidated balance sheets.

Resumption of Common Dividends In February 2011, the Board of Directors accepted management s recommendation to resume paying cash dividends on our outstanding shares of common stock with an annualized target of $0.40 per share for 2011. For the year ended December 31, 2011, we have declared dividends of $0.40 per share. In December 2011, the Board of Directors approved our dividend policy for 2012 and we expect to pay a quarterly dividend of $0.11 per share for 2012. The adoption of a dividend policy does not commit our Board of Directors to declare future dividends or the amount thereof. The Board of Directors will continue to review its dividend policy on a quarterly basis.

Completion of Sales of Hotel Properties In 2011, we completed the sale of four hotel properties, the Hampton Inn hotel in Jacksonville, Florida, the JW Marriott hotel in San Francisco, California, the Hilton hotel in Rye Town, New York and the Hampton Inn hotel in Houston, Texas. We received total proceeds of $153.7 million and repaid the related mortgage debt of $50.2 million. We used the net proceeds to reduce $70.0 million of the borrowings on our senior credit facility. We recorded an impairment charge of $6.2 million on the Jacksonville Hampton Inn hotel property in June 2011, based on the selling price. The operating results of these hotel properties, including the impairment charge, for all periods presented have been reported as discontinued operations in the consolidated statements of operations.

BUSINESS STRATEGIES

Following a recession that lasted over two years, beginning in 2010 the lodging industry started experiencing improvement in fundamentals, specifically occupancy and this improvement continued into 2011. Room rates, measured by the average daily rate, or ADR, which typically lags occupancy growth in the early stage of a recovery, have continued showing upward growth. We believe the improvements in the economy will continue to positively impact the lodging industry and hotel operating results for 2012, and we intend to continue to seek ways to benefit from the cyclical nature of the hotel industry. We believe that in the current cycle, hotel values and cash flows, for the most part, peaked in 2007, and we believe we will not achieve similar cash flows and values in the immediate future. Industry experts have suggested that cash flows within our industry may achieve these previous highs again in 2014 through 2016.

Based on our primary business objectives and forecasted operating conditions, our current key priorities and financial strategies include, among other things:

- acquisition of hotel properties;
- disposition of hotel properties;

- investing in securities;
- pursuing capital market activities to enhance long-term shareholder value;
- repurchasing capital stock subject to regulatory limitations and our Board of Directors authorization;
- preserving capital, enhancing liquidity, and continuing current cost saving measures;
- implementing selective capital improvements designed to increase profitability;
- implementing effective asset management strategies to minimize operating costs and increase revenues;
- financing or refinancing hotels on competitive terms;
- utilizing hedges and derivatives to mitigate risks; and
- making other investments or divestitures that our Board of Directors deems appropriate.

Our investment strategies continue to focus on the upscale and upper-upscale segments within the lodging industry. We believe that as supply, demand, and capital market cycles change, we will be able to shift our investment strategies to take advantage of new lodging-related investment opportunities as they may develop. Our Board of Directors may change our investment strategies at any time without shareholder approval or notice.

As the business cycle changes and the hotel markets continue to improve, we intend to continue to invest in a variety of lodging-related assets based upon our evaluation of diverse market conditions including our cost of capital and the expected returns from those investments. Our investments may include: (i) direct hotel investments; (ii) mezzanine financing through origination or acquisition; (iii) first-lien mortgage financing through origination or acquisition; and (iv) sale-leaseback transactions.

Our strategy is designed to take advantage of lodging industry conditions and adjust to changes in market circumstances over time. Our assessment of market conditions will determine asset reallocation strategies. While we seek to capitalize on favorable market fundamentals, conditions beyond our control may have an impact on overall profitability and our investment returns.

Our strategy of combining lodging-related equity and debt investments seeks, among other things, to:

- capitalize on both current yield and price appreciation, while simultaneously offering diversification of types of assets within the hospitality industry; and
- vary investments across an array of hospitality assets to take advantage of market cycles for each asset class.

Our long-term investment strategy primarily targets select service and full-service hotels in primary, secondary, and resort markets, typically throughout the United States. To take full advantage of future investment opportunities in the lodging industry, we intend to invest according to the asset allocation strategies described below. However, due to ongoing changes in market conditions, we will continually evaluate the appropriateness of our investment strategies. Our Board of Directors may change any or all of these strategies at any time without notice.

Direct Hotel Investments In selecting hotels to acquire, we target hotels that offer one or more of the following attributes: a high current return or have the opportunity to increase in value through repositioning,

Table of Contents

capital investments, market-based recovery, or improved management practices. Our direct hotel acquisition strategy will continue to follow similar investment criteria and will seek to achieve both current income and appreciation. In addition, we will continue to assess our existing hotel portfolio and make strategic decisions to sell certain under-performing or non-strategic hotels that do not fit our investment strategy or criteria due to micro or macro market changes or other reasons.

Mezzanine Financing Subordinated loans, or mezzanine loans, that we acquire or originate may relate to a diverse segment of hotels that are located across the U.S. These mezzanine loans are secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels. As the global economic environment improves and the hotel industry stabilizes, we may refocus our efforts on the acquisition or origination of mezzanine loans. Given the greater repayment risks of these types of loans, to the extent we acquire or originate them in the future, we will have a more conservative approach in underwriting these assets. Mezzanine loans that we acquire in the future may be secured by individual assets as well as cross-collateralized portfolios of assets.

First Mortgage Financing From time to time, we may acquire or originate first mortgages. As the dynamics in the capital markets and the hotel industry make first-mortgage investments more attractive, we may acquire, potentially at a discount to par, or originate loans secured by first priority mortgages on hotels. We may be subject to certain state-imposed licensing regulations related to commercial mortgage lenders, with which we intend to comply. However, because we are not a bank or a federally chartered lending institution, we are not subject to state and federal regulatory constraints imposed on such entities.

Sale-Leaseback Transactions To date, we have not participated in any sale-leaseback transactions. However, if the lodging industry fundamentals shift such that sale-leaseback transactions become more attractive investments, we intend to purchase hotels and lease them back to their existing hotel owners.

BUSINESS SEGMENTS

We currently operate in two business segments within the hotel lodging industry: direct hotel investments and hotel financing. A discussion of each operating segment is incorporated by reference to Note 22 of Notes to Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data.

FINANCING STRATEGY

We utilize debt to increase equity returns. When evaluating our future level of indebtedness and making decisions regarding the incurrence of indebtedness, our Board of Directors considers a number of factors, including:

- our leverage levels across the portfolio;
- the purchase price of our investments to be acquired with debt financing;
- impact on financial covenants;
- cost of debt;
- loan maturity schedule;
- the estimated market value of our investments upon refinancing; and

the ability of particular investments, and our Company as a whole, to generate cash flow to cover expected debt service.

We may incur debt in the form of purchase money obligations to the sellers of properties, publicly or privately placed debt instruments, or financing from banks, institutional investors, or other lenders. Any such indebtedness may be secured or unsecured by mortgages or other interests in our properties or mortgage loans. This indebtedness may be recourse, non-recourse, or cross-collateralized. If recourse, such recourse may include our general assets or be limited to the particular investment to which the indebtedness relates. In addition, we may invest in properties or loans subject to existing loans secured by mortgages or similar liens on the properties, or we may refinance properties acquired on a leveraged basis.

We may use the proceeds from any borrowings for working capital to:

- purchase interests in partnerships or joint ventures;
- refinance existing indebtedness;
- finance the origination or purchase of debt investments; or
- finance acquisitions, expand, redevelop or improve existing properties, or develop new properties or other uses.

In addition, if we do not have sufficient cash available, we may need to borrow to meet taxable income distribution requirements under the Internal Revenue Code. No assurances can be given that we will obtain additional financings or, if we do, what the amount and terms will be. Our failure to obtain future financing under favorable terms could adversely impact our ability to execute our business strategy. In addition, we may selectively pursue debt financing on our individual properties and debt investments.

DISTRIBUTION POLICY

In February 2011, the Board of Directors accepted management s recommendation to resume paying cash dividends on our outstanding shares of common stock with an annualized target of $0.40 per share for 2011. For the year ended December 31, 2011, we have declared dividends of $0.40 per share. We may incur indebtedness to meet distribution requirements imposed on REITs under the Internal Revenue Code to the extent that working capital and cash flow from our investments are insufficient to fund required distributions. Or, we may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements. We may pay dividends in excess of our cash flow.

Distributions are authorized by our Board of Directors and declared by us based upon a variety of factors deemed relevant by our directors. No assurance can be given that our dividend policy will not change in the future. In December 2011, the Board of Directors approved our dividend policy for 2012 and we expect to pay a quarterly dividend of $0.11 per share for 2012. The adoption of a dividend policy does not commit our Board of Directors to declare future dividends or the amount thereof. The Board of Directors will continue to review its dividend policy on a quarterly basis. Our ability to pay distributions to our shareholders will depend, in part, upon our receipt of distributions from our operating partnership. This, in turn, may depend upon receipt of lease payments with respect to our properties from indirect, wholly-owned subsidiaries of our operating partnership and the management of our properties by our property managers. Distributions to our shareholders are generally taxable to our shareholders as ordinary income. However, since a portion of our investments are equity ownership interests in hotels, which result in depreciation and non-cash charges against our income, a portion of our distributions may constitute a non-taxable return of capital, to the extent of a shareholder s tax basis in the stock. To the extent that it is consistent with maintaining our REIT status, we may maintain accumulated earnings of Ashford TRS in that entity.

Our charter allows us to issue preferred stock with a preference on distributions, such as our Series A, Series D and Series E preferred stock. The partnership agreement of our operating partnership also allows the operating partnership to issue units with a preference on distributions, such as our class B common units. The issuance of

Table of Contents

these series of preferred stock and units together with any similar issuance in the future, given the dividend preference on such stock or units, could limit our ability to make a dividend distribution to our common shareholders.

COMPETITION

The hotel industry is highly competitive and the hotels in which we invest are subject to competition from other hotels for guests. Competition is based on a number of factors, most notably convenience of location, brand affiliation, price, range of services, guest amenities or accommodations offered and quality of customer service. Competition is often specific to the individual markets in which our properties are located and includes competition from existing and new hotels. Increased competition could have a material adverse effect on the occupancy rate, average daily room rate and room revenue per available room of our hotels or may require us to make capital improvements that we otherwise would not have to make, which may result in decreases in our profitability.

Our principal competitors include other hotel operating companies, ownership companies (including hotel REITs) and national and international hotel brands. We face increased competition from providers of less expensive accommodations, such as select service hotels or independent owner-managed hotels, during periods of economic downturn when leisure and business travelers become more sensitive to room rates.

EMPLOYEES

At December 31, 2011, we had 75 full-time employees. These employees directly or indirectly perform various acquisition, development, asset management, capital markets, accounting, tax, risk management, legal, redevelopment, and corporate management functions. None of our corporate employees are unionized. All persons employed in day-to-day hotel operations are employees of the management companies and not the Company, and some of the management company employees are unionized. Occasionally, we hire temporary employees to assist in tasks. We also hire numerous third parties to provide various professional services. In addition, certain employees of a related party provide services to us or split their time between us and the related party. Costs for these services are included in the corporate general and administrative expense reimbursements to the related party.

ENVIRONMENTAL MATTERS

Under various federal, state, and local laws and regulations, an owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on such property. These laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances. Furthermore, a person who arranges for the disposal of a hazardous substance or transports a hazardous substance for disposal or treatment from property owned by another may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner s ability to sell the affected property or to borrow using the affected property as collateral. In connection with the ownership and operation of our properties, we, our operating partnership, or Ashford TRS may be potentially liable for any such costs. In addition, the value of any lodging property loan we originate or acquire would be adversely affected if the underlying property contained hazardous or toxic substances.

Phase I environmental assessments, which are intended to identify potential environmental contamination for which our properties may be responsible, have been obtained on substantially all of our properties. Phase I environmental assessments included:

- historical reviews of the properties;
- reviews of certain public records;

preliminary investigations of the sites and surrounding properties;

screening for the presence of hazardous substances, toxic substances, and underground storage tanks; and

the preparation and issuance of a written report.

Phase I environmental assessments did not include invasive procedures, such as soil sampling or ground water analysis. Phase I environmental assessments have not revealed any environmental liability that we believe would have a material adverse effect on our business, assets, results of operations, or liquidity, and we are not aware of any such liability. To the extent Phase I environmental assessments reveal facts that require further investigation, we would perform a Phase II environmental assessment. However, it is possible that these environmental assessments will not reveal all environmental liabilities. There may be material environmental liabilities of which we are unaware, including environmental liabilities that may have arisen since the environmental assessments were completed or updated. No assurances can be given that (i) future laws, ordinances, or regulations will not impose any material environmental liability, or (ii) the current environmental condition of our properties will not be affected by the condition of properties in the vicinity (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

We believe our properties are in compliance in all material respects with all federal, state, and local ordinances and regulations regarding hazardous or toxic substances and other environmental matters. Neither we nor, to our knowledge, any of the former owners of our properties have been notified by 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 properties.

INSURANCE

We maintain comprehensive insurance, including liability, property, workers compensation, rental loss, environmental, terrorism, and, when available on commercially reasonable terms, flood and earthquake insurance, with policy specifications, limits, and deductibles customarily carried for similar properties. Certain types of losses (for example, matters of a catastrophic nature such as acts of war or substantial known environmental liabilities) are either uninsurable or require substantial premiums that are not economically feasible to maintain. Certain types of losses, such as those arising from subsidence activity, are insurable only to the extent that certain standard policy exceptions to insurability are waived by agreement with the insurer. We believe, however, that our properties are adequately insured, consistent with industry standards.

FRANCHISE LICENSES

We believe that the public s perception of quality associated with a franchisor can be an important feature in the operation of a hotel. Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity, and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards, and centralized reservation systems.

As of December 31, 2011, we owned interests in 124 hotels, 120 of which operated under the following franchise licenses or brand management agreements:

Embassy Suites is a registered trademark of Hilton Hospitality, Inc.

Doubletree is a registered trademark of Hilton Hospitality, Inc.

Hilton is a registered trademark of Hilton Hospitality, Inc.

Hilton Garden Inn is a registered trademark of Hilton Hospitality, Inc.

Homewood Suites by Hilton is a registered trademark of Hilton Hospitality, Inc.

Hampton Inn is a registered trademark of Hilton Hospitality, Inc.

Marriott is a registered trademark of Marriott International, Inc.

SpringHill Suites is a registered trademark of Marriott International, Inc.

Residence Inn by Marriott is a registered trademark of Marriott International, Inc.

Courtyard by Marriott is a registered trademark of Marriott International, Inc.

Fairfield Inn by Marriott is a registered trademark of Marriott International, Inc.

TownePlace Suites is a registered trademark of Marriott International, Inc.

Renaissance is a registered trademark of Marriott International, Inc.

Ritz Carlton is a registered trademark of Marriott International, Inc.

Hyatt Regency is a registered trademark of Hyatt Corporation.

Sheraton is a registered trademark of Sheraton Hotels and Resorts, a division of Starwood Hotels and Resorts Worldwide, Inc.

Westin is a registered trademark of Westin Hotels and Resorts, a division of Starwood Hotels and Resorts Worldwide, Inc.

Crowne Plaza is a registered trademark of InterContinental Hotels Group.

One Ocean is a registered trademark of Remington Hotels LP.

Our management companies, including our affiliate Remington Lodging, must operate each hotel pursuant to the terms of the related franchise or brand management agreement, and must use their best efforts to maintain the right to operate each hotel pursuant to such terms. In the event of termination of a particular franchise or brand management agreement, our management companies must operate any affected hotels under another franchise or brand management agreement, if any, that we enter into. We anticipate that many of the additional hotels we acquire could be operated under franchise licenses or brand management agreements as well.

Our franchise licenses and brand management agreements generally specify certain management, operational, recordkeeping, accounting, reporting, and marketing standards and procedures with which the franchisee or brand operator must comply, including requirements related to:

- training of operational personnel;
- safety;
- maintaining specified insurance;

types of services and products ancillary to guestroom services that may be provided;

display of signage; and

type, quality, and age of furniture, fixtures, and equipment included in guestrooms, lobbies, and other common areas.

SEASONALITY

Our properties operations historically have been seasonal as certain properties maintain higher occupancy rates during the summer months and some during the winter months. This seasonality pattern can cause fluctuations in our quarterly lease revenue under our percentage leases. We anticipate that our cash flows from the operations of our properties will be sufficient to enable us to make quarterly distributions to maintain our REIT status. To the extent that cash flows from operations are insufficient during any quarter due to temporary or seasonal fluctuations in lease revenue, we expect to utilize other cash on hand or borrowings to fund required distributions. However, we cannot make any assurances that we will make distributions in the future.

ACCESS TO REPORTS AND OTHER INFORMATION

We maintain a website at www.ahtreit.com. On our website, we make available free-of-charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission. In addition, our Code of Business Conduct and Ethics, Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, Corporate Governance Guidelines, and Board Committee Charters are also available free-of-charge on our website or can be made available in print upon request.

All reports filed with the Securities and Exchange Commission may also be read and copied at the SEC s Public Reference Room at 100 F Street, N.E. Washington, DC 20549-1090. Further information regarding the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. In addition, all of our filed reports can be obtained at the SEC s website at www.sec.gov.

Item 1A. *Risk Factors*

RISKS RELATED TO OUR BUSINESS

The recent financial crisis and general economic slowdown, which began in late 2007, harmed the operating performance of the hotel industry generally. If these or similar events continue or occur again in the future, our operating and financial results may be harmed by declines in occupancy, average daily room rates and/or other operating revenues.

The performance of the lodging industry has traditionally been closely linked with the performance of the general economy and, specifically, growth in the U.S. gross domestic product. A majority of our hotels are classified as upscale and upper upscale. In an economic downturn, these types of hotels may be more susceptible to a decrease in revenue, as compared to hotels in other categories that have lower or higher room rates. This characteristic may result from the fact that upscale and upper upscale hotels generally target business and high-end leisure travelers. In periods of economic difficulties, business and leisure travelers may seek to reduce travel costs by limiting travel or seeking to reduce costs on their trips. Any economic recession will likely have an adverse effect on our business.

Failure of the lodging industry to exhibit sustained improvement or to improve as expected may adversely affect our ability to execute our business plan.

A substantial part of our business plan is based on our belief that the lodging markets in which we invest will experience improving economic fundamentals in the future. In particular, our business strategy is dependent on our expectation that key industry performance indicators, especially RevPAR, will continue to improve. There can be no assurance as to whether or to what extent, lodging industry fundamentals will continue to improve. In the event conditions in the industry do not sustain improvement or improve as we expect, or deteriorate, our ability to execute our business plan may be adversely affected.

We are subject to various risks related to our use of, and dependence on, debt.

As of December 31, 2011, we had aggregated borrowings of approximately $2.4 billion outstanding, including $517.7 million of variable interest rate debt. The interest we pay on variable-rate debt increases as interest rates increase, which may decrease cash available for distribution to shareholders. We are also subject to the risk that we may not be able to meet our debt service obligations or refinance our debt as it becomes due. If we do not meet our debt service obligations, we risk the loss of some or all of our assets to foreclosure. Changes in economic conditions or our financial results or prospects could (i) result in higher interest rates on variable-rate debt, (ii) reduce the availability of debt financing generally or debt financing at favorable rates, (iii) reduce cash available for distribution to shareholders, (iv) increase the risk that we could be forced to liquidate assets or repay debt, any of which could have a material adverse effect on us, and (v) create other hazardous situations for us.

Some of our debt agreements contain financial and other covenants. If we violate covenants in any debt agreements, including as a result of impairments of our hotel or mezzanine loan assets, 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 attractive terms, if at all. Violations of certain debt covenants may also prohibit us from borrowing unused amounts under our lines of credit, even if repayment of some or all the borrowings is not required. In any event, financial covenants under our current or future debt obligations could impair our planned business strategies by limiting our ability to borrow beyond certain amounts or for certain purposes. Our governing instruments do not contain any limitation on our ability to incur indebtedness.

We voluntarily elected to cease making payments on the mortgages securing three of our hotels during the recent economic down turn, and we may voluntarily elect to cease making payments on additional mortgages in the future, which could reduce the number of hotels we own as well as our revenues and could affect our ability to raise equity or debt financing in the future or violate covenants in our debt agreements.

During the recent economic crisis, we undertook a series of actions to manage the sources and uses of our funds in an effort to navigate through challenging market conditions while still pursuing opportunities to create long-term shareholder value. In this effort, we attempted to proactively address value and cash flow deficits among certain of our mortgaged hotels, with a goal of enhancing shareholder value through loan amendments, or in certain instances, consensual transfers of hotel properties to the lenders in satisfaction of the related debt, some of which resulted in impairment charges. The loans secured by these hotels, subject to certain customary exceptions, were non-recourse to us. We may continue to proactively address value and cash flow deficits in a similar manner as necessary and appropriate.

We had approximately $2.4 billion of mortgage debt outstanding as of December 31, 2011. We may face issues with these loans or with other loans or borrowings that we incur in the future, some of which issues may be beyond our control, including our ability to service payment obligations from the cash flow of the applicable hotel, or the inability to refinance existing debt at the applicable maturity date. In such event, we may elect to default on the applicable loan and, as a result, the lenders would have the right to exercise various remedies under the loan documents, which would include foreclosure on the applicable hotels. Any such defaults, whether voluntary or involuntary, could result in a default under our other debt agreements, could have an adverse effect on our ability to raise equity or debt capital, could increase the cost of such capital or could otherwise have an adverse effect on our business, results of operations or financial condition.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on a co-venturer s financial condition and disputes between us and our co-venturers.

We have in the past and may continue to co-invest with third parties through partnerships, joint ventures or other entities, acquiring controlling or non-controlling interests in, or sharing responsibility for, managing the affairs of a property, partnership, joint venture or other entity. In such event, we may not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, budgets, or financing, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or trustees from focusing their time and effort on our business. Consequently, actions by, or disputes with, partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers.

Our business strategy depends on our continued growth. We may fail to integrate recent and additional investments into our operations or otherwise manage our planned growth, which may adversely affect our operating results.

Our business plan contemplates a period of growth in the next several years. We cannot assure you that we will be able to adapt our management, administrative, accounting, and operational systems, or hire and retain sufficient operational staff to successfully integrate and manage any future acquisitions of additional assets without operating disruptions or unanticipated costs. Acquisitions of any additional portfolios of properties or mortgages would generate additional operating expenses that we will be required to pay. As we acquire additional assets, we will be subject to the operational risks associated with owning those assets. Our failure to successfully integrate any future acquisitions into our portfolio could have a material adverse effect on our results of operations and financial condition and our ability to pay dividends to shareholders.

We may be unable to identify additional investments that meet our investment criteria or to acquire the properties we have under contract.

We cannot assure you that we will be able to identify real estate investments that meet our investment criteria, that we will be successful in completing any investment we identify, or that any investment we complete will produce a return on our investment. Moreover, we have broad authority to invest in any real estate investments that we may identify in the future. We also cannot assure you that we will acquire properties we currently have under firm purchase contracts, if any, or that the acquisition terms we have negotiated will not change.

Conflicts of interest could result in our management acting other than in our shareholders best interest.

Conflicts of interest in general and specifically relating to Remington Lodging may lead to management decisions that are not in the shareholders best interest. The Chairman of our Board of Directors, Mr. Archie Bennett, Jr., serves as the Chairman of the Board of Directors of Remington Lodging, and our Chief Executive Officer, Mr. Monty J. Bennett, serves as the Chief Executive Officer of Remington Lodging. Messrs. Archie and Monty J. Bennett beneficially own 100% of Remington Lodging, which, as of December 31, 2011, managed 45 of our 96 legacy properties, 19 of the 28 PIM Highland JV hotel properties and the WorldQuest condominium properties; and provides related services, including property management services and project management services.

Messrs. Archie and Monty J. Bennett s ownership interests in and management obligations to Remington Lodging present them with conflicts of interest in making management decisions related to the commercial arrangements between us and Remington Lodging and reduce the time and effort they each spend managing Ashford. Our Board of Directors has adopted a policy that requires all material approvals, actions or decisions to which we have the right to make under the management agreements with Remington Lodging be approved by a majority or, in certain circumstances, all of our independent directors. However, given the authority and/or operational latitude to Remington Lodging under the management agreements to which we are a party, Messrs. Archie Bennett and Monty J. Bennett, as officers of Remington Lodging, could take actions or make decisions that are not in the shareholders best interest or that are otherwise inconsistent with their obligations under the management agreement or our obligations under the applicable franchise agreements.

Holders of units in our operating partnership, including members of our management team, may suffer adverse tax consequences upon our sale of certain properties. Therefore, holders of units, either directly or indirectly, including Messrs. Archie and Monty J. Bennett, Mr. David Brooks, our Chief Operating Officer and General Counsel, Mr. David Kimichik, our Chief Financial Officer, Mr. Mark Nunneley, our Chief Accounting Officer, and Mr. Martin L. Edelman (or his family members), one of our directors, may have different objectives regarding the appropriate pricing and timing of a particular property s sale. These officers and directors of ours may influence us to sell, not sell, or refinance certain properties, even if such actions or inactions might be financially advantageous to our shareholders, or to enter into tax deferred exchanges with the proceeds of such sales when such a reinvestment might not otherwise be in our best interest.

In addition, we have agreed to indemnify for a period of time contributors of properties contributed to us in exchange for operating partnership units, including (indirectly) Messrs. Archie and Monty J. Bennett, Brooks, Kimichik, Nunneley, and Edelman (or his family members), against the income tax they may incur if we dispose of the specified contributed properties. Because of this indemnification, our indemnified management team members may make decisions about selling any of these properties that are not in our shareholders best interest.

We are a party to a master hotel management agreement and an exclusivity agreement with Remington Lodging, which describes the terms of Remington Lodging s services to our hotels, as well as any future hotels we may acquire that may or may not be managed by Remington Lodging. If we terminate the management agreement as to any of the remaining four hotels we acquired in connection with our initial public offering, which are all subject to the management agreement, because we elect to sell those hotels, we will be required to pay Remington Lodging a substantial termination fee. Remington Lodging may agree to waive the termination fee if a replacement hotel is substituted but is under no contractual obligation to do so. The exclusivity agreement requires us to engage Remington Lodging, unless our independent directors either (i) unanimously vote to hire a different manager or developer, or (ii) by a majority vote, elect not to engage Remington Lodging because they have determined that special circumstances exist or that, based on Remington Lodging s prior performance, another manager or developer could perform the duties materially better. As the sole owners of Remington Lodging, which would receive any development, management, and management termination fees payable by us under the management agreement, Messrs. Archie and Monty J. Bennett may influence our decisions to sell, acquire, or develop hotels when it is not in the best interests of our shareholders to do so.

Tax indemnification obligations that apply in the event that we sell certain properties could limit our operating flexibility.

We have acquired certain of our properties in exchange transactions in which we issued units in our operating partnership in exchange for hotel properties. In certain of these transactions, we agreed to ongoing indemnification obligations in the event we sell or transfer the related property and in some instances in the event we refinance the related property. Accordingly, we may be obligated to indemnify the contributors, including Messrs. Archie and Monty J. Bennett whom have substantial ownership interests, against the tax consequences of the transaction.

In general, our tax indemnities will be equal to the amount of the federal, state, and local income tax liability the contributor or its specified assignee incurs with respect to the gain allocated to the contributor. The terms of the contribution agreements also generally require us to gross up tax indemnity payments for the amount of income taxes due as a result of the tax indemnity and this additional payment.

While the tax indemnities generally do not contractually limit our ability to conduct our business in the way we desire, we are less likely to sell any of the contributed properties for which we have agreed to the tax indemnities described above in a taxable transaction during the applicable indemnity period. Instead, we would likely either hold the property for the entire indemnity period or seek to transfer the property in a tax-deferred like-kind exchange. In addition, a condemnation of one of our properties could trigger our tax indemnification obligations.

Hotel franchise requirements could adversely affect distributions to our shareholders.

We must comply with operating standards, terms, and conditions imposed by the franchisors of the hotel brands under which our hotels operate. Franchisors periodically inspect their licensed hotels to confirm adherence to their operating standards. The failure of a hotel to maintain standards could result in the loss or cancellation of a franchise license. With respect to operational standards, we rely on our property managers to conform to such standards. Franchisors may also require us to make certain capital improvements to maintain the hotel in accordance with system standards, the cost of which can be substantial. It is possible that a franchisor could condition the continuation of a franchise based on the completion of capital improvements that our management or Board of Directors determines is too expensive or otherwise not economically feasible in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, our management or Board of Directors may elect to allow the franchise to lapse or be terminated, which could result in a termination charge as well as a change in brand franchising or operation of the hotel as an independent hotel.

In addition, when the term of a franchise expires, the franchisor has no obligation to issue a new franchise. The loss of a franchise could have a material adverse effect on the operations and/or the underlying value of the affected hotel because of the loss of associated name recognition, marketing support, and centralized reservation systems provided by the franchisor. The loss of a franchise could also have a material adverse effect on cash available for distribution to shareholders.

Our investments are concentrated in particular segments of a single industry.

Nearly all of our business is hotel related. Our current long-term investment strategy is to acquire or develop upscale to upper-upscale hotels, acquire first mortgages on hotel properties, invest in other mortgage-related instruments such as mezzanine loans to hotel owners and operators, and participate in hotel sale-leaseback transactions. Adverse conditions in the hotel industry will have a material adverse effect on our operating and investment revenues and cash available for distribution to our shareholders.

We rely on third party property managers, including Remington Lodging, to operate our hotels and for a significant majority of our cash flow.

For us to continue to qualify as a REIT, third parties must operate our hotels. A REIT may lease its hotels to taxable REIT subsidiaries in which the REIT can own up to a 100% interest. A taxable REIT subsidiary, or TRS, pays corporate-level income tax and may retain any after-tax income. A REIT must satisfy certain conditions to use the TRS structure. One of those conditions is that the TRS must hire, to manage the hotels, an eligible independent contractor (EIC) that is actively engaged in the trade or business of managing hotels for parties other than the REIT. An EIC cannot (i) own more than 35% of the REIT, (ii) be owned more than 35% by persons owning more than 35% of the REIT, or (iii) provide any income to the REIT (i.e., the EIC cannot pay fees to the REIT, and the REIT cannot own any debt or equity securities of the EIC).

Table of Contents

Accordingly, while we may lease hotels to a TRS that we own, the TRS must engage a third-party operator to manage the hotels. Thus, our ability to direct and control how our hotels are operated is less than if we were able to manage our hotels directly. We have entered into management agreements with Remington Lodging, which is owned 100% by Messrs. Archie and Monty J. Bennett, to manage 45 of our 96 legacy hotel properties, 19 of the 28 PIM Highland JV hotel properties, and the WorldQuest condominium properties as of December 31, 2011. We have hired unaffiliated third party property managers to manage our remaining properties. We do not supervise any of the property managers or their respective personnel on a day-to-day basis, and we cannot assure you that the property managers will manage our properties in a manner that is consistent with their respective obligations under the applicable management agreement or our obligations under our hotel franchise agreements. We also cannot assure you that our property managers will not be negligent in their performance, will not engage in criminal or fraudulent activity, or will not otherwise default on their respective management obligations to us. If any of the foregoing occurs, our relationships with the franchisors may be damaged, we may be in breach of the franchise agreement, and we could incur liabilities resulting from loss or injury to our property or to persons at our properties. Any of these circumstances could have a material adverse effect on our operating results and financial condition, as well as our ability to pay dividends to shareholders.

If we cannot obtain additional financing, our growth will be limited.

We are required to distribute to our shareholders at least 90% of our REIT taxable income, excluding net capital gains, each year to continue to qualify as a REIT. As a result, our retained earnings available to fund acquisitions, development, or other capital expenditures are nominal. As such, we rely upon the availability of additional debt or equity capital to fund these activities. Our long-term ability to grow through acquisitions or development of hotel-related assets will be limited if we cannot obtain additional financing. Market conditions may make it difficult to obtain financing, and we cannot assure you that we will be able to obtain additional debt or equity financing or that we will be able to obtain it on favorable terms. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements. In certain circumstances, if we are unable to obtain replacement refinancing or loan modifications, we could be forced to raise equity capital at inappropriate times, make unplanned asset sales or face foreclosure on our hotel properties.

We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay dividends to our shareholders. Currently, our credit facility limits us from paying dividends if we are in default under the credit facility, including by reason of failing to meet certain covenants .

As a REIT, we are required to distribute at least 90% of our REIT taxable income each year, excluding net capital gains, to our shareholders. Our ability to make distributions may be adversely affected by the risk factors described herein. We cannot assure you that we will be able to make distributions in the future. In the event of future downturns in our operating results and financial performance, unanticipated capital improvements to our hotels or declines in the value of our mortgage portfolio, we may be unable to declare or pay distributions to our shareholders to the extent required to maintain our REIT qualification. The timing and amount of such distributions will be in the sole discretion of our Board of Directors, which will consider, among other factors, our financial performance, and debt service obligations. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements. Currently, our credit facility limits us from paying dividends if we are in default under the credit facility, including by reason of failing to meet certain covenants.

We compete with other hotels for guests. We also face competition for acquisitions and sales of lodging properties and of desirable debt investments.

The hotel business is competitive. Our hotels compete on the basis of location, room rates, quality, service levels, amenities, reputation, and reservation systems, among many other factors. New hotels may be constructed

Table of Contents

and these additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms. The result in some cases may be lower revenue, which would result in lower cash available to meet debt service obligations, operating expenses, and requisite distributions to shareholders.

We compete for hotel acquisitions with entities that have similar investment objectives as we do. This competition could limit the number of suitable investment opportunities offered to us. It may also increase the bargaining power of property owners seeking to sell to us, making it more difficult for us to acquire new properties on attractive terms or on the terms contemplated in our business plan.

We also compete for mortgage asset investments with numerous public and private real estate investment vehicles, such as mortgage banks, pension funds, other REITs, institutional investors, and individuals. Mortgages and other investments are often obtained through a competitive bidding process. In addition, competitors may seek to establish relationships with the financial institutions and other firms from which we intend to purchase such assets. Competition may result in higher prices for mortgage assets, lower yields, and a narrower spread of yields over our borrowing costs.

Some of our competitors are larger than us, may have access to greater capital, marketing, and other resources, may have personnel with more experience than our officers, may be able to accept higher levels of debt or otherwise may tolerate more risk than us, may have better relations with hotel franchisors, sellers, or lenders, and may have other advantages over us in conducting certain business and providing certain services.

We compete to sell hotel properties. Availability of capital, the number of hotels available for sale and market conditions, all affect prices. We may not be able to sell hotel assets at our targeted price.

Future terrorist attacks similar in nature to the events of September 11, 2001 and other global issues such as the sovereign debt crisis in Europe and elsewhere as well as other Geo-political risks, may negatively affect the performance of our properties, the hotel industry in general, and our future results of operations and financial condition.

The terrorist attacks of September 11, 2001, their after-effects, and the resulting U.S.-led military action in Iraq substantially reduced business and leisure travel throughout the United States and hotel industry revenue per available room, or RevPAR, generally during the period following September 11, 2001. We cannot predict the extent to which additional terrorist attacks, acts of war, or similar events may occur in the future or how such events would directly or indirectly impact the hotel industry or our operating results.

Future terrorist attacks, acts of war, or similar events could have further material adverse effects on the hotel industry at large and our operations in particular.

We may not be able to sell any hotel properties we decide to sell on favorable terms.

We may decide to sell one or more of our hotel properties from time to time for a variety of reasons. We cannot assure you that we will be able to sell any of the properties we decide to sell on favorable terms or that any such properties will not be sold at a loss.

Table of Contents

RISKS RELATED TO HOTEL INVESTMENTS

We are subject to general risks associated with operating hotels.

Our hotels and hotels underlying our mortgage and mezzanine loans are subject to various operating risks common to the hotel industry, many of which are beyond our control, including the following:

- our hotels compete with other hotel properties in their geographic markets and many of our competitors have substantial marketing and financial resources;
- over-building in our markets, which adversely affects occupancy and revenues at our hotels;
- dependence on business and commercial travelers and tourism; and
- adverse effects of general, regional, and local economic conditions and increases in energy costs or labor costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists.

These factors could adversely affect our hotel revenues and expenses, as well as the hotels underlying our mortgage and mezzanine loans, which in turn would adversely affect our ability to make distributions to our shareholders.

We may have to make significant capital expenditures to maintain our lodging properties.

Our hotels have an ongoing need for renovations and other capital improvements, including replacements of furniture, fixtures, and equipment. Franchisors of our hotels may also require periodic capital improvements as a condition of maintaining franchise licenses. Generally, we are responsible for the cost of these capital improvements, which gives rise to the following risks:

- cost overruns and delays;
- renovations can be disruptive to operations and can displace revenue at the hotels, including revenue lost while rooms under renovation are out of service;
- the cost of funding renovations and the possibility that financing for these renovations may not be available on attractive terms; and
- the risk that the return on our investment in these capital improvements will not be what we expect.

If we have insufficient cash flow from operations to fund needed capital expenditures, then we will need to borrow or access equity to fund future capital improvements.

The hotel business is seasonal, which affects our results of operations from quarter to quarter.

The hotel industry is seasonal in nature. This seasonality can cause quarterly fluctuations in our revenues, EBITDA, profitability and shareholder dividend payments.

Our hotel investments may be subject to risks relating to potential terrorist activity.

During 2011, approximately 18.5% of our total hotel revenue was generated from 11 hotels located in the Washington D.C. and Baltimore areas, areas considered vulnerable to terrorist attack. Our financial and operating performance may be adversely affected by potential terrorist activity. Future terrorist activity may cause in the future, our results to differ materially from anticipated results. Other hotels we own may be subject to this risk as well.

Table of Contents

Our development activities may be more costly than we have anticipated.

As part of our long-term growth strategy, we may develop hotels. Hotel development involves substantial risks, including that:

- actual development costs may exceed our budgeted or contracted amounts;
- construction delays may prevent us from opening hotels on schedule;
- we may not be able to obtain all necessary zoning, land use, building, occupancy, and construction permits;
- our developed properties may not achieve our desired revenue or profit goals; and
- we may incur substantial development costs and then have to abandon a development project before completion.

RISKS RELATED TO DERIVATIVE TRANSACTIONS AND INVESTMENTS IN SECURITIES AND OTHER

We have engaged in and may continue to engage in derivative transactions, which can limit our gains and expose us to losses.

We have entered into and may continue to enter into hedging transactions to (i) attempt to take advantage of changes in prevailing interest rates, (ii) protect our portfolio of mortgage assets from interest rate fluctuations, (iii) protect us from the effects of interest rate fluctuations on floating-rate debt, (iv) protect us from the risk of fluctuations in the financial and capital markets, or (v) preserve net cash in the event of a major downturn in the economy. Our hedging transactions may include entering into interest rate swap agreements, interest rate cap or floor agreements or flooridor and corridor agreements, credit default swaps and purchasing or selling futures contracts, purchasing or selling put and call options on securities or securities underlying futures contracts, or entering into forward rate agreements. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition. No hedging activity can completely insulate us from the risks inherent in our business.

Credit default hedging could fail to protect us or adversely affect us because if a swap counterparty cannot perform under the terms of our credit default swap, we may not receive payments due under such agreement and, thus, we may lose any potential benefit associated with such credit default swap. Additionally, we may also risk the loss of any collateral we have pledged to secure our obligations under such credit default swaps if the counterparty becomes insolvent or files for bankruptcy.

Moreover, interest rate hedging could fail to protect us or adversely affect us because, among other things:

- available interest rate hedging may not correspond directly with the interest rate risk for which protections is sought;
- the duration of the hedge may not match the duration of the related liability;
- the party owing money in the hedging transaction may default on its obligation to pay;
- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;

Table of Contents

the value of derivatives used for hedging may be adjusted from time to time in accordance with generally accepted accounting rules to reflect changes in fair value; downward adjustments, or mark-to-market loss, would reduce our shareholders equity.

Hedging involves both risks and costs, including transaction costs, which may reduce our overall returns on our investments. These costs increase as the period covered by the hedging relationship increases and during periods of rising and volatile interest rates. These costs will also limit the amount of cash available for distributions to shareholders. We generally intend to hedge to the extent management determines it is in our best interest given the cost of such hedging transactions as compared to the potential economic returns or protections offered. The REIT qualification rules may limit our ability to enter into hedging transactions by requiring us to limit our income and assets from hedges. If we are unable to hedge effectively because of the REIT rules, we will face greater interest rate exposure than may be commercially prudent.

The assets associated with certain of our derivative transactions and investments in securities do not constitute qualified REIT assets and the related income will not constitute qualified REIT income. Significant fluctuations in the value of such assets or the related income could jeopardize our REIT status or result in additional tax liabilities.

We have entered into certain derivative transactions to protect against interest rate risks and credit default risks not specifically associated with debt incurred to acquire qualified REIT assets. The REIT provisions of the Internal Revenue Code limit our income and assets in each year from such derivative transactions. Failure to comply with the asset or income limitation within the REIT provisions of the Internal Revenue could result in penalty taxes or loss of our REIT status. If we elect to contribute the non-qualifying derivatives into a taxable REIT subsidiary to preserve our REIT status, such an action would result in any income from such transactions being subject to federal income taxation.

Our prior investment performance is not indicative of future results.

The performance of our prior investments is not necessarily indicative of the results that can be expected for the investments to be made by our newly-formed investment subsidiary. On any given investment, total loss of the investment is possible. Although our management team has experience and has had success in making investments in real estate-related lodging debt and hotel assets, the past performance of these investments is not necessarily indicative of the results of our future investments.

Our investment portfolio will contain investments concentrated in a single industry and will not be fully diversified.

Our investment subsidiary was formed for the purpose of acquiring public securities and other investments of lodging-related entities. As such, our investment portfolio will contain investments concentrated in a single industry and may not be fully diversified by asset class, geographic region or other criteria, which will expose us to significant loss due to concentration risk. Investors have no assurance that the degree of diversification in our investment portfolio will increase at any time in the future.

The values of our investments are affected by the credit and financial markets and, as such, may fluctuate.

The U.S. credit and financial markets have recently experienced severe dislocations and liquidity disruptions. The values of our investments are likely to be sensitive to the volatility of the credit and financial markets, and, to the extent that turmoil in the credit and financial markets continues or intensifies, such volatility has the potential to materially affect the value of our investment portfolio.

We are subject to the risk of default or insolvency by the hospitality entities underlying our investments.

The leveraged capital structure of the hospitality entities underlying our investments will increase their exposure to adverse economic factors (such as rising interest rates, competitive pressures, downturns in the economy or deterioration in the condition of the real estate company) and to the risk of unforeseen events. If an underlying entity cannot generate adequate cash flow to meet such entity s debt obligations (which may include leveraged obligations in excess of its aggregate assets), it may default on its loan agreements or be forced into bankruptcy. As a result, we may suffer a partial or total loss of the capital we have invested in the securities and other investments of such entity.

RISKS RELATED TO INVESTMENTS IN MORTGAGES AND MEZZANINE LOANS

If the underlying hotel properties supporting our mezzanine loan portfolio are unable to generate enough cash flows for the scheduled payments, there is a possibility that our remaining mezzanine loan portfolio could be written off in its entirety, which may adversely affect our operating results.

When we implemented our mezzanine loan investment strategy, we generally performed the underwriting stress test based on worst case scenarios similar to what the hotel industry experienced during the downturn following the events of September 11, 2001. However, the magnitude of the economic downturn that began in late 2007 far exceeded our underwriting sensitivity. As a result, we recorded impairment charges, net of subsequent valuation adjustments, with respect to our mezzanine loan portfolio of approximately \$28.1 million and \$148.7 million in 2010 and 2009, respectively. The impairment charges for 2010 included \$21.6 million for our mezzanine loan investment in a joint venture. In 2011, we recorded a credit to impairment charges of \$4.8 million for valuation adjustments. We may record additional impairment charges to this portfolio equal to as much as the remaining balance of our mezzanine loan of \$3.1 million as of December 31, 2011. Due to the valuation allowance recorded on these loans, we do not expect to recognize any interest income in the future on these investments.

Debt investments that are not United States government insured involve risk of loss.

As part of our business strategy, we may originate or acquire lodging-related uninsured and mortgage assets, including mezzanine loans. While holding these interests, we are subject to risks of borrower defaults, bankruptcies, fraud and related losses, and special hazard losses that are not covered by standard hazard insurance. Also, costs of financing the mortgage loans could exceed returns on the mortgage loans. In the event of any default under mortgage loans held by us, we will bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the mortgage loan. We suffered significant impairment charges with respect to our investments in mortgage loans in 2009 and 2010, and a credit of \$4.8 million to impairment charges in 2011. We may incur similar losses in the future for the remaining mezzanine loan of \$3.1 million at December 31, 2011. The value and the price of our securities may be adversely affected.

We invest in non-recourse loans, which will limit our recovery to the value of the mortgaged property.

Our mortgage and mezzanine loan assets have typically been non-recourse. With respect to non-recourse mortgage loan assets, in the event of a borrower default, the specific mortgaged property and other assets, if any, pledged to secure the relevant mortgage loan, may be less than the amount owed under the mortgage loan. As to those mortgage loan assets that provide for recourse against the borrower and its assets generally, we cannot assure you that the recourse will provide a recovery in respect of a defaulted mortgage loan greater than the liquidation value of the mortgaged property securing that mortgage loan.

Investment yields affect our decision whether to originate or purchase investments and the price offered for such investments.

In making any investment, we consider the expected yield of the investment and the factors that may influence the yield actually obtained on such investment. These considerations affect our decision whether to originate or purchase an investment and the price offered for that investment. No assurances can be given that we can make an accurate assessment of the yield to be produced by an investment. Many factors beyond our control are likely to influence the yield on the investments, including, but not limited to, competitive conditions in the local real estate market, local and general economic conditions, and the quality of management of the underlying property. Our inability to accurately assess investment yields may result in our purchasing assets that do not perform as well as expected, which may adversely affect the price of our securities.

Volatility of values of mortgaged properties may adversely affect our mortgage loans.

Lodging property values and net operating income derived from lodging properties are subject to volatility and may be affected adversely by a number of factors, including the risk factors described herein relating to general economic conditions, operating lodging properties, and owning real estate investments. In the event its net operating income decreases, a borrower may have difficulty paying our mortgage loan, which could result in losses to us. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our mortgage loans, which could also cause us to suffer losses.

Mezzanine loans involve greater risks of loss than senior loans secured by income-producing properties.

We may continue to make and acquire mezzanine loans. These types of loans are considered to involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property due to a variety of factors, including the loan being entirely unsecured or, if secured, becoming unsecured as a result of foreclosure by the senior lender. We may not recover some or all of our investment in these loans. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans resulting in less equity in the property and increasing the risk of loss of principal.

RISKS RELATED TO THE REAL ESTATE INDUSTRY

Mortgage debt obligations expose us to increased risk of property losses, which could harm our financial condition, cash flow, and ability to satisfy our other debt obligations and pay dividends.

Incurring mortgage debt increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. For tax purposes, a foreclosure of any of our properties 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 the foreclosure but would not receive any cash proceeds. As a result, we may be required to identify and utilize other sources of cash for distributions to our shareholders of that income.

In addition, our default under any one of our mortgage debt obligations may result in a default on our other indebtedness. If this occurs, our financial condition, cash flow, and ability to satisfy our other debt obligations or ability to pay dividends may be impaired.

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

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties or mortgage loans in our portfolio in response to changing economic, financial, and investment conditions is limited.

The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in national and local economic and market conditions;
- changes in interest rates and in the availability, cost, and terms of debt financing;

Table of Contents

- changes in governmental laws and regulations, fiscal policies, and zoning and other ordinances, and costs of compliance with laws and regulations;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of war, and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

We cannot predict whether we will be able to sell any property or loan for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property or loan. Because we intend to offer more flexible terms on our mortgage loans than some providers of commercial mortgage loans, we may have more difficulty selling or participating our loans to secondary purchasers than would these more traditional lenders.

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

The costs of compliance with or liabilities under environmental laws may harm our operating results.

Our properties and properties underlying our loan assets may be subject to environmental liabilities. An owner of real property, or a lender with respect to a property that exercises control over the property, can face liability for environmental contamination created by the presence or discharge of hazardous substances on the property. 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.

There may be environmental problems associated with our properties or properties underlying our loan assets of which we are unaware. Some of our properties or the properties underlying our loan assets use, or may have used in the past, underground tanks for the storage of petroleum-based or waste products that could create a potential for release of hazardous substances. If environmental contamination exists on a property, we could become subject to strict, joint and several liabilities for the contamination if we own the property or if we foreclose on the property or otherwise have control over the property.

The presence of hazardous substances on a property we own or have made a loan with respect to may adversely affect our ability to sell or foreclose on the property, and we may incur substantial remediation costs. The discovery of environmental liabilities attached to our properties or properties underlying our loan assets could have a material adverse effect on our results of operations, financial condition, and ability to pay dividends to shareholders.

26

We generally have environmental insurance policies on each of our owned properties, and we intend to obtain environmental insurance for any other properties that we may acquire. However, if environmental liabilities are discovered during the underwriting of the insurance policies for any property that we may acquire in the future, we may be unable to obtain insurance coverage for the liabilities at commercially reasonable rates or at all, and we may experience losses. In addition, we generally do not require our borrowers to obtain environmental insurance on the properties they own that secure their loans from us.

Our properties and the properties underlying our mortgage loans 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 or other reactions. As a result, the presence of significant mold at any of our properties or the properties underlying our loan assets could require us or our borrowers to undertake a costly remediation program to contain or remove the mold from the affected property. In addition, the presence of significant mold could expose us or our borrowers to liability from guests, employees, and others if property damage or health concerns arise.

Compliance with the Americans with Disabilities Act and fire, safety, and other regulations may require us or our borrowers to make unintended expenditures that adversely impact our operating results.

All of our properties and properties underlying our mortgage loans are required to comply with the Americans with Disabilities Act, or the ADA. The ADA requires that public accommodations such as hotels be made accessible to people with disabilities. Compliance with the ADA requirements could require removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants, or both. We or our borrowers may be required to expend funds to comply with the provisions of the ADA at our hotels or hotels underlying our loan assets, which could adversely affect our results of operations and financial condition and our ability to make distributions to shareholders. In addition, we and our borrowers are required to operate our properties in compliance with fire and safety regulations, building codes, and other land use regulations as they may be adopted by governmental agencies and bodies and become applicable to our properties. We and our borrowers may be required to make substantial capital expenditures to comply with those requirements, and these expenditures could have a material adverse effect on our operating results and financial condition as well as our ability to pay dividends to shareholders.

We may experience uninsured or underinsured losses.

We have property and casualty insurance with respect to our properties and other insurance, in each case, with loss limits and coverage thresholds deemed reasonable by our management (and with the intent to satisfy the requirements of lenders and franchisors). In doing so, we have made decisions with respect to what deductibles, policy limits, and terms are reasonable based on management s experience, our risk profile, the loss history of our property managers and our properties, the nature of our properties and our businesses, our loss prevention efforts, and the cost of insurance.

Various types of catastrophic losses may not be insurable or may not be economically insurable. In the event of a substantial loss, our insurance coverage may not cover the full current market value or replacement cost of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations, and other factors might cause insurance proceeds to be insufficient to fully replace or renovate a hotel after it has been damaged or destroyed. Accordingly, there can be no assurance that (i) the insurance coverage thresholds that we have obtained will fully protect us against insurable losses (i.e., losses may exceed coverage limits); (ii) we will not incur large deductibles that will adversely affect our earnings; (iii) we will not incur losses from risks that are not insurable or that are not economically insurable; or (iv) current coverage thresholds will continue to be available at reasonable rates. In the future, we may choose not to maintain terrorism insurance on any of our properties. As a result, one or more large uninsured or underinsured losses could have a material adverse affect on us.

Each of our current lenders requires us to maintain certain insurance coverage thresholds, and we anticipate that future lenders will have similar requirements. We believe that we have complied with the insurance maintenance requirements under the current governing loan documents and we intend to comply with any such requirements in any future loan documents. However, a lender may disagree, in which case the lender could obtain additional coverage thresholds and seek payment from us, or declare us in default under the loan documents. In the former case, we could spend more for insurance than we otherwise deem reasonable or necessary or, in the latter case, subject us to a foreclosure on hotels collateralizing one or more loans. In addition, a material casualty to one or more hotels collateralizing loans may result in (i) the insurance company applying to the outstanding loan balance insurance proceeds that otherwise would be available to repair the damage caused by the casualty, which would require us to fund the repairs through other sources, or (ii) the lender foreclosing on the hotels if there is a material loss that is not insured.

RISKS RELATED TO OUR STATUS AS A REIT

If we do not qualify as a REIT, we will be subject to tax as a regular corporation and could face substantial tax liability.

We conduct operations so as to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only a limited number of judicial or administrative interpretations exist. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, new tax legislation, administrative guidance, or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which, among other things, means being unable to deduct distributions to shareholders in computing taxable income and being subject to federal income tax on our taxable income at regular corporate rates;

- we would also be subject to federal alternative minimum tax and, possibly, increased state and local taxes;

- any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to shareholders; and

- unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year that we lost our qualification, and, thus, our cash available for distribution to shareholders could be reduced for each of the years during which we did not qualify as a REIT.

If we fail to qualify as a REIT, we will not be required to make distributions to shareholders to maintain our tax status. As a result of all of these factors, our failure to qualify as a REIT could impair our ability to raise capital, expand our business, and make distributions to our shareholders and could adversely affect the value of our securities.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state, and local taxes on our income and assets. For example:

- We will be required to pay tax on undistributed REIT taxable income.

Table of Contents

We may be required to pay the alternative minimum tax on our items of tax preference.

If we have net income from the disposition of foreclosure property held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay tax on that income at the highest corporate rate.

If we sell a property in a prohibited transaction, our gain from the sale would be subject to a 100% penalty tax.

Our taxable REIT subsidiary, Ashford TRS, is a fully taxable corporation and will be required to pay federal and state taxes on its income.

We may continue to experience increases in our state and local income tax burden. Over the past several years, certain states have significantly changed their income tax regimes in order to raise revenues. The changes enacted that have increased our state and local income tax burden include the taxation of modified gross receipts (as opposed to net taxable income), the suspension of and/or limitation on the use of net operating loss deduction, increases in tax rates and fees, the addition of surcharges, and the taxation of our partnership income at the entity level. Facing mounting budget deficits, more state and local taxing authorities have indicated that they are going to revise their income tax regimes in this fashion and/or eliminate certain federally allowed tax deductions such as the REIT dividends paid deduction.

We may be subject to taxes in the event our leases are held not to be on an arm s-length basis.

In the event that leases between us and our taxable REIT subsidiaries are held not to be on an arm s-length basis, we or our taxable REIT subsidiaries could be subject to taxes, and adjustments to the rents could cause us to fail to meet certain REIT income tests. In determining amounts payable by our taxable REIT subsidiaries under our leases, we engaged a third party to prepare a transfer pricing study to ascertain whether the lease terms we established were on an arm s-length basis. The transfer pricing study concluded that the lease terms were consistent with arm s-length terms as required by applicable Treasury Regulations. In 2010, the Internal Revenue Service, or the IRS, audited a taxable REIT subsidiary of ours that leases two of our hotel properties, and issued a notice of proposed adjustment that reduced the amount of rent we charged to the taxable REIT subsidiary. We own a 75% interest in the hotel properties and the taxable REIT subsidiary at issue. We disagree with the IRS position, and have filed a written protest with the IRS and requested an IRS Appeals Office Conference. If the IRS prevails in its proposed adjustment, however, our taxable REIT subsidiary would owe approximately $1.1 million of additional U.S. federal income taxes plus possible additional state income taxes, or we could be subject to a 100% excise tax on our share of the amount by which the rent is held to be greater than the arm s-length rate. In addition, if the IRS were to successfully challenge the terms of our leases with any of our taxable REIT subsidiaries for 2007 and later years, we or our taxable REIT subsidiaries could owe additional taxes and we could be required to pay penalty taxes if the effect of such challenges were to cause us to fail to meet certain REIT income tests, which could materially adversely affect us and the value of our securities.

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

To qualify 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 shareholders, and the ownership of our stock. We may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Internal Revenue Code may limit our ability to hedge mortgage securities and related borrowings by requiring us to limit our income and assets in each year from certain hedges, together with any other income not generated from qualified real estate assets, to no more than 25% of our gross income. In addition, we must limit our aggregate income from nonqualified hedging transactions, from our provision of services, and from other non-qualifying sources to no more than 5% of our annual gross income. As a result, we may have to limit our use of advantageous hedging techniques. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur. However, for transactions occurring after July 30, 2008 that we enter into to protect against interest rate risks on debt incurred to acquire qualified REIT assets and for which we identify as hedges for tax purposes, any associated hedging income is excluded from the 95% income test and the 75% income test applicable to a REIT. If we were to violate the 25% or 5% limitations, we may have to pay a penalty tax equal to the amount of income in excess of those limitations multiplied by a fraction intended to reflect our profitability. If we fail to satisfy the REIT gross income tests, unless our failure was due to reasonable cause and not due to willful neglect, we could lose our REIT status for federal income tax purposes.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT, we must also ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities, and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffer adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

Complying with REIT requirements may force us to borrow to make distributions to shareholders.

As a REIT, we must distribute at least 90% of our annual REIT taxable income, excluding net capital gains, (subject to certain adjustments) to our shareholders. To the extent that we satisfy the 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 shareholders in a calendar year is less than a minimum amount specified under federal tax laws.

From time to time, we may generate taxable income greater than our net income for financial reporting purposes or our taxable income may be greater than our cash flow available for distribution to shareholders. If we do not have other funds available in these situations, we could be required to borrow funds, sell investments at disadvantageous prices, or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements.

We may in the future choose to pay dividends in our common shares instead of cash, in which case shareholders may be required to pay income taxes in excess of the cash dividends they receive.

Although we have no current intention to do so, we may, in the future, distribute taxable dividends that are payable in cash and common shares at the election of each shareholder. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, shareholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. shareholder sells the common shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common shares. In addition, if a significant number of our shareholders determine to sell common shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common shares.

It is unclear whether and to what extent we will be able to pay taxable dividends in cash and common shares in later years. Moreover, various aspects of such a taxable cash/share dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/share dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/share dividends have not been met.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our securities.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or our shareholders. Effective for taxable years beginning after December 31, 2002, the Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced the maximum rate of tax applicable to individuals on dividend income from regular C corporations from 38.6% to 15.0%. This reduced substantially the so-called double taxation (that is, taxation at both the corporate and shareholder levels) that has generally applied to corporations that are not taxed as REITs. Generally, dividends from REITs will not qualify for the dividend tax reduction. The implementation of this tax Act could ultimately cause individual investors to view stocks of non-REIT corporations as more attractive relative to shares of REITs because the dividends paid by non-REIT corporations would be subject to lower tax rates. We cannot predict whether in fact this will occur or whether, if it occurs, what the impact will be on the value of our securities. Unless extended, the provision allowing for reduction in the tax rate on dividend income from regular C corporations is scheduled to expire after December 31, 2012.

Your investment in our securities has various federal, state, and local income tax risks that could affect the value of your investment.

Although the provisions of the Internal Revenue Code relevant to your investment in our securities are generally described in Federal Income Tax Consequences of Our Status as a REIT, we strongly urge you to consult your own tax advisor concerning the effects of federal, state, and local income tax law on an investment in our securities because of the complex nature of the tax rules applicable to REITs and their shareholders.

RISKS RELATED TO OUR CORPORATE STRUCTURE

There are no assurances of our ability to make distributions in the future.

In February 2011, the Board of Directors accepted management s recommendation to resume paying cash dividends on our outstanding shares of common stock with an annualized target of $0.40 per share for 2011. For the year ended December 31, 2011, we have declared dividends of $0.40 per share. In December 2011, the Board of Directors approved our dividend policy for 2012 and we expect to pay a quarterly dividend of $0.11 per share for 2012. However, our ability to pay dividends may be adversely affected by the risk factors described herein. All distributions will be made at the discretion of our Board of Directors and will depend upon our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future. In addition, some of our distributions may include a return of capital.

Failure to maintain an exemption from the Investment Company Act would adversely affect our results of operations.

We believe that we will conduct our business in a manner that allows us to avoid registration as an investment company under the Investment Company Act of 1940, or the 1940 Act. Under Section 3(c)(5)(C) of the 1940 Act, entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate are not treated as investment companies. The SEC staff s position generally requires us to maintain at least 55% of our assets directly in qualifying real estate interests to be able to rely on this exemption. To constitute a qualifying real estate interest under this 55% requirement, a real estate interest must meet various criteria. Mortgage securities that do not represent all of the certificates issued with respect to an underlying pool of mortgages may be treated as securities separate from the underlying mortgage loans and, thus, may not qualify for purposes of the 55% requirement. Our ownership of these mortgage securities, therefore, is limited by the provisions of the 1940 Act and SEC staff interpretive positions. There are no assurances that efforts to pursue our intended investment program will not be adversely affected by operation of these rules.

Our charter does not permit ownership in excess of 9.8% of our capital stock, and attempts to acquire our capital stock in excess of the 9.8% limit without approval from our Board of Directors are void.

For the purpose of preserving our REIT qualification, our charter prohibits direct or constructive ownership by any person of more than 9.8% of the lesser of the total number or value of the outstanding shares of our common stock or more than 9.8% of the lesser of the total number or value of the outstanding shares of our preferred stock unless our Board of Directors grants a waiver. Our charter s constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding stock, and thus be subject to our charter s ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of the Board of Directors will be void, and could result in the shares being automatically transferred to a charitable trust.

Because provisions contained in Maryland law and our charter may have an anti-takeover effect, investors may be prevented from receiving a control premium for their shares.

Provisions contained in our charter and Maryland general corporation law may have effects that delay, defer, or prevent a takeover attempt, which may prevent shareholders from receiving a control premium for their shares. For example, these provisions may defer or prevent tender offers for our common stock or purchases of large blocks of our common stock, thereby limiting the opportunities for our shareholders to receive a premium for their common stock over then-prevailing market prices. These provisions include the following:

Ownership limit: The ownership limit in our charter limits related investors, including, among other things, any voting group, from acquiring over 9.8% of our common stock without our permission.

Classification of preferred stock: Our charter authorizes our Board of Directors to issue preferred stock in one or more classes and to establish the preferences and rights of any class of preferred stock issued. These actions can be taken without soliciting shareholder approval. Our preferred stock issuances could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our shareholders best interests.

Table of Contents

Maryland statutory law provides that an act of a director relating to or affecting an acquisition or a potential acquisition of control of a corporation may not be subject to a higher duty or greater scrutiny than is applied to any other act of a director. Hence, directors of a Maryland corporation are not required to act in takeover situations under the same standards as apply in Delaware and other corporate jurisdictions.

Offerings of debt securities, which would be senior to our common stock and any preferred stock upon liquidation, or equity securities, which would dilute our existing shareholders holdings could be senior to our common stock for the purposes of dividend distributions, may adversely affect the market price of our common stock and any preferred stock.

We may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, convertible securities, and classes of preferred stock or common stock or classes of preferred units. Upon liquidation, holders of our debt securities or preferred units and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of shares of preferred stock or common stock. Furthermore, holders of our debt securities and preferred stock or preferred units and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common or preferred stock or both. Our preferred stock or preferred units could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend 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 shareholders bear the risk of our future offerings reducing the market price of our securities and diluting their securities holdings in us.

Securities eligible for future sale may have adverse effects on the market price of our securities.

We cannot predict the effect, if any, of future sales of securities, or the availability of securities for future sales, on the market price of our outstanding securities. Sales of substantial amounts of common stock, or the perception that these sales could occur, may adversely affect prevailing market prices for our securities.

We also may issue from time to time additional securities or units of our operating partnership in connection with the acquisition of properties and we may grant additional demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of our securities or the perception that such sales could occur may adversely affect the prevailing market price for our securities or may impair our ability to raise capital through a sale of additional debt or equity securities.

We depend on key personnel with long-standing business relationships. The loss of key personnel could threaten our ability to operate our business successfully.

Our future success depends, to a significant extent, upon the continued services of our management team. In particular, the lodging industry experience of Messrs. Monty J. Bennett, Kessler, Brooks, Kimichik, and Nunneley and the extent and nature of the relationships they have developed with hotel franchisors, operators, and owners and hotel lending and other financial institutions are critically important to the success of our business. We do not maintain key person life insurance on any of our officers other than in connection with our deferred compensation plan. Although these officers currently have employment agreements with us, we cannot assure their continued employment. The loss of services of one or more members of our corporate management team could harm our business and our prospects.

An increase in market interest rates may have an adverse effect on the market price of our securities.

A factor investors may consider in deciding whether to buy or sell our securities is our dividend rate as a percentage of our share or unit price relative to market interest rates. If market interest rates increase, prospective investors may desire a higher dividend or interest rate on our securities or seek securities paying higher dividends or interest. The market price of our securities is likely based on the earnings and return that we derive from our investments, income with respect to our properties, and our related distributions to shareholders and not from the market value or underlying appraised value of the properties or investments themselves. As a result, interest rate fluctuations and capital market conditions can affect the market price of our securities. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common or preferred stock could decrease because potential investors may require a higher dividend yield on our common or preferred stock as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay dividends.

Our major policies, including our policies and practices with respect to investments, financing, growth, debt capitalization, and REIT qualification and distributions, are determined by our Board of Directors. Although we have no present intention to do so, our Board of Directors may amend or revise these and other policies from time to time without a vote of our shareholders. Accordingly, our shareholders will have limited control over changes in our policies and the changes could harm our business, results of operations, and share price.

Changes in our strategy or investment or leverage policy could expose us to greater credit risk and interest rate risk or could result in a more leveraged balance sheet. We cannot predict the effect any changes to our current operating policies and strategies may have on our business, operating results, and stock price. However, the effects may be adverse.

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

None.

Table of Contents

Item 2. ***Properties***

OFFICES. We lease our headquarters located at 14185 Dallas Parkway, Suite 1100, Dallas, Texas 75254.

HOTEL PROPERTIES. As of December 31, 2011, we had ownership interests in 96 hotel properties that were included in our consolidated operations, which included direct ownership in 92 hotel properties and between 75%-85% ownership in four hotel properties through equity investments with joint venture partners. Currently, all of our hotel properties are located in the United States. The following table presents certain information related to our hotel properties.

Hotel Property	Location	Service Type	Total Rooms	% Owned	Owned Rooms	Year Ended December 31, 2011 Occupancy	ADR	RevPAR
Fee Simple Properties								
Embassy Suites	Austin, TX	Full	150	100%	150	75.77%	$ 137.34	$ 104.06
Embassy Suites	Dallas, TX	Full	150	100%	150	68.57%	$ 113.08	$ 77.54
Embassy Suites	Herndon, VA	Full	150	100%	150	75.42%	$ 156.30	$ 117.88
Embassy Suites	Las Vegas, NV	Full	220	100%	220	78.85%	$ 116.75	$ 92.06
Embassy Suites	Syracuse, NY	Full	215	100%	215	77.35%	$ 114.05	$ 88.21
Embassy Suites	Flagstaff, AZ	Full	119	100%	119	80.96%	$ 117.63	$ 95.23
Embassy Suites	Houston, TX	Full	150	100%	150	79.84%	$ 148.60	$ 118.65
Embassy Suites	West Palm Beach, FL	Full	160	100%	160	74.67%	$ 112.18	$ 83.77
Embassy Suites	Philadelphia, PA	Full	263	100%	263	75.38%	$ 135.55	$ 102.17
Embassy Suites	Walnut Creek, CA	Full	249	100%	249	79.29%	$ 120.54	$ 95.58
Embassy Suites	Arlington, VA	Full	267	100%	267	77.93%	$ 193.10	$ 150.48
Embassy Suites	Portland, OR	Full	276	100%	276	81.07%	$ 154.82	$ 125.51
Embassy Suites	Santa Clara, CA	Full	257	100%	257	77.76%	$ 152.89	$ 118.89
Embassy Suites	Orlando, FL	Full	174	100%	174	77.67%	$ 123.79	$ 96.16
Hilton Garden Inn	Jacksonville, FL	Select service	119	100%	119	63.23%	$ 102.47	$ 64.79
Hilton	Houston, TX	Full	243	100%	243	64.32%	$ 108.88	$ 70.03
Hilton	St. Petersburg, FL	Full	333	100%	333	68.34%	$ 111.08	$ 75.91
Hilton	Santa Fe, NM	Full	157	100%	157	71.82%	$ 131.85	$ 94.70
Hilton	Bloomington, MN	Full	300	100%	300	81.79%	$ 117.30	$ 95.94
Hilton	Washington DC	Full	544	75%	408	82.23%	$ 212.17	$ 174.46
Hilton	Costa Mesa, CA	Full	486	100%	486	75.69%	$ 113.15	$ 85.64
Hilton	Tucson, AZ	Full	428	100%	428	55.01%	$ 119.64	$ 65.82
Homewood Suites	Mobile, AL	Select service	86	100%	86	78.46%	$ 110.60	$ 86.78
Hampton Inn	Lawrenceville, GA	Select service	86	100%	86	58.18%	$ 89.18	$ 51.88
Hampton Inn	Evansville, IN	Select service	141	100%	141	70.86%	$ 99.47	$ 70.49
Hampton Inn	Terre Haute, IN	Select service	112	100%	112	71.73%	$ 86.51	$ 62.06
Hampton Inn	Buford, GA	Select service	92	100%	92	68.02%	$ 105.51	$ 71.77
Marriott	Durham, NC	Full	225	100%	225	60.07%	$ 137.78	$ 82.77
Marriott	Arlington, VA	Full	697	100%	697	73.71%	$ 186.69	$ 137.60
Marriott	Seattle, WA	Full	358	100%	358	74.84%	$ 189.63	$ 141.92
Marriott	Bridgewater, NJ	Full	347	100%	347	67.53%	$ 177.11	$ 119.60
Marriott	Plano, TX	Full	404	100%	404	63.20%	$ 160.48	$ 101.42
Marriott	Dallas, TX	Full	266	100%	266	67.66%	$ 122.48	$ 82.87
SpringHill Suites by Marriott	Jacksonville, FL	Select service	102	100%	102	68.99%	$ 83.69	$ 57.53
SpringHill Suites by Marriott	Baltimore, MD	Select service	133	100%	133	80.30%	$ 113.13	$ 90.84
SpringHill Suites by Marriott	Kennesaw, GA	Select service	90	100%	90	65.19%	$ 96.35	$ 62.81
SpringHill Suites by Marriott	Buford, GA	Select service	96	100%	96	69.63%	$ 91.71	$ 63.85
SpringHill Suites by Marriott	Gaithersburg, MD	Select service	162	100%	162	61.40%	$ 115.45	$ 70.88
SpringHill Suites by Marriott	Centreville, VA	Select service	136	100%	136	68.24%	$ 89.53	$ 61.10
SpringHill Suites by Marriott	Charlotte, NC	Select service	136	100%	136	56.62%	$ 91.79	$ 51.97
SpringHill Suites by Marriott	Durham, NC	Select service	120	100%	120	65.71%	$ 81.95	$ 53.78
SpringHill Suites by Marriott	Orlando, FL	Select service	400	100%	400	71.26%	$ 88.94	$ 63.38
SpringHill Suites by Marriott	Manhattan Beach, CA	Select service	164	100%	164	79.87%	$ 107.58	$ 85.92
SpringHill Suites by Marriott	Plymouth Meeting, PA	Select service	199	100%	199	61.53%	$ 116.69	$ 71.80

Table of Contents

Hotel Property	Location	Service Type	Total Rooms	% Owned	Owned Rooms	Year Ended December 31, 2011 Occupancy	ADR	RevPAR
SpringHill Suites by Marriott	Glen Allen, VA	Select service	136	100%	136	48.20%	$ 84.70	$ 40.82
Fairfield Inn by Marriott	Kennesaw, GA	Select service	87	100%	87	61.53%	$ 80.91	$ 49.78
Fairfield Inn by Marriott	Orlando, FL	Select service	388	100%	388	77.89%	$ 73.71	$ 57.41
Courtyard by Marriott	Bloomington, IN	Select service	117	100%	117	71.66%	$ 118.67	$ 85.04
Courtyard by Marriott	Columbus, IN	Select service	90	100%	90	69.53%	$ 84.94	$ 59.06
Courtyard by Marriott	Louisville, KY	Select service	150	100%	150	61.03%	$ 125.16	$ 76.39
Courtyard by Marriott	Crystal City, VA	Select service	272	100%	272	70.25%	$ 151.75	$ 106.61
Courtyard by Marriott	Ft. Lauderdale, FL	Select service	174	100%	174	68.54%	$ 95.36	$ 65.36
Courtyard by Marriott	Overland Park, KS	Select service	168	100%	168	58.54%	$ 90.51	$ 52.99
Courtyard by Marriott	Palm Desert, CA	Select service	151	100%	151	53.87%	$ 94.87	$ 51.11
Courtyard by Marriott	Foothill Ranch, CA	Select service	156	100%	156	70.06%	$ 101.32	$ 70.98
Courtyard by Marriott	Alpharetta, GA	Select service	154	100%	154	68.61%	$ 90.77	$ 62.28
Courtyard by Marriott	Philadelphia, PA	Select service	498	100%	498	78.10%	$ 147.17	$ 114.92
Courtyard by Marriott	Seattle, WA	Select service	250	100%	250	69.87%	$ 139.81	$ 97.68
Courtyard by Marriott	San Francisco, CA	Select service	405	100%	405	85.98%	$ 183.21	$ 157.52
Courtyard by Marriott	Orlando, FL	Select service	312	100%	312	71.69%	$ 90.41	$ 64.82
Courtyard by Marriott	Oakland, CA	Select service	156	100%	156	73.36%	$ 102.31	$ 75.06
Courtyard by Marriott	Scottsdale, AZ	Select service	180	100%	180	71.36%	$ 84.88	$ 60.57
Courtyard by Marriott	Plano, TX	Select service	153	100%	153	67.05%	$ 111.93	$ 75.05
Courtyard by Marriott	Edison, NJ	Select service	146	100%	146	70.72%	$ 102.34	$ 72.38
Courtyard by Marriott	Newark, CA	Select service	181	100%	181	70.91%	$ 86.27	$ 61.17
Courtyard by Marriott	Manchester, CT	Select service	90	85%	77	71.74%	$ 103.78	$ 73.83
Courtyard by Marriott	Basking Ridge, NJ	Select service	235	100%	235	68.02%	$ 154.45	$ 105.06
Marriott Residence Inn	Lake Buena Vista, FL	Select service	210	100%	210	80.62%	$ 118.29	$ 95.36
Marriott Residence Inn	Evansville, IN	Select service	78	100%	78	79.62%	$ 116.58	$ 92.83
Marriott Residence Inn	Orlando, FL	Select service	350	100%	350	75.49%	$ 104.66	$ 79.01
Marriott Residence Inn	Falls Church, VA	Select service	159	100%	159	80.42%	$ 148.14	$ 119.14
Marriott Residence Inn	San Diego, CA	Select service	150	100%	150	80.89%	$ 139.96	$ 113.22
Marriott Residence Inn	Salt Lake City, UT	Select service	144	100%	144	68.53%	$ 117.23	$ 80.34
Marriott Residence Inn	Palm Desert, CA	Select service	130	100%	130	60.67%	$ 111.86	$ 67.87
Marriott Residence Inn	Las Vegas, NV	Select service	256	100%	256	71.92%	$ 100.10	$ 72.00
Marriott Residence Inn	Phoenix, AZ	Select service	200	100%	200	61.71%	$ 108.98	$ 67.25
Marriott Residence Inn	Plano, TX	Select service	126	100%	126	73.17%	$ 99.03	$ 72.46
Marriott Residence Inn	Newark, CA	Select service	168	100%	168	80.96%	$ 94.81	$ 76.76
Marriott Residence Inn	Manchester CT	Select service	96	85%	82	84.04%	$ 109.07	$ 91.66
Marriott Residence Inn Buckhead	Atlanta, GA	Select service	150	100%	150	73.13%	$ 102.78	$ 75.16
Marriott Residence Inn	Jacksonville, FL	Select service	120	100%	120	71.03%	$ 91.74	$ 65.16
TownePlace Suites by Marriott	Manhattan Beach, CA	Select service	144	100%	144	71.91%	$ 101.98	$ 76.39
One Ocean	Atlantic Beach, FL	Full	193	100%	193	55.48%	$ 164.75	$ 91.41
Sheraton Hotel	Langhorne, PA	Full	187	100%	187	67.26%	$ 109.49	$ 73.65
Sheraton Hotel	Minneapolis, MN	Full	222	100%	222	71.70%	$ 104.29	$ 74.77
Sheraton Hotel	Indianapolis, IN	Full	371	100%	371	64.75%	$ 104.28	$ 67.52
Sheraton Hotel	Anchorage, AK	Full	370	100%	370	71.29%	$ 120.18	$ 85.67
Sheraton Hotel	San Diego, CA	Full	260	100%	260	70.38%	$ 101.66	$ 71.55
Hyatt Regency	Coral Gables, FL	Full	242	100%	242	80.86%	$ 157.32	$ 127.21
Crowne Plaza	Beverly Hills, CA	Full	260	100%	260	82.91%	$ 153.08	$ 126.91
Annapolis Historic Inn	Annapolis, MD	Full	124	100%	124	61.40%	$ 131.98	$ 81.04
Air Rights/Ground Lease Properties								
Doubletree Guest Suites [a]	Columbus, OH	Full	194	100%	194	73.10%	$ 108.66	$ 79.44
Hilton [b]	Ft. Worth, TX	Full	294	100%	294	77.12%	$ 136.56	$ 105.32
Hilton [c]	La Jolla, CA	Full	394	75%	296	75.91%	$ 157.27	$ 119.39
Crowne Plaza [d]	Key West, FL	Full	160	100%	160	85.11%	$ 206.66	$ 175.89
Renaissance [e]	Tampa, FL	Full	293	100%	293	75.89%	$ 149.43	$ 113.40
Total			20,656		20,395	72.20%	$ 128.67	$ 92.87

[a] This hotel was built on an air rights lease above the parking garage that expires in 2070.

[b] The partial ground lease expires in 2040.

(c) The ground lease expires in 2043.

(d) The ground lease expires in 2084.

(e) The ground lease expires in 2080.

Table of Contents

Item 3. ***Legal Proceedings***

We are currently subject to litigation arising in the normal course of our business. In the opinion of management, none of these lawsuits or claims against us, either individually or in the aggregate, is likely to have a material adverse effect on our business, results of operations, or financial condition. In addition, we believe we have adequate insurance in place to cover such litigation.

Item 4. ***Mine Safety Disclosures***

None

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities***

(a) Market Price of and Dividends on, Registrant s Common Equity and Related Stockholder Matters

Market Price and Dividend Information

Our common stock is listed and traded on the New York Stock Exchange under the symbol AHT. On February 21, 2012, there were 103 registered holders of record of our common stock. In order to comply with certain requirements related to our qualification as a REIT, our charter limits the number of shares of capital stock that may be owned by any single person or affiliated group without our permission to 9.8% of the outstanding shares of any class of our capital stock. We are aware of two Section 13G filers that presently each hold in excess of 9.8% of our outstanding common shares, but our Board of Directors has passed waiver requests which grant each of these holders an exception to our ownership restrictions, and which are still in effect.

The following table sets forth, for the indicated periods, the high and low sales prices for our common stock as traded on that exchange and cash distributions declared per common share:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011				
High	$ 11.18	$ 14.32	$ 12.90	$ 9.15
Low	$ 9.09	$ 10.82	$ 5.93	$ 6.18
Close	$ 11.02	$ 12.45	$ 7.02	$ 8.00
Cash dividends declared per share	$ 0.10	$ 0.10	$ 0.10	$ 0.10
2010				
High	$ 7.42	$ 9.67	$ 9.58	$ 10.81
Low	$ 4.68	$ 6.00	$ 6.46	$ 9.00
Close	$ 7.17	$ 7.33	$ 9.05	$ 9.65
Cash dividends declared per share	$	$	$	$

In February 2011, the Board of Directors accepted management s recommendation to resume paying cash dividends on our outstanding shares of common stock with an annualized target of $0.40 per share for 2011. For the year ended December 31, 2011, we have declared dividends of $0.40 per share. In December 2011, the Board of Directors approved our dividend policy for 2012 and we expect to pay a quarterly dividend of $0.11 per share for 2012. The adoption of a dividend policy does not commit our Board of Directors to declare future dividends or the amount thereof. The Board of Directors will continue to review our dividend policy on a quarterly basis. We may incur indebtedness to meet distribution requirements imposed on REITs under the Internal Revenue Code to the extent that working capital and cash flow from our investments are insufficient to fund required distributions. Or, we may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements. To maintain our qualification as a REIT, we intend to make annual distributions to our shareholders of at least 90% of our REIT taxable income, excluding net capital gains (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles). Distributions will be authorized by our Board of Directors and declared by us based upon a variety of factors deemed relevant by our Directors. Our ability to pay distributions to our shareholders will depend, in part, upon our receipt of distributions from our operating partnership. This, in turn, may depend upon receipt of lease payments with respect to our properties from indirect, wholly-owned subsidiaries of our operating partnership and the management of our properties by our property managers.

Table of Contents

Characterization of Distributions

For income tax purposes, distributions paid consist of ordinary income, capital gains, return of capital or a combination thereof. Distributions paid per share were characterized as follows:

	2011		2010		2009	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Common Stock:						
Ordinary income	$	%	$	%	$	%
Capital gain						
Return of capital	0.3000[(1)]	100.00				
Total	$ 0.3000	100.00%	$	%	$	%
Preferred Stock Series A:						
Ordinary income	$ 1.5092	70.60%	$	%	$ 2.13750	100.00%
Capital gain						
Return of capital	0.6283[(1)]	29.40	1.6031[(1)]	100.00		
Total	$ 2.1375	100.00%	$ 1.6031	100.00%	$ 2.13750	100.00%
Preferred Stock Series D:						
Ordinary income	$ 1.4915	70.60%	$	%	$ 2.11250	100.00%
Capital gain						
Return of capital	0.6210[(1)]	29.40	1.5844[(1)]	100.00		
Total	$ 2.1125	100.00%	$ 1.5844	100.00%	$ 2.11250	100.00%
Preferred Stock Series E:						
Ordinary income	$ 0.7193	70.60%	$	%	$	%
Capital gain						
Return of capital	0.2995[(1)]	29.40				
Total	$ 1.0188	100.00%	$	%	$	%

(1) The fourth quarter 2010 preferred distributions, paid January 14, 2011, are treated as 2011 distributions for tax purposes. The fourth quarter 2011 preferred and common distributions paid January 16, 2012 are treated as 2012 distributions for tax purposes.

Equity Compensation Plan Information

The following table sets forth certain information with respect to securities authorized and available for issuance under our equity compensation plans.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price Of Outstanding Options, Warrants, And Rights	Number of Securities Remaining Available for Future Issuance

Equity compensation plans approved by security holders:			
Restricted common stock	None	N/A	4,584,129[1]
Equity compensation plans not approved by security holders	None	N/A	None

[1] As of December 31, 2011, 8,568 shares of our common stock, or securities convertible into 8,568 shares of our common stock, remain available for issuance under our Amended and Restated 2003 Stock Incentive Plan and 4,575,561 shares of our common stock, or securities convertible into 4,575,561 shares of our common stock, remain available for issuance under our 2011 Stock Incentive Plan.

Table of Contents

Performance Graph

The following graph compares the percentage change in the cumulative total shareholder return on our common stock with the cumulative total return of the S&P 500 Stock Index, the FTSE NAREIT Mortgage REITs Index, and the NAREIT Lodging & Resorts Index for the period from December 31, 2006 through December 31, 2011, assuming an initial investment of $100 in stock on December 31, 2006 with reinvestment of dividends. The NAREIT Lodging Resorts Index is not a published index; however, we believe the companies included in this index provide a representative example of enterprises in the lodging resort line of business in which we engage. Shareholders who wish to request a list of companies in the NAREIT Lodging Resorts Index may send written requests to Ashford Hospitality Trust, Inc., Attention: Shareholder Relations, 14185 Dallas Parkway, Suite 1100, Dallas, Texas 75254.

The stock price performance shown below on the graph is not necessarily indicative of future price performance.

Purchases of Equity Securities by the Issuer

The following table provides the information with respect to purchases of shares of our common stock during each of the months in the fourth quarter of 2011:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan[1]	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plan
Common stock:				
October 1 to October 31		$		$ 200,000,000
November 1 to November 30		$		$ 200,000,000
December 1 to December 31		$		$ 200,000,000
Total		$		

(1) In September 2011, our Board of Directors authorized the reinstatement of our 2007 share repurchase program and authorized an increase in repurchase plan authorization from the remaining $58.4 million to $200.0 million. The plan provides for: (i) the repurchase of shares of our common stock, Series A preferred stock, Series D preferred stock and Series E preferred stock, and /or (ii) discounted purchases of outstanding debt obligations, including debt secured by hotel assets.

Table of Contents

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

The following sets forth our selected consolidated financial and operating information on a historical basis and should be read together with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and notes thereto, which are included in Item 8. Financial Statements and Supplementary Data.

	Year Ended December 31, 2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Statements of Operations Data:					
Total revenue	$ 889,797	$ 838,624	$ 837,684	$ 1,027,550	$ 876,986
Total operating expenses	$ 798,372	$ 820,709	$ 919,500	$ 873,197	$ 745,465
Operating income (loss)	$ 91,425	$ 17,915	$ (81,816)	$ 154,353	$ 131,521
Income (loss) from continuing operations	$ 3,989	$ (71,304)	$ (188,393)	$ 98,250	$ 1,018
Income (loss) from discontinued operations	$ (4,106)	$ 9,512	$ (100,267)	$ 47,421	$ 35,420
Net income (loss) attributable to the Company	$ 2,109	$ (51,740)	$ (250,242)	$ 129,194	$ 30,160
Net income (loss) attributable to common shareholders	$ (44,767)	$ (72,934)	$ (269,564)	$ 102,552	$ 6,170
Diluted income (loss) per common share:					
Income (loss) from continuing operations attributable to common shareholders	$ (0.66)	$ (1.59)	$ (2.67)	$ 0.53	$ (0.24)
Income (loss) from discontinued operations attributable to common shareholders	(0.07)	0.16	(1.26)	0.38	0.29
Net income (loss) attributable to common shareholders	$ (0.73)	$ (1.43)	$ (3.93)	$ 0.91	$ 0.05
Weighted average diluted common shares	61,954	51,159	68,597	111,295	105,787

	At December 31, 2011	2010	2009	2008	2007
	(in thousands)				
Balance Sheets Data:					
Investments in hotel properties, net	$ 2,957,899	$ 3,023,736	$ 3,383,759	$ 3,568,215	$ 3,885,737
Cash and cash equivalents	$ 167,609	$ 217,690	$ 165,168	$ 241,597	$ 92,271
Restricted cash	$ 84,069	$ 67,666	$ 77,566	$ 69,806	$ 52,872
Notes receivable	$ 11,199	$ 20,870	$ 55,655	$ 212,815	$ 94,225
Total assets	$ 3,589,726	$ 3,716,524	$ 3,914,498	$ 4,339,682	$ 4,380,411
Indebtedness of continuing operations	$ 2,362,458	$ 2,518,164	$ 2,772,396	$ 2,790,364	$ 2,639,546
Series B-1 preferred stock	$	$ 72,986	$ 75,000	$ 75,000	$ 75,000
Total shareholders equity of the Company	$ 973,407	$ 816,808	$ 837,976	$ 1,212,219	$ 1,285,003

	Year Ended December 31, 2011	2010	2009	2008	2007
	(in thousands)				
Other Data:					
Cash provided by operating activities	$ 74,593	$ 82,647	$ 65,614	$ 144,995	$ 155,727
Cash provided by (used in) investing activities	$ (47,774)	$ (47,476)	$ (44,754)	$ 168,455	$ (1,872,900)
Cash provided by (used in) financing activities	$ (76,900)	$ 17,351	$ (97,289)	$ (164,124)	$ 1,736,032
Cash dividends declared per common share	$ 0.40	$	$	$ 0.63	$ 0.80
EBITDA (unaudited) [1]	$ 361,029	$ 331,911	$ 231,337	$ 472,836	$ 357,151
Funds From Operations (FFO) (unaudited) [1]	$ 74,188	$ 107,696	$ 64,464	$ 240,862	$ 147,680

[1] A more detailed description and computation of FFO and EBITDA is contained in the Non-GAAP Financial Measures section of Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***
EXECUTIVE OVERVIEW

General

Following a recession that lasted over two years, beginning in 2010 the lodging industry started experiencing improvement in fundamentals, specifically occupancy and this improvement continued into 2011. Room rates, measured by the average daily rate, or ADR, which typically lags occupancy growth in the early stage of a recovery, have shown upward growth. We believe the improvements in the economy will continue to positively impact the lodging industry and hotel operating results for 2012, and we intend to continue to seek ways to benefit from the cyclical nature of the hotel industry. We believe that in the current cycle, hotel values and cash flows, for the most part, peaked in 2007, and we believe we will not achieve similar cash flows and values in the immediate future. Industry experts have suggested that cash flows within our industry may achieve these previous highs again during the period 2014 through 2016.

As of December 31, 2011, we owned 92 hotel properties directly, and four hotel properties through majority-owned investments in joint ventures, which represents 20,656 total rooms, or 20,395 net rooms excluding those attributable to our joint venture partners. Currently, all of our hotel properties are located in the United States. In March 2011, we acquired 96 hotel condominium units at WorldQuest Resort in Orlando, Florida for $12.0 million. Also in March 2011, with an investment of $150.0 million, we converted our interest in a joint venture that held a mezzanine loan into a 71.74% common equity interest and a $25.0 million preferred equity interest in a new joint venture (the PIM Highland JV) that holds 28 high quality full and select service hotel properties with 8,084 total rooms, or 5,800 net rooms excluding those attributable to our joint venture partner. At December 31, 2011, we also wholly owned one mezzanine loan of $3.1 million and one note receivable of $8.1 million in connection with a joint venture restructuring.

Based on our primary business objectives and forecasted operating conditions, our current key priorities and financial strategies include, among other things:

- acquisition of hotel properties;
- disposition of hotel properties;
- investing in securities;
- pursuing capital market activities to enhance long-term shareholder value;
- repurchasing capital stock subject to regulatory limitations and our Board of Directors authorization;
- preserving capital, enhancing liquidity, and continuing current cost saving measures;
- implementing selective capital improvements designed to increase profitability;
- implementing effective asset management strategies to minimize operating costs and increase revenues;
- financing or refinancing hotels on competitive terms;

utilizing hedges and derivatives to mitigate risks; and

making other investments or divestitures that our Board of Directors deems appropriate.

Our investment strategies continue to focus on the upscale and upper-upscale segments within the lodging industry. We believe that as supply, demand, and capital market cycles change, we will be able to shift our investment strategies to take advantage of new lodging-related investment opportunities as they may develop. Our Board of Directors may change our investment strategies at any time without shareholder approval or notice.

SIGNIFICANT TRANSACTIONS IN 2011 AND RECENT DEVELOPMENTS

Restructuring and Extension of a Mortgage Loan In December 2011, we successfully restructured a $203.4 million mortgage loan and extended the maturity date from December 2011 to March 2014. There is also a one-year extension option subject to the satisfaction of certain conditions. The restructuring provides for a new interest rate of LIBOR plus 4.5% with no LIBOR floor. At the closing of the restructuring, we paid down the loan by $25.0 million to $178.4 million. In connection with the restructuring and extension of the mortgage loan, we entered into an interest rate cap agreement through the new maturity date with a strike rate of 6.25% on $178.4 million notional amount for $68,000.

In addition, we are engaged in negotiations with the existing lenders to restructure and extend the $167.2 million non-recourse portfolio mortgage loan that matures in May 2012. On a parallel path, we are also in discussions with third party lenders to refinance this loan.

Reinstatement of Share Repurchase Program and Increased Authorization In September 2011, our Board of Directors authorized the reinstatement of our 2007 share repurchase program and authorized an increase in our repurchase plan authority from $58.4 million to $200 million (excluding fees, commissions and all other ancillary expenses). Under this plan, the board has authorized: (i) the repurchase of shares of our common stock, Series A preferred stock, Series D preferred stock and Series E preferred stock, and/or (ii) discounted purchases of our outstanding debt obligations, including debt secured by our hotel assets. We intend to fund any repurchases or discounted debt purchases with the net proceeds from asset sales, cash flow from operations, existing cash on the balance sheet, and other sources. As of December 31, 2011, no shares of our common or preferred stock have been repurchased under the share repurchase program since its reinstatement.

New Credit Facility In September 2011, we obtained a new $105.0 million senior credit facility which matures in September 2014 with a one-year extension option and replaces our previous credit line that was scheduled to mature in April 2012. The new credit facility provides for a three-year revolving line of credit priced at 275 to 350 basis points over LIBOR or Base Rate, as defined in the agreement, which is the same as our previous credit line. The new credit facility includes the opportunity to expand the borrowing capacity by up to $45.0 million to an aggregate size of $150.0 million upon a request by us and the consent of each lender, provided there is no default or event of default and each representation and warranty made or deemed made by us remains true and correct in all material respects on the effective date of such increase. The previous credit line was repaid in full in July 2011. The financial covenant tests with respect to fixed charge coverage ratio and leverage tests are similar to our previous credit line. On February 21, 2012, we closed on expanding the borrowing capacity to an aggregate $145.0 million.

Credit Default Swap Transactions In August 2011, we entered into credit default swap transactions for a notional amount of $100.0 million to hedge financial and capital market risk for an upfront cost of $8.2 million that was subsequently returned to us by our counterparty. A credit default swap is a derivative contract that works like an insurance policy against the credit risk of an entity or obligation. The credit risk underlying the credit default swaps are referenced to the CMBX index. The CMBX is a group of indices that references underlying bonds from 25 Commercial Mortgage-Backed Securities (CMBS), tranched by rating class. The CMBX is traded via pay-as-you-go credit default swaps, which involve ongoing, two-way payments over the life of the contract between the buyer and the seller of protection. The reference obligations are CMBS bonds. The seller of protection assumes the credit risk of the reference obligation from the buyer of protection in exchange for payments of an annual premium. If there is a default or a loss, as defined in the credit default swap agreements, on the underlying bonds, then the buyer of protection is protected against those losses. The only liability for Ashford, the buyer of protection, is the annual premium and any change in value of the underlying CMBX index (if the trade is terminated prior to maturity). For the CMBX trades that we have completed, we were the buyer of protection in all trades. Assuming the underlying bonds pay off at par over their remaining average life, our total exposure for these trades is approximately $8.5 million. The fair value of the credit default swaps is obtained from a third party who publishes various information including the index composition and price data. The change in the market value of the credit default swaps is settled net through posting cash collateral or reclaiming cash collateral between us and our counterparty when the change in the market value is over $250,000. As of December 31, 2011, the credit default swap had a net carrying value of a liability of $2,000, and since inception we have recognized an unrealized loss of $1.3 million. See Notes 10 and 11 of Notes to Consolidated Financial Statements in Item 8.

Sale of Additional Shares of Our Common Stock In July 2011, we reissued 7.0 million of our treasury shares at $12.50 per share and received net proceeds of $83.2 million. The net proceeds were used to repay the $50.0 million outstanding balance on our senior credit facility and for general corporate purposes, including investments, capital expenditures and working capital.

In January 2011, an underwriter purchased 300,000 shares of our common stock through the partial exercise of the underwriter s 1.125 million share over-allotment option in connection with the issuance of 7.5 million shares of common stock completed in December 2010, and we received net proceeds of $2.8 million, which were used for general corporate purposes.

Investments in Securities and Other We continually seek new and alternative strategies to leverage our industry and capital markets knowledge in ways that we believe will be accretive to our company. We believe that we can utilize the same real-time information we use to manage our portfolio and capital structure to invest capital in the public markets. To implement this investment strategy, during the second quarter of 2011, our Board of Directors authorized the formation of an investment subsidiary to invest in public securities and other investments. These investments are carried at fair market value. Our maximum aggregate net investment amount is limited to $20 million. As of December 31, 2011, based on the closing price of the securities, we recorded total investments in securities and other of $21.4 million and liabilities associated with investments in securities of $2.2 million. Through December 31, 2011, we recognized unrealized losses of $391,000. We also recognized realized losses of $981,000 and investment income of $2,000, or a net investment loss of $979,000. See Notes 10 and 11 of Notes to Consolidated Financial Statements in Item 8.

Preferred Stock Offering and Redemption of Series B-1 Convertible Preferred Stock In April 2011, we completed the offering of 3.35 million shares (including 350,000 shares pursuant to the underwriters exercise of an over-allotment option) of our 9.00% Series E Cumulative Preferred Stock at a net price of $24.2125 per share, and we received net proceeds of $80.8 million after underwriting fees. Of the net proceeds from the offering, $73.0 million was used to redeem 5.9 million shares of the total 7.3 million shares of our Series B-1 convertible preferred stock outstanding on May 3, 2011. The remaining proceeds were used for other general corporate purposes. The remaining 1.4 million outstanding Series B-1 convertible preferred shares were converted into 1.4 million shares of our common stock, which was treated as a stock dividend of $17.4 million paid to the Series B-1 preferred shareholder in accordance with the applicable accounting guidance.

In October 2011, we issued and sold an additional 1.3 million shares of our 9.00% Series E Cumulative Preferred Stock at a price of $23.47 per share, in an underwritten public offering pursuant to an effective registration statement. We received net proceeds of $28.9 million after underwriting fees. The proceeds from the offering may be used for general corporate purposes, including, without limitation, repayment of debt or other maturing obligations, financing future hotel related investments, capital expenditures and working capital. A portion of the proceeds may also be used for repurchasing shares of our common stock under our existing repurchase program.

At-the-Market Preferred Stock Offering On September 30, 2011, we entered into an at-the-market (ATM) program with an investment banking firm, pursuant to which we may issue up to 700,000 shares of 8.55% Series A Cumulative Preferred Stock and up to 700,000 shares of 8.45% Series D Cumulative Preferred

Stock at market prices up to $30.0 million. No shares of our preferred stock have sold under this program as of the date of this report.

Repayment of a Mezzanine Loan In April 2011, we entered into a settlement agreement with the borrower of the mezzanine loan which was secured by a 105-hotel property portfolio and scheduled to mature in April 2011. The borrower paid off the loan for $22.1 million. The difference between the settlement amount and the carrying value of $17.9 million was recorded as a credit to impairment charges in accordance with applicable accounting guidance.

Acquisition of Hotel Properties Securing Mezzanine Loans Held in Unconsolidated Joint Ventures In July 2010, as a strategic complement to our existing joint venture with Prudential Real Estate Investors (PREI) formed in 2008, we contributed $15.0 million for an ownership interest in a new joint venture with PREI. The new joint venture acquired a portion of the tranche 4 mezzanine loan associated with JER Partners 2007 privatization of the JER/Highland Hospitality portfolio (the Highland Portfolio). The mezzanine loan was secured by the same 28 hotel properties as our then existing joint venture investment in the tranche 6 mezzanine loan. Both of these mezzanine loans had been in default since August 2010. After negotiating with the borrowers, senior secured lenders and senior mezzanine lenders for a restructuring, we, through a new joint venture, the PIM Highland JV, with PRISA III Investments, LLC (PRISA III) (an affiliate of PREI), invested $150.0 million and PRISA III invested $50.0 million of new capital to acquire the 28 high quality full and select service hotel properties comprising the Highland Portfolio on March 10, 2011. We and PRISA III have ownership interests of 71.74% and 28.26%, respectively, in the new joint venture. In addition to the common equity splits, we and PRISA III each have a $25.0 million preferred equity interest earning an accrued but unpaid 15% annual return with priority over common equity distributions. Our investment in the PIM Highland JV is accounted for using the equity method and the carrying value was $179.5 million at December 31, 2011. The PIM Highland JV recognized a gain of $82.1 million related to a bargain purchase and settlement of a pre-existing relationship, of which our share was $46.3 million. The purchase price allocation has been finalized as of December 31, 2011. See Note 5 of Notes to Consolidated Financial Statements in Item 8.

Litigation Settlement In March 2011, we entered into a Consent and Settlement Agreement (the Settlement Agreement) with Wells Fargo Bank, N.A. (Wells) to resolve potential disputes and claims between us and Wells relating to our purchase of a participation interest in certain mezzanine loans. Wells denied the allegations in our complaint and further denies any liability for the claims asserted by us; however, the Settlement Agreement was entered into to resolve our claims against Wells and to secure Wells consent to our participation in the Highland Hospitality Portfolio restructuring. Pursuant to the Settlement Agreement, Wells agreed to pay us $30.0 million over the next five years, or earlier, if certain conditions are satisfied. As part of the Settlement Agreement, we and Wells have agreed to a mutual release of claims. We received the settlement payment of $30.0 million and paid legal costs of $6.9 million in June 2011. The settlement amount was recorded as Other income and the legal costs of $6.9 million were recorded as Corporate general and administrative expenses in the consolidated statements of operations.

Acquisition of Condominium Properties In March 2011, we acquired real estate and certain other rights in connection with the acquisition of the WorldQuest Resort, a condominium hotel project. More specifically, we acquired 96 condominium units, hotel amenities, land and improvements, developable raw land, developer rights and Rental Management Agreements (RMAs) with third party owners of condominium units in the project. Units owned by third parties with RMAs and all of the 96 units we acquired participate in a rental pool program whereby the units are rented to guests similar to a hotel operation. Under the terms of the RMAs, we share in a percentage of the guest room revenues and are reimbursed for certain costs. In the third quarter 2011, we sold two of the completed units at a price of $175,000 each and realized a gain of $96,000. All of the units owned at December 31, 2011, are included in Investment in hotel properties, net in the consolidated balance sheets.

Resumption of Common Dividends In February 2011, the Board of Directors accepted management s recommendation to resume paying cash dividends on our outstanding shares of common stock with an annualized

45

target of $0.40 per share for 2011. For the year ended December 31, 2011, we have declared dividends of $0.40 per share. In December 2011, the Board of Directors approved our dividend policy for 2012 and we expect to pay a quarterly dividend of $0.11 per share for 2012. The adoption of a dividend policy does not commit our Board of Directors to declare future dividends or the amount thereof. The Board of Directors will continue to review its dividend policy on a quarterly basis.

Completion of Sales of Hotel Properties In 2011, we completed the sale of four hotel properties, the Hampton Inn hotel in Jacksonville, Florida, the JW Marriott hotel in San Francisco, California, the Hilton hotel in Rye Town, New York and the Hampton Inn hotel in Houston, Texas. We received total proceeds of $153.7 million and repaid the related mortgage debt of $50.2 million. We used the net proceeds to reduce $70.0 million of the borrowings on our senior credit facility. We recorded an impairment charge of $6.2 million on the Jacksonville Hampton Inn hotel property in June 2011, based on the selling price. The operating results of these hotel properties, including the impairment charge, for all periods presented have been reported as discontinued operations in the consolidated statements of operations.

LIQUIDITY AND CAPITAL RESOURCES

Our cash position from operations is affected primarily by macro industry movements in occupancy and rate as well as by our ability to control costs. Further, the movement in interest rates, can greatly affect the cost of our floating-rate debt. We monitor very closely the industry fundamentals as well as interest rates. Capital expenditures above our reserves will affect cash flow as well.

In September 2011, we entered into an at-the-market (ATM) program with an investment banking firm to authorize the issuance of up to 700,000 shares of our 8.55% Series A Cumulative Preferred Stock and up to 700,000 shares of our 8.45% Series D Cumulative Preferred Stock at market prices. No shares were sold as of the date of this report. In September 2010, we entered into an ATM program with an investment banking firm to offer for sale from time to time up to $50.0 million of our common stock at market prices. No shares were sold during 2011. Proceeds from our ATM programs, to the extent the programs are utilized, are expected to be used for general corporate purposes including investments and reduction of debt.

In February 2010, we entered into a Standby Equity Distribution Agreement (the SEDA) with YA Global Master SPV Ltd. (YA Global) that terminates in 2013, and is available to provide us additional liquidity if needed. Pursuant to the SEDA, YA Global has agreed to purchase up to $50.0 million (which may be increased to $65.0 million pursuant to the SEDA) of newly issued shares of our common stock if notified to do so by us in accordance with the SEDA. No shares were sold during 2011.

Our principal sources of funds to meet our cash requirements include: positive cash flow from operations, capital market activities, property refinancing proceeds, asset sales, and net cash derived from interest rate derivatives. Additionally, our principal uses of funds are expected to include possible operating shortfalls, owner-funded capital expenditures, new investments and debt interest and principal payments. Items that impacted our cash flow and liquidity during the periods indicated are summarized as follows:

Net Cash Flows Provided By Operating Activities. Net cash flows provided by operating activities, pursuant to our Consolidated Statement of Cash Flows, which includes the changes in balance sheet items, were $74.6 million and $82.6 million for 2011 and 2010, respectively. The decrease in cash flows from operating activities was primarily due to the net investment of $20.1 million in trading securities, the timing of collecting receivables from hotel guests, paying vendors and settling with hotel managers and an increase in restricted cash due to additional cash deposits for certain debt services and capital expenditures. The decrease was partially offset by a net litigation settlement payment of $23.1 million.

Net Cash Flows Used In Investing Activities. In 2011, investing activities used net cash flows of $47.8 million. Cash outlays consisted of $145.4 million for the acquisition of the 71.74% interest in PIM Highland JV,

$12.0 million for the acquisition of hotel condominiums, and $67.8 million for capital improvements made to various hotel properties. Cash inflows consisted of $154.0 million from the sale of four hotel properties and two condominium properties, $22.6 million from repayment of mezzanine loans and $748,000 of insurance proceeds from settlement of insurance claims. In 2010, investing activities used cash of $47.5 million. Principal payments on notes receivable generated total cash of $28.3 million and the net cash proceeds from disposition of hotel properties was $1.4 million. We received $4.9 million net cash proceeds from the sale of the Hilton Suites in Auburn Hills, Michigan and a cash balance of $3.5 million was removed from our consolidated balance sheet as the Westin O Hare hotel property was deconsolidated at the completion of the deed-in-lieu of foreclosure. Cash outlays consisted of a $15.0 million cash contribution to a joint venture for a 50% ownership interest in a mezzanine loan and capital improvements of $62.2 million made to various hotel properties.

Net Cash Flows Provided by (Used in) Financing Activities. For 2011, net cash flows used in financing activities were $76.9 million. Cash outlays consisted of $73.0 million for the repurchase of our Series B-1 preferred stock, $53.3 million for dividend payments to common and preferred stockholders and operating partnership unit holders, $6.0 million payment for loan modification and extension fees, $235.8 million for repayments of indebtedness and capital leases, $3.2 million of distributions to noncontrolling interest joint venture partners, and $97,000 payment for entering into interest rate caps. These cash outlays were partially offset by cash inflows of $109.8 million from issuance of Series E preferred stock, $25.0 million from borrowings on our senior credit facility, $86.0 million from issuance of 7.3 million shares of common stock, $72.7 million from the counterparties of our interest rate derivatives, and $970,000 from the holder of the Series B-1 preferred stock for short swing profit and buy-in payments from the issuance of operating partnership units.

For 2010, financing activities provided net cash inflows of $17.4 million. Cash inflows for 2010 consisted of $259.0 million from borrowings under our senior credit facility and mortgage refinances, $72.2 million from issuance of 3.3 million shares of Series D preferred stock, $70.4 million from reissuance of 7.5 million shares of treasury stock, $62.2 million from the counterparties of our interest rate derivatives, and $1.0 million of contributions from a noncontrolling interest joint venture partner. For 2010, cash outlays consisted of $365.7 million for repayments of indebtedness and capital leases, $45.1 million for purchases of common stock, $24.0 million for dividend payments to preferred shareholders and unit holders, $7.1 million payment for loan modification and extension fees, $5.3 million for the redemption of operating partnership units, $333,000 distribution to a noncontrolling interest joint venture partner, and $75,000 for purchases of interest rate caps.

We are required to maintain certain financial ratios under various debt and derivative agreements. If we violate covenants in any debt or derivative agreement, 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 attractive terms, if at all. Violations of certain debt covenants may result in us being unable to borrow unused amounts under a line of credit, even if repayment of some or all borrowings is not required. In any event, financial covenants under our current or future debt obligations could impair our planned business strategies by limiting our ability to borrow (i) beyond certain amounts or (ii) for certain purposes. Presently, our existing financial debt covenants primarily relate to maintaining minimum debt coverage ratios, maintaining an overall minimum net worth, maintaining a maximum loan to value ratio, and maintaining an overall minimum total assets. As of December 31, 2011, we were in compliance in all material respects with all covenants or other requirements set forth in our debt and related agreements as amended.

The mortgage and mezzanine loans securing the Highland Portfolio are nonrecourse to the borrowers, except for customary exceptions, or carve-outs, that trigger recourse liability to the borrowers in certain limited instances. The recourse obligations typically include only the payment of costs and liabilities suffered by the lenders as a result of the occurrence of certain bad acts on the part of the borrower; however, in certain cases, the carve-outs could trigger recourse obligations on the part of the borrower with respect to repayment of all or a portion of the outstanding principal amount of the loans. We have entered into customary guaranty agreements pursuant to which we guaranty payment of any recourse liabilities of the borrowers that result from the non-recourse carve-outs (which include, but are not limited to, fraud, misrepresentation, willful conduct resulting in waste, misappropriations of rents following an event of default, voluntary bankruptcy filings, unpermitted transfers of collateral and certain environmental liabilities). In the opinion of management, none of these guaranty agreements, either individually or in the aggregate, are likely to have a material adverse effect on our business, results of operations, or financial condition.

Virtually, our only recourse obligation is our $105.0 million senior credit facility held by four banks, which expires in September 2014. Currently, there is no outstanding balance on this credit facility. The main covenants in this senior credit facility include (i) the minimum fixed charge coverage ratio, as defined, of 1.35x through expiration (ours was 1.70x at December 31, 2011); and (ii) the maximum leverage ratio, as defined, of 65% (ours was 58.8% at December 31, 2011). In the event we borrow on this credit facility, we may be unable to refinance a portion or all of this senior credit facility before maturity, and if it becomes necessary to pay down the principal balance, if any, at maturity, we believe we will be able to accomplish that with cash on hand, cash flows from operations, equity raises or, to the extent necessary, asset sales.

Based upon the current level of operations, management believes that our cash flow from operations along with our cash balances and the amount available under our senior credit facility ($105.0 million at December 31, 2011) will be adequate to meet upcoming anticipated requirements for interest and principal payments on debt, working capital, and capital expenditures for the next 12 months. With respect to upcoming maturities, we will continue to proactively address our upcoming 2012 and 2013 maturities. No assurances can be given that we will obtain additional financings or, if we do, what the amount and terms will be. Our failure to obtain future financing under favorable terms could adversely impact our ability to execute our business strategy. In addition, we may selectively pursue debt financing on individual properties.

We are committed to an investment strategy where we will opportunistically pursue hotel-related investments as suitable situations arise. Funds for future hotel-related investments are expected to be derived, in whole or in part, from cash on hand, future borrowings under the credit facility or other loans, or from proceeds from additional issuances of common stock, preferred stock, or other securities, asset sales, and joint ventures. However, we have no formal commitment or understanding to invest in additional assets, and there can be no assurance that we will successfully make additional investments. We may, when conditions are suitable, look at additional capital raising opportunities.

Our existing hotels are mostly located in developed areas that contain competing hotel properties. The future occupancy, ADR, and RevPAR of any individual hotel could be materially and adversely affected by an increase in the number or quality of the competitive hotel properties in its market area. Competition could also affect the quality and quantity of future investment opportunities.

Dividend Policy. In February 2011, the Board of Directors accepted management s recommendation to resume paying cash dividends on our outstanding shares of common stock with an annualized target of $0.40 per share for 2011. For the year ended December 31, 2011, we have declared dividends of $0.40 per share. In December 2011, the Board of Directors approved our dividend policy for 2012 and we expect to pay a quarterly dividend of $0.11 per share for 2012. The adoption of a dividend policy does not commit our Board of Directors to declare future dividends or the amount thereof. The Board of Directors will continue to review its dividend policy on a quarterly basis. We may incur indebtedness to meet distribution requirements imposed on REITs under the Internal Revenue Code to the extent that working capital and cash flow from our investments are insufficient to fund required distributions. Or, we may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements. We may pay dividends in excess of our cash flow.

RESULTS OF OPERATIONS

Marriott International, Inc. (Marriott) currently manages 40 of our properties. For these Marriott-managed hotels, the fiscal year reflects twelve weeks of operations for each of the first three quarters of the year and

Table of Contents

seventeen weeks for the fourth quarter of the year. Therefore, in any given quarterly period, period-over-period results will have different ending dates. For Marriott-managed hotels, the fourth quarters of 2011, 2010 and 2009 ended December 31, 2011, December 30, 2010, and January 1, 2010, respectively.

RevPAR is a commonly used measure within the hotel industry to evaluate hotel operations. RevPAR is defined as the product of the average daily room rate (ADR) charged and the average daily occupancy achieved. RevPAR does not include revenues from food and beverage or parking, telephone, or other guest services generated by the property. Although RevPAR does not include these ancillary revenues, it is generally considered the leading indicator of core revenues for many hotels. We also use RevPAR to compare the results of our hotels between periods and to analyze results of our comparable hotels (comparable hotels represent hotels we have owned for the entire year). RevPAR improvements attributable to increases in occupancy are generally accompanied by increases in most categories of variable operating costs. RevPAR improvements attributable to increases in ADR are generally accompanied by increases in limited categories of operating costs, such as management fees and franchise fees.

Table of Contents

The following table summarizes the changes in key line items from our consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year Ended December 31,			Favorable (Unfavorable) Change	
	2011	2010	2009	2011 to 2010	2010 to 2009
Total revenue	$ 889,797	$ 838,624	$ 837,684	$ 51,173	$ 940
Total hotel expenses	$ (580,879)	$ (554,645)	$ (550,482)	$ (26,234)	$ (4,163)
Property taxes, insurance and other	$ (46,758)	$ (49,389)	$ (53,097)	$ 2,631	$ 3,708
Depreciation and amortization	$ (133,882)	$ (132,651)	$ (138,620)	$ (1,231)	$ 5,969
Impairment charges	$ 4,841	$ (46,404)	$ (148,679)	$ 51,245	$ 102,275
Gain on insurance settlements	$ 2,035	$	$ 1,329	$ 2,035	$ (1,329)
Transaction acquisition and contract termination costs	$ 793	$ (7,001)	$	$ 7,794	$ (7,001)
Corporate general and administrative	$ (44,522)	$ (30,619)	$ (29,951)	$ (13,903)	$ (668)
Operating income (loss)	$ 91,425	$ 17,915	$ (81,816)	$ 73,510	$ 99,731
Equity in earnings (loss) of unconsolidated joint ventures	$ 14,528	$ (20,265)	$ 2,486	$ 34,793	$ (22,751)
Interest income	$ 85	$ 283	$ 297	$ (198)	$ (14)
Other income	$ 109,524	$ 62,826	$ 56,556	$ 46,698	$ 6,270
Interest expense and amortization of loan costs	$ (138,547)	$ (140,609)	$ (132,997)	$ 2,062	$ (7,612)
Write-off of premiums, loan costs and exit fees	$ (729)	$ (3,893)	$ 371	$ 3,164	$ (4,264)
Unrealized loss on investments	$ (391)	$	$	$ (391)	$
Unrealized gain (loss) on derivatives	$ (70,286)	$ 12,284	$ (31,782)	$ (82,570)	$ 44,066
Income tax (expense) benefit	$ (1,620)	$ 155	$ (1,508)	$ (1,775)	$ 1,663
Income (loss) from continuing operations	$ 3,989	$ (71,304)	$ (188,393)	$ 75,293	$ 117,089
Income (loss) from discontinued operations	$ (4,106)	$ 9,512	$ (100,267)	$ (13,618)	$ 109,779
Net loss	$ (117)	$ (61,792)	$ (288,660)	$ 61,675	$ 226,868
(Income) loss from consolidated joint ventures attributable to noncontrolling interests	$ (610)	$ 1,683	$ 765	$ (2,293)	$ 918
Net loss attributable to redeemable noncontrolling interests in operating partnership	$ 2,836	$ 8,369	$ 37,653	$ (5,533)	$ (29,284)
Net income (loss) attributable to the Company	$ 2,109	$ (51,740)	$ (250,242)	$ 53,849	$ 198,502

Table of Contents

Comparison of Year Ended December 31, 2011 with Year Ended December 31, 2010

Income from continuing operations represents the operating results of 96 hotel properties (comparable hotels) included in continuing operations, that we have owned throughout the entire year ended December 31, 2011, 2010 and 2009, but excludes the operating results of a hotel property we began to consolidate its operations for the period from December 2, 2011 through December 31, 2011. The hotel property previously was under a triple-net operating lease for which we only recorded rental income through December 1, 2011. The following table illustrates the key performance indicators of these hotels:

	Year Ended December 31, 2011	2010
Total hotel revenue (in thousands)	$ 877,317	$ 830,283
Room revenue (in thousands)	$ 681,286	$ 640,989
RevPAR (revenue per available room)	$ 92.68	$ 87.19
Occupancy	72.02%	70.19%
ADR (average daily rate)	$ 128.68	$ 124.22

Revenue. Room revenues from comparable hotels increased $40.3 million, or 6.3%, during the year ended December 31, 2011 (2011) compared to the year ended December 31, 2010 (2010). The increase in room revenue was primarily due to the continued improvements in occupancy coupled with the increase in average daily rate. During 2011, we experienced a 183 basis points increase in occupancy and a 3.6% increase in room rates as the economy continues to improve. Food and beverage revenues from comparable hotels experienced a similar increase of $6.8 million, or 4.5%, due to improved occupancy. Other revenue from comparable hotels experienced a decrease of $45,000. Rental income of $5.3 million was recognized through December 1, 2011 for a hotel property that was leased to a third-party under a triple-net basis. Effective December 2, 2011, we were assigned the remaining 11% ownership interest in the joint venture which previously held a hotel property under a triple-net lease. The lease agreement was canceled and the operating results of this hotel property have been included in our consolidated statements of operations, which accounted for a total of $2.5 million of room, food and beverage, and other hotel revenues. The remaining increase in total hotel revenue of $4.3 million is attributable to the acquisition of the WorldQuest condominium properties in March 2011.

No interest income from notes receivable has been recorded for 2011 as the remaining two mezzanine loans in our loan portfolio as of December 31, 2010 were impaired in the previous two years. Interest income on notes receivable was $1.4 million for 2010. We recorded a credit to impairment charges of $4.8 million and $2.2 million for 2011 and 2010, respectively. In April 2011, we entered into a settlement agreement with the borrower of the mezzanine loan which was secured by a 105-hotel property portfolio and scheduled to mature in April 2011. The borrower repaid the loan for $22.1 million. The mezzanine loan had a carrying value of $17.9 million at March 31, 2011 and December 31, 2010, after an impairment charge of $7.8 million was recorded at December 31, 2010. The difference of $4.2 million between the settlement amount and the carrying value was recorded as a credit to impairment charges in accordance with applicable accounting guidance. During 2010, impairment charges included a credit of $1.1 million on the cash settlement of a mezzanine loan that was previously impaired.

Asset management fees and other was $362,000 for 2011 and $425,000 for 2010.

Hotel Operating Expenses. Hotel operating expenses consist of direct expenses from departments associated with revenue streams and indirect expenses associated with support departments and management fees. We experienced increases of $13.9 million in direct expenses and $12.4 million in indirect expenses and management fees in 2011. The increase in direct and indirect expenses from comparable hotels was $12.2 million and $9.9 million, respectively. The increase in these expenses is primarily attributable to higher occupancy and higher management fees resulting from increased hotel revenues, and higher sales and marketing expenses. The

WorldQuest condominium properties incurred $3.1 million in total hotel operating expenses and the consolidation of the previous triple-net lease hotel property contributed $987,000 increase in total hotel operating expenses during 2011. The direct expenses were 32.7% of total hotel revenue for 2011 and 33.1% for 2010.

Property Taxes, Insurance and Other. Property taxes, insurance and other decreased $2.6 million for 2011 to $46.8 million. The decrease in comparable hotels is primarily due to a $1.8 million reduction in property taxes resulting from our continued successful appeals as we secured significant reductions in the assessed value related to certain of our hotel properties. The decrease in these expenses also reflects a decline of $387,000 of other taxes, a gain of $323,000 recognized on an insurance claim and other activities in 2011.

Depreciation and Amortization. Depreciation and amortization increased $1.2 million for 2011 compared to 2010 primarily due to increase in depreciation expense for capital improvements made at certain hotel properties. The increase was partially offset by decrease in depreciation for certain assets that had been fully depreciated during 2011.

Impairment Charges. We recorded a credit to impairment charges of $4.8 million in 2011, for cash received and valuation adjustments on the previously impaired mezzanine loans.

The impairment charges for our continuing operations were $46.4 million for 2010. We recorded $8.7 million of impairment charges on mezzanine loans, $39.9 million impairment on a hotel property, and a credit of $2.2 million related to the valuation adjustments on previously impaired loans in our mezzanine loan portfolio. Of the total impairment charges of $148.7 million for 2009, $109.4 million was the valuation allowance recorded for the Extended Stay Hotels mezzanine loan and $39.3 million for four other mezzanine notes. The impairment charge recorded on hotel properties for 2010 and 2009 of $35.7 million and $70.2 million, respectively, are included in the operating results of discontinued operations.

In evaluating possible loan impairment, we analyze our notes receivable individually and collectively for possible loan losses in accordance with the applicable authoritative accounting guidance. Based on the analysis, if we conclude that no loans are individually impaired, we then further analyze the specific characteristics of the loans, based on other authoritative guidance to determine if there would be probable losses in a group of loans with similar characteristics.

The loans we have had in our portfolio were collateralized by hotel properties. Some loans were collateralized by single hotel properties and others by hotel portfolios. The hotel properties were in different geographic locations, had different ages and a few of the properties had completed significant renovations which had a significant impact on the value of the underlying collateral. The hotel properties included independent and nationally recognized brands in all segments and classes including luxury, economy, extended-stay, full service, and select service. In addition, our loan assets varied by position in the related borrower s capital structure, ranging from junior mortgage participations to mezzanine loans. The terms of our notes or participations were structured based on the different features of the related collateral and the priority in the borrower s capital structure.

The authoritative accounting guidance requires that an individual loan not impaired individually be included in the assessment of the loss in a group of loans only if specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with similar characteristics. As loans in our portfolio have significantly different risk factors and characteristics, such as different maturity terms, different types and classes of collateral, different interest rate structures, and different priority status, we concluded that the characteristics of the loans within the portfolio were not sufficiently similar as to allow an evaluation of these loans as a group for possible impairment within the authoritative accounting guidance.

Investments in hotel properties are reviewed for impairment for each reporting period. We take into account the latest operating cash flows and market conditions and their impact on future projections. For the properties that showed indicators of impairment, we perform a recoverability analysis using the sum of each property s estimated future undiscounted cash flows compared to the property s carrying value. The estimates of future cash flows are based on assumptions about the future operating results including disposition of the property. In addition, the cash flow estimation periods used are based on the properties remaining useful lives to us (expected holding periods). For properties securing mortgage loans, the assumptions regarding holding periods considered our ability and intent to hold the property to or beyond the maturity of the related indebtedness.

In analyzing projected hotel properties operating cash flows, we factored in RevPAR growth based on data from third party sources. In addition, the projected hotel properties operating cash flows factored in our ongoing implementation of asset management strategies to minimize operating costs. After factoring in the expected revenue growth and the impact of company-specific strategies implemented to minimize operating costs, the hotel properties estimated future undiscounted cash flows were in excess of the properties carrying values. With the exception of the three Hilton hotel properties, the analyses performed in 2010 did not identify any other properties with respect to which an impairment loss should be recognized.

For a full description of impairment charges, see Notes 3, 4, 6 and 17 of Notes to Consolidated Financial Statements and the Executive Overview.

Transaction Acquisition and Contract Termination Costs. We recorded a credit of $793,000 and costs of $1.4 million to transaction acquisition costs in 2011 and 2010, respectively. For 2011, we were reimbursed $1.1 million by the joint venture in 2011 relating to certain costs for the acquisition of the 71.74% interest in PIM Highland JV and incurred an additional $135,000 for the acquisition. In addition, we incurred $298,000 for the acquisition of real estate and other rights in the WorldQuest Resort condominium project.

During 2010, we terminated the management contract of the Hilton hotel property in Costa Mesa, California managed by Hilton Hotels and paid a contract termination fee of $5.6 million. This hotel property is currently managed by Remington Lodging.

Corporate General and Administrative. Corporate general and administrative expenses increased to $44.5 million in 2011 period compared to $30.6 million in 2010. The non-cash stock/unit-based compensation expense increased $5.3 million, primarily due to the higher expense recognized on the restricted stock/unit-based awards granted at a higher price per share in 2011. For 2011, corporate general and administrative expenses also included $6.9 million in legal costs associated with a litigation for which we received a $30.0 million settlement. The increase in other corporate general and administrative expenses during 2011 is primarily attributable to an increase in employee compensation and target incentives for certain executives. These increases are partially offset by reimbursements from the PIM Highland JV of $2.5 million.

Equity in Earnings (Loss) of Unconsolidated Joint Ventures. We recorded equity in earnings of unconsolidated joint ventures of $14.5 million and equity loss of $20.3 million for 2011 and 2010, respectively. Included in the 2011 period was a gain of $82.1 million recognized by the PIM Highland JV at acquisition, of which our share was $46.3 million, and $17.6 million of transaction costs recorded for the acquisition. In addition, the PIM Highland JV incurred contract termination costs of $2.9 million for 2011.

All the loans held in our joint ventures were in non-accrual status since July 2010. In addition, the borrowers of the mezzanine loan held in our joint venture with PREI related to the JER/Highland Hospitality portfolio stopped making debt service payments in August 2010 and we were negotiating a restructuring with their equity holders, senior secured lenders and senior mezzanine lenders. Due to our junior participation status, it was expected the tranche 6 mezzanine loan would be completely extinguished in the restructuring. As a result, we recorded a valuation allowance of $21.6 million for the entire carrying value of our investment in the joint venture on December 31, 2010.

Interest Income. Interest income decreased $198,000 in 2011 compared to 2010 primarily due to lower average cash balance and the decline in short-term interest rates in 2011.

Other Income. Other income was $109.5 million and $62.8 million for 2011 and 2010, respectively. Income from the non-hedge interest rate swap, floor and flooridors accounted for $70.6 million and $62.9 million for 2011 and 2010, respectively. For 2011, other income also included a gain of $30.0 million recognized from a litigation settlement, income of $9.7 million recognized from the 11% of ownership interest we acquired in a joint venture at no cost, income of $289,000 from a previously written-off mezzanine loan, a net investment loss of $979,000 on investment in securities, and the credit default swap premium amortization of $31,000.

Interest Expense and Amortization of Loan Costs. Interest expense and amortization of loan costs decreased $2.1 million to $138.5 million for 2011 from $140.6 million for 2010. The decrease is primarily attributable to a decline in interest expense resulting from the principal repaid on our senior credit facility and other indebtedness, and decreased amortization of loan costs resulting from certain loan costs that were fully amortized at their initial maturity dates, net of the effect of the increase in interest from loans refinanced at higher interest rates since December 31, 2010. The average LIBOR rates for 2011 and 2010 were 0.23% and 0.27%, respectively.

Write-off of Loan Cost and Exit Fees. In the 2011 period, we repaid the outstanding balance on the $250.0 million senior credit facility, terminated the credit facility and wrote off the unamortized deferred loan cost of $729,000. During 2010 we refinanced the mortgage loan secured by the Gateway Arlington Marriott hotel property and incurred prepayment penalty of $3.3 million and wrote off the unamortized loan cost of $630,000.

Unrealized Loss on Investments. We recorded unrealized loss of $391,000 on investment in securities based on the closing price of securities at December 31, 2011.

Unrealized Gain (Loss) on Derivatives. We recorded a net unrealized loss of $70.3 million for 2011 and an unrealized gain of $12.3 million for 2010 on derivatives. The unrealized loss for 2011 consists of unrealized losses of $69.0 million on the interest rate derivatives and an unrealized loss of $1.3 million from the credit default swaps we entered into during 2011. The fair value of interest rate derivatives decreased during 2011 primarily due to the movements in the LIBOR forward curve used in determining the fair value and the passage of time. The decrease in value of the credit default swaps is attributable to the change in value of the CMBX indices.

Income Tax (Expense) Benefit. We recorded an income tax expense from continuing operations of $1.6 million for 2011 and a benefit of $155,000 for 2010. The increase in tax expense in 2011 is primarily due to increased profitability in certain of our TRS subsidiaries. In addition, in 2011, we were unable to continue recording the state tax benefits from losses incurred by one of our joint ventures as realization of a net deferred tax asset became doubtful due to cumulative losses. Our 2011 Texas Margin Tax expense decreased significantly compared to prior years as the tax write-off of certain mezzanine loans for the 2010 tax year resulted in a larger actual benefit in 2011 than anticipated at December 31, 2010.

Income (Loss) from Discontinued Operations. Discontinued operations reported loss from operations of $4.1 million for 2011 and income of $9.5 million for 2010. During 2011, we completed the sale of the Hampton Inn hotel in Jacksonville, FL, JW Marriott hotel in San Francisco, CA, the Hilton hotel in Rye Town, NY and the Hampton Inn hotel in Houston, TX. We recorded a net gain of $2.6 million mainly from the sale of the Hampton Inn hotel in Houston, Texas and the adjustments at final settlements. During 2011, an impairment of $6.2 million was recorded for the Hampton Inn hotel in Jacksonville, Florida. Discontinued operations include the operating results of six hotel properties for 2010. Included in the income from discontinued operations for 2010 was a gain of $56.2 million on the consensual transfer of the Westin O Hare hotel property and a loss of $283,000 on the sale of Hilton Auburn Hills property. The 2010 results also included impairment charges of $35.7 million recorded on the Hilton Auburn Hills property and the Hilton Rye Town property.

Loss (Income) from Consolidated Joint Ventures Attributable to Noncontrolling Interests. The noncontrolling interest partners in consolidated joint ventures were allocated income of $610,000 during 2011 and a loss of $1.7 million during 2010. In 2011, we recorded a gain of $2.1 million from the sale of the Hampton Inn hotel property in Houston, Texas that was held by a joint venture. At December 31, 2011, noncontrolling interests in consolidated joints ventures represent ownership interests ranging from 15% to 25% of four hotel properties held by two joint ventures. Effective December 2, 2011, we were assigned the remaining 11% ownership interest from our joint venture partner at no cost to us and the operating results of this hotel property have been included our consolidated statements of operations.

Net Loss (Income) Attributable to Redeemable Noncontrolling Interests in Operating Partnership. Net loss allocated to noncontrolling interests in operating partnership and distributions paid to these limited partners were $2.8 million and $8.4 million for 2011 and 2010, respectively.

Comparison of Year Ended December 31, 2010 with Year Ended December 31, 2009

Income from continuing operations includes the operating results of 96 hotel properties that we have owned throughout all of 2010 and 2009. The following table illustrates the key performance indicators of the comparable hotels for the periods indicated:

	Year Ended December 31,	
	2010	**2009**
Total hotel revenue (in thousands)	$ 836,821	$ 826,082
Room revenue (in thousands)	$ 640,989	$ 626,434
RevPAR (revenue per available room)	$ 87.19	$ 85.21
Occupancy	70.19%	66.56%
ADR (average daily rate)	$ 124.22	$ 128.02

Revenue. Room revenues increased $14.6 million, or 2.3%, during the year ended December 31, 2010 (2010) compared to the year ended December 31, 2009 (2009). The room revenue increase resulting from the improved occupancy in 2010 of 363 basis points was partially offset by the decrease in average daily rate. The economic downturn placed tremendous pressure on rates to maintain occupancy levels. Food and beverage revenue experienced a decline of $1.3 million due to lower volume on catering and banquet events. Other revenue, which consists mainly of telecommunication, parking, spa and golf fees, experienced a $2.3 million decline due to less demand for these services.

Rental income from the triple-net operating lease decreased $214,000 primarily due to the lower hotel revenues related to that hotel property resulting from the lower average daily rate net of the effect of slightly higher occupancy during 2010.

Interest income from notes receivable decreased $9.5 million for 2010 compared to 2009. This decrease is primarily due to the impairment of five mezzanine loans and the sale of one loan in our portfolio during 2009.

Asset management fees and other was $425,000 for 2010 and $726,000 for 2009. The decrease is primarily due to the expiration at December 31, 2009, of a consulting agreement with a joint venture.

Hotel Operating Expenses. Hotel operating expenses consist of direct expenses from departments associated with revenue streams and indirect expenses associated with support departments and management fees. We experienced increases of $3.7 million in direct expenses and $421,000 in indirect expenses and management fees in 2010 compared to 2009. The increase in direct expense was primarily the result of improved occupancy during 2010. The direct expenses were 33.1% of total hotel revenue for both 2010 and 2009.

Property Taxes, Insurance and Other. Property taxes, insurance and other decreased $3.7 million for 2010 to $49.4 million. Property taxes decreased $3.8 million for 2010 resulting from our successful appeals for the assessed value reductions related to certain of our hotel properties, which was partially offset by the tax rate increases in some jurisdictions as city/county and state governments try to maintain their tax base. The decrease in property taxes was partially offset by the increase in insurance costs of $254,000. The increase in insurance costs is primarily due to higher premiums for property policies renewed in 2010.

Depreciation and Amortization. Depreciation and amortization decreased $6.0 million for 2010 compared to 2009 primarily due to certain assets that had been fully depreciated during 2010. The decrease is partially offset by an increase in depreciation expense as a result of capital improvements made at several hotel properties.

Impairment Charges. The impairment charges for our continuing operations were $46.4 million for 2010. We recorded $8.7 million impairment charge on mezzanine loans, $39.9 million impairment on a hotel property, and a credit of $2.2 million related to the valuation adjustments on previously impaired loans in our mezzanine loan portfolio. Of the total impairment charges of $148.7 million for 2009, $109.4 million was the valuation allowance recorded for the Extended Stay Hotels mezzanine loan and $39.3 million for four other mezzanine notes. The impairment charge recorded on hotel properties for 2010 and 2009 of $35.7 million and $70.2 million, respectively, are included in the operating results of discontinued operations.

Transaction Acquisition and Contract Termination Costs. In 2010, we were in negotiation with the borrowers, their equity holders, senior secured lenders and senior mezzanine lenders with respect to possible restructuring of the two mezzanine tranches owned by our joint ventures with PREI associated with the hotel portfolio of JER/Highland Hospitality. The resolution of such negotiation was consummated via a conversion of the loans into equity and assumption of senior indebtedness associated with the portfolio with us investing additional funds. We incurred transaction acquisition costs of $1.4 million related to these negotiations through December 31, 2010.

In addition, during 2010, we terminated the management contract of the Hilton hotel property in Costa Mesa, California managed by Hilton Hotels and paid a contract termination fee of $5.6 million. This hotel property is currently managed by Remington Lodging.

Corporate General and Administrative. Corporate general and administrative expenses increased $668,000 in 2010 from 2009. The non-cash stock/unit-based compensation expense increased $2.0 million in 2010 primarily due to certain restricted stock/unit-based awards granted in the current year at a higher price per share. Other corporate general and administrative expenses decreased $1.4 million during 2010 primarily attributable to a decline in legal expense of $1.2 million as the 2009 corporate general and administrative expenses included legal expense associated with defaulted mezzanine loan activities.

Equity in Earnings (Loss) of Unconsolidated Joint Ventures. Equity loss in unconsolidated joint venture was $20.3 million for 2010 and equity earnings for 2009 were $2.5 million. The decrease is primarily due to all the three mezzanine loans held in our joint ventures being in non-accrual status since July 2010. In addition, the borrowers of the mezzanine loan tranche 6 held in our joint venture with PREI related to the JER/Highland Hospitality portfolio stopped making debt service payments in August 2010 and we were negotiating a restructuring with their equity holders, senior secured lenders and senior mezzanine lenders. Due to our junior participation status, it was expected the tranche 6 mezzanine loan would be completely extinguished in the restructuring. As a result, we recorded a valuation allowance of $21.6 million for the entire carrying value of our investment in the joint venture on December 31, 2010.

Interest Income. Interest income decreased $14,000 in 2010 compared to 2009 primarily due to lower average cash balance and the decline in short-term interest rates in 2010.

Other Income. Other income was $62.8 million and $56.6 million in 2010 and 2009, respectively. Other income included income from non-hedge interest rate swaps, floors and flooridors of $62.9 million and $52.3 million for 2010 and 2009, respectively. The increase is primarily due to the new interest rate derivatives we entered into since July 2009. Also included in 2009 was a gain of $2.4 million recognized on the sale of a mezzanine note receivable, income of $1.5 million recognized for business interruption insurance proceeds received related to hotel properties sold in 2008, and a gain of $434,000 from the sale of our interest in a laundry joint venture.

Interest Expense and Amortization of Loan Costs. Interest expense and amortization of loan costs increased $7.6 million to $140.6 million for 2010 from $133.0 million for 2009. The increase is primarily attributable to certain debt that was refinanced at higher interest rates. The increase was partially offset by the lower average variable rate debt outstanding and the lower LIBOR rates in the 2010 period. Average LIBOR rates for 2010 and 2009 were 0.27% and 0.33%, respectively.

Write-off of Premiums, Loan Costs and Exit Fees. During 2010 we refinanced the mortgage loan secured by the Gateway Arlington Marriott hotel property and incurred a prepayment penalty of $3.3 million and wrote off the unamortized loan cost of $630,000. During 2009 we refinanced mortgage debt totaling $285.0 million. The unamortized premiums of $1.4 million and loan costs of $985,000 on the refinanced loans were written off.

Unrealized Gain (Loss) on Derivatives. We recorded an unrealized gain of $12.3 million in 2010 and an unrealized loss of $31.8 million in 2009 on our interest rate derivatives. The fair value of these derivatives increased during 2010 primarily due to the movements in the LIBOR forward curve used in determining the fair value.

Income Tax (Expense) Benefit. Income tax expense for continuing operations was a benefit of $155,000 for 2010 and an expense of $1.5 million for 2009. The decrease in income tax expense is primarily due to our being able to record an income tax benefit of $898,000 in 2010 in connection with losses incurred by our joint venture partnership that is subject to District of Columbia income taxes. This benefit is largely offset by our accruals for the Texas Margin Tax and our federal and state income tax accruals for one of our TRS subsidiaries that began generating taxable income in the fourth quarter of 2009. Our 2010 accrual for the Texas Margin Tax was lower than in prior years primarily due to the tax write-off of mezzanine loans in 2010 that had been impaired in prior years for financial reporting purposes.

Income (Loss) from Discontinued Operations. Income from discontinued operations was $9.5 million for 2010 and loss from discontinued operations was $100.3 million for 2009. Discontinued operations include the operating results of six hotel properties for 2010 and seven properties for 2009. These hotel properties were either sold, returned to lenders or under contracts to sell. Included in the income (loss) from discontinued operations for 2010 was a gain of $56.2 million on the consensual transfer of the Westin O Hare hotel property and a loss of $283,000 on the sale of Hilton Auburn Hills property. The 2010 results also included impairment charges of $35.7 million recorded on the Hilton Auburn Hills property and the Hilton Rye Town property. For 2009, impairment charges totaling $70.2 million on the Westin O Hare hotel property and the Hyatt Dearborn hotel property were recorded to write down the hotel properties to their estimated fair value. A loss of $2.9 million was also recorded at deconsolidation of the Hyatt Regency Dearborn hotel property for 2009. Operating results of discontinued operations also reflected interest and related debt expense of $8.5 million and $14.1 million for 2010 and 2009, respectively. In addition, unamortized loan costs of $552,000 were written off in 2009 when the related mortgage debt was refinanced.

(Income) Loss from Consolidated Joint Ventures Attributable to Noncontrolling Interests. During 2010 and 2009, the noncontrolling interest partners in consolidated joint ventures were allocated a loss of $1.7 million and $765,000, respectively. Noncontrolling interests in consolidated joints ventures represent ownership interests ranging from 11% to 25% of six hotel properties held by two joint ventures.

Net (Income) Loss Attributable to Redeemable Noncontrolling Interests in Operating Partnership. Net loss allocated to noncontrolling interests and distributions paid to these limited partners were $8.4 million and $37.7 million for 2010 and 2009, respectively.

Table of Contents

INFLATION

We rely entirely on the performance of our properties and the ability of the properties managers to increase revenues to keep pace with inflation. Hotel operators can generally increase room rates rather quickly, but competitive pressures may limit their ability to raise rates faster than inflation. Our general and administrative costs, real estate and personal property taxes, property and casualty insurance, and utilities are subject to inflation as well.

SEASONALITY

Our properties operations historically have been seasonal as certain properties maintain higher occupancy rates during the summer months and some during the winter months. This seasonality pattern can cause fluctuations in our quarterly lease revenue under our percentage leases. We anticipate that our cash flows from the operations of our properties will be sufficient to enable us to make quarterly distributions to maintain our REIT status. To the extent that cash flows from operations are insufficient during any quarter due to temporary or seasonal fluctuations in lease revenue, we expect to utilize other cash on hand or borrowings to fund required distributions. However, we cannot make any assurances that we will make distributions in the future.

OFF-BALANCE SHEET ARRANGEMENTS

During 2011, we did not maintain any off-balance sheet arrangements and do not currently anticipate any such arrangements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The table below summarizes our future obligations for principal and estimated interest payments on our debt, future minimum lease payments on our operating and capital leases with regard to our continuing operations, each as of December 31, 2011 (in thousands):

	Payments Due by Period				
	< 1 Year	2-3 Years	4-5 Years	> 5 Years	Total
Contractual obligations excluding extension options:					
Long-term debt obligations	$ 196,243	$ 505,437	$ 682,953	$ 977,825	$ 2,362,458
Operating lease obligations	3,737	6,474	6,041	112,192	128,444
Estimated interest obligations [(1)]	131,393	239,477	160,733	44,055	575,658
Total contractual obligations	$ 331,373	$ 751,388	$ 849,727	$ 1,134,072	$ 3,066,560

[(1)] For variable interest rate indebtedness, interest obligations are estimated based on the LIBOR interest rate as of December 31, 2011.

In addition to the amounts discussed above, we also have management agreements which require us to pay monthly management fees, market service fees and other general fees, if required. These management agreements expire from 2012 through 2028. See Note 13 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

CRITICAL ACCOUNTING POLICIES

Our accounting policies are fully described in Note 2 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data. We believe that the following discussion

Table of Contents

addresses our most critical accounting policies, representing those policies considered most vital to the portrayal of our financial condition and results of operations and require management s most difficult, subjective, and complex judgments.

Management Agreements In connection with our acquisitions of Marriott Crystal Gateway hotel in Arlington, Virginia, on July 13, 2006 and the 51-hotel CNL portfolio on April 11, 2007, we assumed certain existing management agreements. Based on our review of these management agreements, we concluded that the terms of certain management agreements are more favorable to the respective managers than typical current market management agreements. As a result, we recorded unfavorable contract liabilities related to these management agreements of $23.4 million as of the respective acquisition dates based on the present value of expected cash outflows over the initial terms of the related agreements. Such unfavorable contract liabilities are being amortized as non-cash reductions to incentive management fees on a straight-line basis over the initial terms of the related agreements. In evaluating unfavorable contract liabilities, our analysis involves considerable management judgment and assumptions.

Income Taxes At December 31, 2011, we had a valuation allowance of approximately $58.1 million which substantially offsets our gross deferred tax asset. As a result of consolidated losses in 2011, 2010 and 2009, and the limitations imposed by the Internal Revenue Code on the utilization of net operating losses of acquired subsidiaries, we believe that it is more likely than not our gross deferred tax asset will not be realized, and therefore, have provided a valuation allowance to substantially reserve the balance. At December 31, 2011, Ashford TRS has net operating loss carryforwards for federal income tax purposes of approximately $133.4 million, which are available to offset future taxable income, if any, through 2031. At December 31, 2011, Ashford Hospitality Trust, Inc., our REIT, had net operating loss carryforwards for federal income purposes of approximately $153.7 million, which are available to offset future taxable income, if any, through 2031. The analysis utilized in determining our deferred tax asset valuation allowance involves considerable management judgment and assumptions.

In July 2006, the Financial Accounting Standards Board (FASB) issued accounting guidance that clarified the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. The guidance prescribes a financial statement recognition and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides direction on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We classify interest and penalties related to underpayment of income taxes as income tax expense. We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and cities. Tax years 2008 through 2011 remain subject to potential examination by certain federal and state taxing authorities. Income tax examinations of two of our TRS subsidiaries are currently in process; see Note 13 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data. We believe that the results of the completion of these examinations will not have a material adverse effect on our financial condition.

Investment in Hotel Properties Hotel properties are generally stated at cost. However, the remaining four hotel properties contributed upon Ashford s formation in 2003 that are still owned by Ashford (the Initial Properties) are stated at the predecessor s historical cost, net of impairment charges, if any, plus a noncontrolling interest partial step-up related to the acquisition of noncontrolling interests from third parties associated with four of the Initial Properties. For hotel properties owned through our majority-owned joint ventures, the carrying basis attributable to the joint venture partners minority ownership is recorded at the predecessor s historical cost, net of any impairment charges, while the carrying basis attributable to our majority ownership is recorded based on the allocated purchase price of our ownership interests in the joint ventures. All improvements and additions which extend the useful life of the hotel properties are capitalized.

Impairment of Investment in Hotel Properties Hotel properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We test impairment by using current or projected cash flows over the estimated useful life of the asset. In evaluating the

Table of Contents

impairment of hotel properties, we make many assumptions and estimates, including projected cash flows, expected holding period and expected useful life. We may also use fair values of comparable assets. If an asset is deemed to be impaired, we record an impairment charge for the amount that the property s net book value exceeds its estimated fair value. During 2010, we recorded impairment charges of $39.9 million on one hotel property. See the detailed discussion in Notes 3 and 17 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Depreciation and Amortization Expense Depreciation expense is based on the estimated useful life of the assets, while amortization expense for leasehold improvements is based on the shorter of the lease term or the estimated useful life of the related assets. Presently, hotel properties are depreciated using the straight-line method over lives which range from 7.5 to 39 years for buildings and improvements and 3 to 5 years for furniture, fixtures, and equipment. While we believe our estimates are reasonable, a change in estimated lives could affect depreciation expense and net income (loss) as well as resulting gains or losses on potential hotel sales.

Assets Held For Sale and Discontinued Operations We classify assets as held for sale when management has obtained a firm commitment from a buyer, and consummation of the sale is considered probable and expected within one year. In addition, we deconsolidate a property when it becomes subject to the control of a government, court, administrator or regulator and we effectively lose control of the property/subsidiary. When deconsolidating a property/subsidiary, we recognize a gain or loss in net income measured as the difference between the fair value of any consideration received, the fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated, and the carrying amount of the former property/subsidiary. The related operations of assets held for sale are reported as discontinued if a) such operations and cash flows can be clearly distinguished, both operationally and financially, from our ongoing operations, b) such operations and cash flows will be eliminated from ongoing operations once the disposal occurs, and c) we will not have any significant continuing involvement subsequent to the disposal.

During 2011, 2010 and 2009, we recorded impairment charges of $6.2 million, $75.6 million and $70.2 million on hotel properties, respectively. Of these impairment charges, $6.2 million, $35.7 million and $70.2 million for 2011, 2010 and 2009, respectively, are included in the operating results of discontinued operations. See the detailed discussion in Notes 3, 6 and 17 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Notes Receivable We provide mezzanine and first-mortgage financing in the form of notes receivable. These loans are held for investment and are intended to be held to maturity and accordingly, are recorded at cost, net of unamortized loan origination costs and fees, loan purchase discounts and net of the allowance for losses when a loan is deemed to be impaired. Premiums, discounts, and net origination fees are amortized or accreted as an adjustment to interest income using the effective interest method over the life of the loan. We discontinue recording interest and amortizing discounts/premiums when the contractual payment of interest and/or principal is not received. Payments received on impaired nonaccrual loans are recorded as reductions to the note receivable balance. The net carrying amount of the impaired notes receivable is adjusted to reflect the net present value of the future cash flows with the adjustment recorded in impairment charges.

Our mezzanine and first-mortgage notes receivable are each secured by various hotel properties or partnership interests in hotel properties and are subordinate to the senior holders in the secured hotel properties. All such notes receivable are considered to be variable interests in the entities that own the related hotels. Variable Interest Entities (VIE), as defined by authoritative accounting guidance, must be consolidated by a reporting entity if the reporting entity is the primary beneficiary that has: (i) the power to direct the VIE s activities that most significantly impact the VIE s economic performance, (ii) an implicit financial responsibility to ensure that a VIE operates as designed, and (iii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Because we do not have the power and financial responsibility to direct the mezzanine loan VIEs activities and operations, we are not considered to be the primary beneficiary of these hotel properties as a result of holding these loans. Therefore, we do not consolidate the hotels for which we have provided financing. We assess our interests in those entities on an ongoing basis to determine whether such entities should be consolidated. In evaluating VIEs, our analysis involves considerable management judgment and assumptions.

Impairment of Notes Receivable We review notes receivable for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms. We apply normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment.

When a loan is impaired, we measure impairment based on the present value of expected cash flows discounted at the loan s effective interest rate against the value of the asset recorded on the balance sheet. We may also measure impairment based on a loan s observable market price or the fair value of collateral if the loan is collateral dependent. If a loan is deemed to be impaired, we record a valuation allowance through a charge to earnings for any shortfall. Our assessment of impairment is based on considerable judgment and estimates. During 2010 and 2009, we recorded a valuation allowance of $6.5 million and $148.7 million, net of subsequent valuation adjustments, for our mezzanine loan portfolio. See Notes 4 and 17 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Investments in Unconsolidated Joint Ventures Investments in joint ventures in which we have ownership interests ranging from 14.4% to 71.74% are accounted for under the equity method of accounting by recording the initial investment and our percentage of interest in the joint venture s net income (loss). We review the investments in our unconsolidated joint ventures for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. An investment is impaired when its estimated fair value is less than the carrying amount of our investment. Any impairment is recorded in equity earnings (loss) in unconsolidated joint ventures. No such impairment was recorded in 2011, and $27.1 million and $5.5 million of impairment charges were recorded in 2010 and 2009, respectively. We adopted the equity accounting method for our investment in the PIM Highland JV due to the fact that we do not control the joint venture. Although we have the majority ownership of 71.74% in the joint venture, all the major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs, incurring obligations and expenditures, are subject to the approval of an executive committee, which is comprised of four persons with us and our joint venture partner each designating two of those persons. Our investment in the PIM Highland JV had a carrying value of $179.5 million at December 31, 2011, which was based on our share of PIM Highland JV s equity.

Our investments in unconsolidated joint ventures are considered to be variable interests in the underlying entities. Variable Interest Entities (VIE), as defined by authoritative accounting guidance, must be consolidated by a reporting entity if the reporting entity is the primary beneficiary because it has (i) the power to direct the VIE s activities that most significantly impact the VIE s economic performance, (ii) an implicit financial responsibility to ensure that a VIE operates as designed, and (iii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Because we do not have the power and financial responsibility to direct the unconsolidated joint ventures activities and operations, we are not considered to be the primary beneficiary of these joint ventures on an ongoing basis to determine whether such entities should be consolidated. In evaluating VIEs, our analysis involves considerable management judgment and assumptions.

Investments in Securities and Other Beginning in June 2011, we have invested in securities and other investments, including U.S. treasury bills, stocks, and put and call options of certain publicly traded companies. All of these investments are recorded at fair value. Put and call options are considered derivatives. The fair value of these investments has been determined based on the closing price as of the balance sheet date and is reported as Investments in securities and other or Liabilities associated with investments in securities and other in the consolidated balance sheets. Net investment income, including interest income (expense), dividends, investment

Table of Contents

costs, and realized gains or losses on the investments, is reported as a component of Other income, and unrealized gains and losses on all of the investments in securities and other are reported as Unrealized gain on investments in the consolidated statements of operations.

Derivative Financial Instruments and Hedges We primarily use interest rate derivatives to capitalize on the historical correlation between changes in LIBOR (London Interbank Offered Rate) and RevPAR (Revenue per Available Room). Interest rate swaps (or reverse swaps) involve the exchange of fixed-rate payments for variable-rate payments (or vice versa) over the life of the derivative agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges provide us with interest rate protection above the strike rate of the cap and result in us receiving interest payments when actual rates exceed the cap strike. For interest rate floors, we pay our counterparty interest when the variable interest rate index is below the strike rate. The interest rate flooridor combines two interest rate floors, structured such that the purchaser simultaneously buys an interest rate floor at a strike rate X and sells an interest rate floor at a lower strike rate Y. The purchaser of the flooridor is paid when the underlying interest rate index (for example, LIBOR) resets below strike rate X during the term of the flooridor. Unlike a standard floor, the flooridor limits the benefit the purchaser can receive as the related interest rate index falls. Once the underlying index falls below strike rate Y, the sold floor offsets the purchased floor. The interest rate corridor involves purchasing an interest rate cap at strike rate X and selling an interest rate cap with a higher strike rate Y. The purchaser of the corridor is paid when the underlying interest rate index resets above the strike rate X during the term of the corridor. The corridor limits the benefit the purchaser can receive as the related interest rate index rises above the strike rate Y. There is no additional liability to us other than the purchase price associated with the flooridor and corridor.

We also use credit default swaps to hedge financial and capital market risk. A credit default swap is a derivative contract that works like an insurance policy against the credit risk of an entity or obligation. The credit risk underlying the credit default swaps are referenced to the CMBX index. The CMBX is a group of indices that references underlying bonds from 25 Commercial Mortgage-Backed Securities (CMBS), tranched by rating class. The CMBX is traded via pay-as-you-go credit default swaps, which involve ongoing, two-way payments over the life of the contract between the buyer and the seller of protection. The reference obligations are CMBS bonds. The seller of protection assumes the credit risk of the reference obligation from the buyer of protection in exchange for payments of an annual premium. If there is a default or a loss, as defined in the credit default swap agreements, on the underlying bonds, then the buyer of protection, is protected against those losses.

All these derivatives are subject to master netting settlement arrangements and the credit default swaps are subject to credit support annexes. For credit default swaps, cash collateral is posted by us as well as our counterparty. We offset the fair value of the derivative and the obligation/right to return/reclaim cash collateral.

All derivatives are recorded at fair value in accordance with the applicable authoritative accounting guidance and reported as Derivative assets or Derivative liabilities. Accrued interest on the non-hedge designated interest rate derivatives is included in Accounts receivable, net in the consolidated balance sheets. For interest rate derivatives designated as cash flow hedges, the effective portion of changes in the fair value is reported as a component of Accumulated Other Comprehensive Income (Loss) (OCI) in the equity section of the consolidated balance sheets. The amount recorded in OCI is reclassified to interest expense in the same period or periods during which the hedged transaction affects earnings, while the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings as Unrealized gain (loss) on derivatives in the consolidated statements of operations. For non-hedge designated interest rate derivatives, the credit default swap derivatives and all other derivatives, the changes in the fair value are recognized in earnings as Unrealized gain (loss) on derivatives in the consolidated statements of operations.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2011, the FASB issued accounting guidance for common fair value measurement and disclosure requirements. The guidance requires disclosures of (i) quantitative information about the significant

Table of Contents

unobservable inputs used for level 3 measurements; (ii) description of the valuation processes surrounding level 3 measurements; (iii) narrative description of the sensitivity of recurring level 3 measurements to unobservable inputs; (iv) hierarchy classification for items whose fair value is only disclosed in the footnotes; and (v) any transfers between level 1 and 2 of the fair value hierarchy. The new accounting guidance is effective during interim and annual periods beginning after December 15, 2011. We do not expect a material impact on our financial position and results of operations from the adoption of this accounting guidance, but will make the required additional disclosures upon adoption.

In December 2011, the FASB issued accounting guidance to clarify how to determine whether a reporting entity should derecognize the in substance real estate upon loan defaults when it ceases to have controlling interest in a subsidiary that is in substance real estate. Under this guidance, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related non-recourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary s operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The new accounting guidance is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early adoption is permitted. We do not expect any impact on our financial position and results of operations from the adoption of this accounting guidance as our current accounting practice is to derecognize the in substance real estate when the legal title to the real estate is transferred to legally satisfy the non-recourse indebtedness.

In December 2011, the FASB issued accounting guidance to require disclosures about offsetting assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The new accounting guidance is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013 and the disclosures should be reported retrospectively for all comparative periods presented. We do not expect a material impact on our financial position and results of operations from the adoption of this accounting guidance, but will make the required additional disclosures upon adoption.

NON-GAAP FINANCIAL MEASURES

The following non-GAAP presentations of EBITDA, Adjusted EBITDA, FFO and Adjusted FFO are made to help our investors in evaluating our operating performance.

EBITDA is defined as net income (loss) attributable to the Company before interest expense, interest income other than interest income from mezzanine loans, income taxes, depreciation and amortization, and noncontrolling interests in the operating partnership. We adjust EBITDA to exclude certain additional items such as gains or losses on sales of properties, write-off of loan costs, premiums and exit fees, impairment of assets, acquisition related costs, non-cash items, and various other items which are detailed in the following table. We present EBITDA and Adjusted EBITDA because we believe they reflect more accurately the ongoing performance of our hotel assets and other investments and provide more useful information to investors as they are indicators of our ability to meet our future debt payment requirements, working capital requirements and they provide an overall evaluation of our financial condition. EBITDA and Adjusted EBITDA as calculated by us may not be comparable to EBITDA and Adjusted EBITDA reported by other companies that do not define EBITDA and Adjusted EBITDA exactly as we define the term. EBITDA and Adjusted EBITDA does not represent cash generated from operating activities determined in accordance with generally accepted accounting principles (GAAP), and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as determined by GAAP as a indicator of liquidity.

Table of Contents

The following table reconciles net loss to EBITDA and Adjusted EBITDA (in thousands) (unaudited):

	Year Ended December 31, 2011	2010	2009
Net loss	$ (117)	$ (61,792)	$ (288,660)
(Income) loss from consolidated joint ventures attributable to noncontrolling interests	(610)	1,683	765
Net loss attributable to redeemable noncontrolling interests in operating partnership	2,836	8,369	37,653
Net income (loss) attributable to the Company	2,109	(51,740)	(250,242)
Interest expense and amortization of loan costs	137,466	147,233	145,171
Depreciation and amortization	130,995	141,547	153,907
Income tax expense (benefit)	1,705	(132)	1,565
Impairment charges	1,395	82,055	218,878
Net loss attributable to redeemable noncontrolling interests in operating partnership	(2,836)	(8,369)	(37,653)
Interest income	(84)	(273)	(289)
Equity in (earnings) loss of unconsolidated joint ventures	(14,528)	20,265	(2,486)
Company s portion of EBITDA of unconsolidated joint ventures	104,807	1,325	2,486
EBITDA	361,029	331,911	231,337
Amortization of unfavorable management contract liability	(2,447)	(2,447)	(2,446)
(Gain) loss on sale/disposition of properties	(2,655)	(55,931)	511
Non-cash gain on insurance settlements	(1,287)		(1,329)
Write-off of loan costs, premiums and exit fees, net	1,677	3,893	181
Other income [(1)]	(109,524)	(62,906)	(52,282)
Transaction acquisition and contract termination costs	(793)	7,001	
Legal costs related to a litigation settlement [(2)]	6,875		
Debt restructuring costs	823		
Unrealized loss on investments	391		
Unrealized (gains) losses on derivatives	70,286	(12,284)	31,782
Company s portion of adjustments to EBITDA of unconsolidated joint ventures	(42,248)		
Adjusted EBITDA	$ 282,127	$ 209,237	$ 207,754

(1) Other income related to income from interest rate derivatives is excluded from the Adjusted EBITDA for all periods presented. In addition, the gain from litigation settlement, other income recognized for the acquisition of 11% ownership interest in a joint venture at no cost, the net investment loss on investments in securities and other, and the premiums and fees associated with credit default swaps are also excluded from Adjusted EBITDA for 2011.

(2) The legal costs associated with the litigation settlement are also excluded from Adjusted EBITDA for 2011.

We calculate Funds From Operations (FFO) and Adjusted FFO in the following table. FFO is calculated on the basis defined by the National Association of Real Estate Investment Trusts (NAREIT), which is net income (loss), computed in accordance with GAAP, excluding gains or losses on sales of properties and extraordinary items as defined by GAAP, plus depreciation and amortization of real estate assets, and net of adjustments for the portion of these items attributable to noncontrolling interests in the operating partnership. NAREIT developed FFO as a relative measure of performance of an equity REIT to recognize that income-producing real estate historically has not depreciated on the basis determined by GAAP. Our calculation of AFFO excludes write-off of loan costs, premiums and exit fees, impairment of assets, acquisition related costs, non-cash items, and various other items as detailed in the following table. Our calculation of AFFO assumes the conversion of the Series B-1 preferred stock to the shares of our common stock by increasing the FFO for the non-cash dividends paid to Series B-1 preferred stock and includes our share of AFFO of unconsolidated joint ventures. We consider FFO and AFFO to be appropriate measures of our ongoing normalized operating performance as a REIT. We compute FFO in accordance with our interpretation of standards established by

NAREIT, which may not be comparable to FFO reported by other REITs that either do not define the term in accordance with the current NAREIT definition or interpret the NAREIT definition differently than us. FFO and AFFO do not represent cash generated from operating activities as determined by GAAP and should not be considered as an alternative to a) GAAP net income or loss as an indication of our financial performance or b) GAAP cash flows from operating activities as a measure of our liquidity, nor is it indicative of funds available to satisfy our cash needs, including our ability to make cash distributions. However, to facilitate a clear understanding of our historical operating results, we believe that FFO and AFFO should be considered along with our net income or loss and cash flows reported in the consolidated financial statements.

The following table reconciles net loss to FFO and Adjusted FFO (in thousands) (unaudited):

	Year Ended December 31,		
	2011	**2010**	**2009**
Net loss	$ (117)	$ (61,792)	$ (288,660)
(Income) loss from consolidated joint ventures attributable to noncontrolling interests	(610)	1,683	765
Net loss attributable to redeemable noncontrolling interests in operating partnership	2,836	8,369	37,653
Preferred dividends	(46,876)	(21,194)	(19,322)
Net loss available to common shareholders	(44,767)	(72,934)	(269,564)
Depreciation and amortization on real estate	130,741	141,285	153,621
(Gain) loss on sale/disposition of properties/note receivable	(2,655)	(55,931)	511
Non-cash gain on insurance settlement	(1,287)		(1,329)
Impairment charges	1,395	82,055	218,878
Net loss attributable to redeemable noncontrolling interests in operating partnership	(2,836)	(8,369)	(37,653)
Equity in (earnings) loss of unconsolidated joint ventures	(14,528)	20,265	(2,486)
Company s portion of FFO of unconsolidated joint ventures	8,125	1,325	2,486
FFO available to common shareholders	74,188	107,696	64,464
Dividends on convertible preferred stock	1,374	4,143	4,171
Write-off of loan costs, premiums and exit fees, net	1,677	3,893	181
Transaction acquisition and contract termination costs	(793)	7,001	
Other income [(1)]	(38,663)		
Legal costs related to a litigation settlement [(2)]	6,875		
Debt restructuring costs	823		
Unrealized gain on investments	391		
Unrealized (gains) losses on derivatives	70,286	(12,284)	31,782
Non-cash dividends on Series B-1 preferred stock [(3)]	17,363		
Company s portion of adjustments to FFO of unconsolidated joint ventures	16,682		
Adjusted FFO available to common shareholders	$ 150,203	$ 110,449	$ 100,598

(1) For 2011, the gain from litigation settlement, other income recognized for the acquisition of 11% ownership interest in a joint venture at no cost, the net investment loss on investments in securities and other, and the premiums and fees associated with credit default swaps are excluded from Adjusted FFO.

(2) The legal costs associated with the litigation settlement are also excluded from the Adjusted FFO for 2011.

(3) Represents the conversion of 1.4 million shares of the Series B-1 preferred stock to shares of our common stock that was treated as a dividend in accordance with applicable accounting guidance.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Our primary market risk exposure consists of changes in interest rates on borrowings under our debt instruments, our derivatives portfolio and notes receivable that bear interest at variable rates that fluctuate with market interest rates. The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates.

At December 31, 2011, the total indebtedness of $2.4 billion included $517.7 million of variable-rate debt. The impact on the results of operations of a 25-basis point change in interest rate on the outstanding balance of variable-rate debt at December 31, 2011 would be approximately $1.2 million per year. Interest rate changes will have no impact on the remaining $1.9 billion of fixed rate debt.

The above amounts were determined based on the impact of hypothetical interest rates on our borrowings and assume no changes in our capital structure. As the information presented above includes only those exposures that existed at December 31, 2011, it does not consider exposures or positions that could arise after that date. Accordingly, the information presented herein has limited predictive value. As a result, the ultimate realized gain or loss with respect to interest rate fluctuations will depend on exposures that arise during the period, the hedging strategies at the time, and the related interest rates.

We primarily use interest rate derivatives in order to capitalize on the historical correlation between changes in LIBOR and RevPAR. Beginning in March 2008, we entered into various interest rate swap, cap, floor, and flooridor transactions that were not designated as hedges. The changes in the fair market values of these transactions are noncash items and recorded in earnings. The interest rate derivatives we entered into since 2008 have resulted in total income of approximately $196.1 million through December 31, 2011. Based on the LIBOR in effect on December 31, 2011, these derivatives are expected to result in income of approximately $31.5 million for 2012.

In August 2011, we entered into credit default swap transactions for a notional amount of $100.0 million to hedge financial and capital market risk. A credit default swap is a derivative contract that works like an insurance policy against the credit risk of an entity or obligation. The credit risk underlying the credit default swaps are referenced to the CMBX index. The CMBX is a group of indices that references underlying bonds from 25 Commercial Mortgage-Backed Securities (CMBS), tranched by rating class. The only liability for Ashford, the buyer of protection, is the annual premium and any change in value of the underlying CMBX index (if the trade is terminated prior to maturity). For the CMBX trades that we have completed, we were the buyer of protection in all trades. Assuming the underlying bonds pay off at par over their remaining average life, our total exposure for these trades is approximately $8.5 million.

Item 8. ***Financial Statements and Supplementary Data***

Index to Consolidated Financial Statements

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Ashford Hospitality Trust, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of Ashford Hospitality Trust, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These consolidated financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ashford Hospitality Trust, Inc. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas

February 28, 2012

Table of Contents

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 2011	December 31, 2010
Assets		
Investments in hotel properties, net	$ 2,957,899	$ 3,023,736
Cash and cash equivalents	167,609	217,690
Restricted cash	84,069	67,666
Accounts receivable, net of allowance of $212 and $298, respectively	28,623	27,493
Inventories	2,371	2,909
Notes receivable, net of allowance of $8,711 and $16,875, respectively	11,199	20,870
Investment in unconsolidated joint ventures	179,527	15,000
Assets held for sale		144,511
Investments in securities and other	21,374	
Deferred costs, net	17,421	17,519
Prepaid expenses	11,308	12,727
Derivative assets	37,918	106,867
Other assets	4,851	7,502
Intangible asset, net	2,810	2,899
Due from third-party hotel managers	62,747	49,135
Total assets	$ 3,589,726	$ 3,716,524
Liabilities and Equity		
Liabilities:		
Indebtedness of continuing operations	$ 2,362,458	$ 2,518,164
Indebtedness of assets held for sale		50,619
Capital leases payable		36
Accounts payable and accrued expenses	82,282	79,248
Dividends payable	16,941	7,281
Unfavorable management contract liabilities	13,611	16,058
Due to related party	2,569	2,400
Due to third-party hotel managers	1,602	1,870
Liabilities associated with investments in securities and other	2,246	
Other liabilities	5,400	4,627
Other liabilities of assets held for sale		2,995
Total liabilities	2,487,109	2,683,298
Commitments and contingencies (Note 13)		
Series B-1 cumulative convertible redeemable preferred stock, $0.01 par value, 7,247,865 shares issued and outstanding at December 31, 2010		72,986
Redeemable noncontrolling interests in operating partnership	112,796	126,722
Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized		
Series A cumulative preferred stock, 1,487,900 shares issued and outstanding	15	15
Series D cumulative preferred stock, 8,966,797 shares issued and outstanding, respectively	90	90
Series E cumulative preferred stock, 4,630,000 shares issued and outstanding at December 31, 2011	46	
Common stock, $0.01 par value, 200,000,000 shares authorized, 124,896,765 shares and 123,403,893 shares issued, respectively; and 68,032,289 shares and 58,999,324 shares outstanding, respectively	1,249	1,234

Additional paid-in capital	1,746,259	1,552,657
Accumulated other comprehensive loss	(184)	(550)
Accumulated deficit	(609,272)	(543,788)
Treasury stock, at cost, 56,864,476 and 64,404,569 shares, respectively	(164,796)	(192,850)
Total shareholders equity of the Company	973,407	816,808
Noncontrolling interests in consolidated joint ventures	16,414	16,710
Total equity	989,821	833,518
Total liabilities and equity	$ 3,589,726	$ 3,716,524

See Notes to Consolidated Financial Statements.

Table of Contents

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Year Ended December 31,		
	2011	**2010**	**2009**
Revenue			