ASHFORD HOSPITALITY TRUST INC
Form 10-Q
August 03, 2012

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

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)

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 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $0.01 par value per share	68,163,909
(Class)	Outstanding at August 3, 2012

ASHFORD HOSPITALITY TRUST, INC
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2012

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)	1
Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011	1
Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2012 and 2011	2
Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2012 and 2011	3
Consolidated Statement of Changes in Equity for the Six Months Ended June 30, 2012	4
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011	5
Notes to Consolidated Financial Statements	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	27
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	40
ITEM 4. CONTROLS AND PROCEDURES	40
PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	41
ITEM 1A. RISK FACTORS	41
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	41
ITEM 6. EXHIBITS	42
SIGNATURES	43

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Investment in hotel properties, net	$2,929,113	$ 2,957,899
Cash and cash equivalents	139,466	167,609
Restricted cash	76,558	84,069
Accounts receivable, net of allowance of $246 and $212, respectively	41,167	28,623
Inventories	2,366	2,371
Notes receivable	11,262	11,199
Investment in unconsolidated joint ventures	169,246	179,527
Investments in securities and other	30,739	21,374
Deferred costs, net	18,265	17,421
Prepaid expenses	13,897	11,308
Derivative assets	22,253	37,918
Other assets	5,467	4,851
Intangible asset, net	2,765	2,810
Due from third-party hotel managers	62,115	62,747
Total assets	$3,524,679	$ 3,589,726
Liabilities and Equity		
Liabilities:		
Indebtedness	$2,318,943	$ 2,362,458
Accounts payable and accrued expenses	94,232	82,282
Dividends payable	18,260	16,941
Unfavorable management contract liabilities	12,482	13,611
Due to related party, net	2,330	2,569
Due to third-party hotel managers	2,146	1,602
Liabilities associated with investments in securities and other	9,953	2,246
Other liabilities	5,435	5,400
Total liabilities	2,463,781	2,487,109
Redeemable noncontrolling interests in operating partnership	126,466	112,796
Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized:		
Series A Cumulative Preferred Stock, 1,657,206 shares issued and outstanding at June 30, 2012 and 1,487,900 shares issued and outstanding at December 31, 2011	17	15
Series D Cumulative Preferred Stock, 9,468,706 shares issued and outstanding at June 30, 2012 and 8,966,797 shares issued and outstanding at December 31, 2011	95	90
Series E Cumulative Preferred Stock, 4,630,000 shares issued and outstanding	46	46
Common stock, $0.01 par value, 200,000,000 shares authorized, 124,896,765 shares issued, 68,163,909 and 68,032,289 shares outstanding, respectively	1,249	1,249
Additional paid-in capital	1,761,158	1,746,259
Accumulated other comprehensive loss	(261)	(184)

Accumulated deficit	(679,533)	(609,272)
Treasury stock, at cost (56,732,856 shares and 56,864,476 shares, respectively)	(164,829)	(164,796)
Total shareholders’ equity of the Company	917,942	973,407
Noncontrolling interests in consolidated joint ventures	16,490	16,414
Total equity	934,432	989,821
Total liabilities and equity	$3,524,679	$ 3,589,726

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
REVENUE	(Unaudited)		(Unaudited)	
Rooms	$194,188	$177,040	$368,736	$339,789
Food and beverage	44,415	41,242	86,117	79,649
Rental income from operating leases	—	1,484	—	2,704
Other	10,453	10,253	20,015	19,599
Total hotel revenue	249,056	230,019	474,868	441,741
Asset management fees and other	77	80	152	148
Total Revenue	249,133	230,099	475,020	441,889
EXPENSES				
Hotel operating expenses:				
Rooms	42,852	39,205	82,590	76,251
Food and beverage	28,758	27,121	57,401	53,602
Other expenses	75,715	68,928	145,061	134,402
Management fees	10,047	9,184	19,198	18,043
Total hotel operating expenses	157,372	144,438	304,250	282,298
Property taxes, insurance, and other	10,525	11,769	22,680	22,656
Depreciation and amortization	34,184	33,027	68,539	65,804
Impairment charges	4,025	(4,316)	3,933	(4,656)
Gain on insurance settlements	—	(1,905)	—	(1,905)
Transaction acquisition costs	—	406	—	(818)
Corporate, general, and administrative	11,930	11,005	22,176	24,888
Total Operating Expenses	218,036	194,424	421,578	388,267
OPERATING INCOME	31,097	35,675	53,442	53,622
Equity in earnings (loss) of unconsolidated joint ventures	23	(2,301)	(10,281)	25,824
Interest income	22	23	54	59
Other income	6,703	18,157	14,317	66,160
Interest expense and amortization of loan costs	(36,589)	(34,808)	(71,794)	(69,386)
Unrealized gain on investments	1,628	39	3,413	39
Unrealized loss on derivatives	(7,458)	(17,733)	(17,399)	(34,550)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(4,574)	(948)	(28,248)	41,768
Income tax expense	(1,366)	(285)	(2,245)	(1,329)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(5,940)	(1,233)	(30,493)	40,439
Loss from discontinued operations	—	(6,029)	—	(3,819)
NET INCOME (LOSS)	(5,940)	(7,262)	(30,493)	36,620
(Income) loss from consolidated joint ventures attributable to noncontrolling interests	(54)	(438)	224	(1,369)
Net (income) loss attributable to redeemable noncontrolling interests in operating partnership	1,180	3,389	4,238	(1,729)
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	(4,814)	(4,311)	(26,031)	33,522
Preferred dividends	(8,490)	(24,771)	(16,822)	(31,326)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(13,304)	$(29,082)	$(42,853)	$2,196

INCOME (LOSS) PER SHARE - BASIC AND DILUTED:				
Basic:				
Income (loss) from continuing operations attributable to common shareholders	$(0.20)	$(0.40)	$(0.64)	$0.11
Loss from discontinued operations attributable to common shareholders	—	(0.09)	—	(0.07)
Net income (loss) attributable to common shareholders	$(0.20)	$(0.49)	$(0.64)	$0.04
Weighted average common shares outstanding – basic	67,639	59,482	67,396	58,157
Diluted:				
Income (loss) from continuing operations attributable to common shareholders	$(0.20)	$(0.40)	$(0.64)	$0.11
Loss from discontinued operations attributable to common shareholders	—	(0.09)	—	(0.07)
Net income (loss) attributable to common shareholders	$(0.20)	$(0.49)	$(0.64)	$0.04
Weighted average common shares outstanding – diluted	67,639	59,482	67,396	58,157
Dividends declared per common share	$0.11	$0.10	$0.22	$0.20
Amounts attributable to common shareholders:				
Income (loss) from continuing operations, net of tax	$(4,814)	$969	$(26,031)	$37,768
Loss from discontinued operations, net of tax	—	(5,280)	—	(4,246)
Preferred dividends	(8,490)	(24,771)	(16,822)	(31,326)
Net income (loss) attributable to common shareholders	$(13,304)	$(29,082)	$(42,853)	$2,196

See Notes to Consolidated Financial Statements.

2

Table of Contents

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Net income (loss)	$(5,940)	$(7,262)	$(30,493)	$36,620
Other comprehensive income (loss), net of tax:				
Change in unrealized loss on derivatives	(102)	(24)	(111)	(16)
Reclassification to interest expense	11	206	23	392
Total other comprehensive income (loss)	(91)	182	(88)	376
Comprehensive income (loss)	(6,031)	(7,080)	(30,581)	36,996
Less: Comprehensive (income) loss attributable to noncontrolling interests in consolidated joint ventures	(54)	(479)	224	(1,445)
Less: Comprehensive (income) loss attributable to redeemable noncontrolling interests in operating partnership	1,180	3,372	4,238	(1,766)
Comprehensive income (loss) attributable to the Company	$(4,905)	$(4,187)	$(26,119)	$33,785

See Notes to Consolidated Financial Statements.

Table of Contents

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)
(in thousands)

	Preferred Stock Series A		Series D		Series E		Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		N In In C Jo V
	Shares	Amounts	Shares	Amounts	Shares	Amounts	Shares	Amounts				Shares	Amounts	
Balance at January 1, 2012	1,488	$15	8,967	$90	4,630	$46	124,897	$1,249	$1,746,259	$(609,272)	$(184)	(56,864)	$(164,796)	$
Equity-based Compensation	—	—	—	—	—	—	—	—	1,788	—	—	—	—	—
Forfeitures of Restricted Common Shares	—	—	—	—	—	—	—	—	56	—	—	(73)	(589)	—
Issuance of Restricted Shares/Units	—	—	—	—	—	—	—	—	(556)	—	—	204	556	—
Issuances of Preferred Shares	169	2	502	5	—	—	—	—	15,976	—	—	—	—	—
Dividends Declared- Common Shares	—	—	—	—	—	—	—	—	—	(14,998)	—	—	—	—
Dividends Declared- Preferred Shares- Series A	—	—	—	—	—	—	—	—	—	(1,746)	—	—	—	—
Dividends Declared- Preferred Shares- Series D	—	—	—	—	—	—	—	—	—	(9,867)	—	—	—	—
Dividends Declared – Preferred Shares- Series E	—	—	—	—	—	—	—	—	—	(5,209)	—	—	—	—
Net Unrealized Loss on Derivative Instruments	—	—	—	—	—	—	—	—	—	—	(98)	—	—	—
Reclassification to Interest	—	—	—	—	—	—	—	—	—	—	21	—	—	—

Expense														
Contributions from Noncontrolling Interests	—	—	—	—	—	—	—	—	—	—	—	—	—	3
Distributions to Noncontrolling Interests	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Redemption Value Adjustment	—	—	—	—	—	—	—	—	—	(12,410)	—	—	—	—
Unvested Operating Partnership Units Adjustment	—	—	—	—	—	—	—	—	(2,365)	—	—	—	—	—
Net Loss	—	—	—	—	—	—	—	—	—	(26,031)	—	—	—	(2
Balance at June 30, 2012	1,657	$17	9,469	$95	4,630	$46	124,897	$1,249	$1,761,158	$(679,533)	$(261)	(56,733)	$(164,829)	$

See Notes to Consolidated Financial Statements.

4

Table of Contents

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30,	
	2012	2011
Cash Flows from Operating Activities	(Unaudited)	
Net income (loss)	$(30,493)	$36,620
Adjustments to reconcile net income (loss) to net cash flow provided by operating activities:		
Depreciation and amortization	68,539	66,196
Impairment charges	3,933	1,581
Gain on insurance settlements	—	(1,905)
Amortization of loan costs, write-off of loan costs, and exit fees	2,678	3,338
Equity in (earnings) loss of unconsolidated joint ventures	10,281	(25,824)
Income from financing derivatives	(15,935)	(36,160)
Gain on disposition of hotel properties	—	(2,961)
Realized and unrealized gains on trading securities	(1,730)	(39)
Purchases of trading securities	(32,739)	—
Sales of trading securities	32,538	—
Net settlement of trading derivatives	(1,435)	—
Unrealized loss on derivatives	17,399	34,550
Equity-based compensation	9,369	5,360
Changes in operating assets and liabilities:		
Restricted cash	7,511	(6,591)
Accounts receivable and inventories	(13,123)	(12,148)
Prepaid expenses and other assets	(3,249)	(3,247)
Accounts payable and accrued expenses	14,817	8,844
Due to/from related parties	(239)	(744)
Due to/from third-party hotel managers	1,176	(5,713)
Other liabilities	(1,094)	(1,080)
Net cash provided by operating activities	68,204	60,077
Cash Flows from Investing Activities		
Proceeds from payments of notes receivable	123	22,487
Net proceeds from sales of hotel properties	—	144,077
Investment in unconsolidated joint venture	—	(145,750)
Acquisition of condominium properties	—	(12,000)
Improvements and additions to hotel properties	(44,086)	(28,348)
Insurance proceeds	—	748
Net cash used in investing activities	(43,963)	(18,786)
Cash Flows from Financing Activities		
Borrowings on indebtedness	135,000	25,000
Repayments of indebtedness and capital leases	(180,912)	(150,494)
Payments of deferred loan costs	(3,666)	(2,369)
Payments of dividends	(35,044)	(21,909)
Payments for derivatives	(137)	(25)
Cash income from derivatives	16,028	36,407
Issuance of common stock	—	2,814

Issuances of preferred stock	15,983	80,832
Contributions from noncontrolling interests in consolidated joint ventures	300	—
Distributions to noncontrolling interests in consolidated joint ventures	—	(3,000)
Repurchase of Series B-1 preferred stock	—	(72,986)
Other	64	970
Net cash used in financing activities	(52,384)	(104,760)
Net decrease in cash and cash equivalents	(28,143)	(63,469)
Cash and cash equivalents at beginning of period	167,609	217,690
Cash and cash equivalents at end of period	$139,466	$154,221
Supplemental Cash Flow Information		
Interest paid	$68,873	$66,273
Income taxes (refunded) paid	$(204)	$1,551
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Accrued interest added to principal of indebtedness	$2,397	$2,111
Asset contributed to unconsolidated joint venture	$—	$15,000

See Notes to Consolidated Financial Statements.

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Description of Business

Ashford Hospitality Trust, Inc., together with its subsidiaries (“Ashford”), is a self-advised 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. We commenced operations in August 2003 with the acquisition of six hotels in connection with our initial public offering. We own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership ("AHLP"), our operating partnership. Ashford OP General Partner LLC, a wholly-owned subsidiary of Ashford, serves as the sole general partner of our operating partnership. In this report, terms such as the "Company,” “we,” “us,” or “our” refer to Ashford Hospitality Trust, Inc. and all entities included in its consolidated financial statements.

As of June 30, 2012, we owned interests in the following hotel properties (all located in the United States):
•92 hotel properties directly and four hotel properties through majority-owned investments in consolidated joint ventures, which represents 20,656 total rooms (or 20,395 net rooms excluding those attributable to our joint venture partners),
•28 hotel properties through a 71.74% common equity interest and a 50.0% preferred equity interest in an unconsolidated joint venture (“PIM Highland JV”), which represents 8,084 total rooms (or 5,800 net rooms excluding those attributable to our joint venture partner), and
•94 hotel condominium units at WorldQuest Resort in Orlando, Florida.

As of June 30, 2012, we also owned two notes receivable: a mezzanine loan with a carrying value of $3.2 million and a city government note of $8.1 million.

For federal income tax purposes, we elected to be treated as a REIT, which imposes limitations related to operating hotels. As of June 30, 2012, our 96 consolidated hotel properties ("legacy hotel properties") were leased or owned by our 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. As of June 30, 2012, the 28 hotel properties owned by our unconsolidated joint venture, PIM Highland JV, are leased to its wholly owned subsidiary that is treated as a taxable REIT subsidiary for federal income tax purposes.

As of June 30, 2012, Remington Lodging & Hospitality, LLC, together with its affiliates (“Remington Lodging”), which is beneficially wholly owned by Mr. Archie Bennett, Jr., our Chairman, and Mr. Monty J. Bennett, our Chief Executive Officer, managed 45 of our 96 legacy hotel properties, 21 of the 28 PIM Highland JV hotel properties, and WorldQuest Resort. Third-party management companies managed the remaining hotel properties.

2. Significant Accounting Policies

Basis of Presentation – The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These consolidated financial statements include the accounts of Ashford, its majority-owned

subsidiaries, and its majority-owned joint ventures in which it has a controlling interest. All significant intercompany accounts and transactions between consolidated entities have been eliminated in these consolidated financial statements. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in our 2011 Annual Report to Shareholders on Form 10-K and Form 10-K/A filed with the Securities and Exchange Commission ("SEC") on February 28, 2012 and March 26, 2012, respectively.

The following items affect reporting comparability related to our consolidated financial statements:

- Historical seasonality patterns at some of our properties cause fluctuations in our overall operating results. Consequently, operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Marriott International, Inc. (“Marriott”) manages 40 of our legacy hotel properties. For these Marriott-managed hotels, the fiscal year reflects twelve weeks of operations in each of the first three quarters of the year and 16 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 second quarters of 2012 and 2011 ended June 15 and June 17, respectively.

Use of Estimates – The preparation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investments in Hotel Properties – Hotel properties are generally stated at cost. However, four hotel properties contributed upon Ashford's formation in 2003 are stated at the predecessor's historical cost, net of impairment charges, if any, plus a partial step-up related to the acquisition of noncontrolling interests from third parties associated with certain of these 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 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. For the three and six months ended June 30, 2012, we recognized an impairment charge of $4.1 million related to our Hilton hotel property in Tucson, Arizona, which is included in continuing operations. For the three and six months ended June 30, 2011, no impairment charges were recorded for investment in hotel properties included in continuing operations.

Notes Receivable – Mezzanine loan financing, classified as notes receivable, represents loans held for investment and intended to be held to maturity. Accordingly, these notes are recorded at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and 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 adjustments to impairment charges. No interest income was recorded for the three and six months ended June 30, 2012 and 2011.

Variable interest entities (“VIEs”), as defined by authoritative accounting guidance, must be consolidated by their controlling interest beneficiaries if the VIEs do not effectively disperse risks among the parties involved. Our remaining mezzanine note receivable at June 30, 2012 is secured by a hotel property and is subordinate to the controlling interest in the secured hotel property. Although the note receivable is considered to be a variable interest in the entity that owns the related hotel, we are not considered to be the primary beneficiary of the hotel property as a result of holding the loan. Therefore, we do not consolidate the hotel property for which we have provided financing.

We will evaluate interests in entities acquired or created in the future 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 each reporting period. A loan is impaired when, based on current information and events, collection of all amounts recorded as assets on the balance sheet is no longer considered probable. 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. Loan impairments are recorded as a valuation allowance and a charge to earnings. Our assessment of impairment is based on considerable judgment and estimates. No impairment charges were recorded during the three and six months ended June 30, 2012 and 2011. Valuation adjustments of $95,000 and $187,000 on previously impaired notes were credited to impairment charges during the three and six months ended

June 30, 2012, respectively. Valuation adjustments of $4.3 million and $4.7 million on previously impaired notes were credited to impairment charges during the three and six months ended June 30, 2011, respectively.

Investments in Unconsolidated Joint Ventures – Investments in unconsolidated 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 ventures' net income (loss). We review investments in our unconsolidated joint ventures for impairment in each reporting period. 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 impairments were recorded in the three and six months ended June 30, 2012 and 2011.

Our investments in unconsolidated joint ventures are considered to be variable interests in the underlying entities. VIEs, 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 the 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 our unconsolidated joint ventures’ activities and operations, we are not considered to be the primary beneficiary of these joint ventures. Although we have a 71.74% majority ownership in PIM Highland JV, all major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs and 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. As a result, we utilize the equity accounting method with respect to PIM Highland JV, which had a carrying value of $169.2 million at June 30, 2012 based on our share of the joint venture’s equity. We will evaluate the interests in entities acquired or created in the future to determine whether such entities should be consolidated. In evaluating VIEs, our analysis involves considerable management judgment and assumptions.

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 combined fair values of any consideration received plus 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 the three and six months ended June 30, 2012, no hotel properties were classified as assets held for sale or reported as discontinued operations. During the three and six months ended June 30, 2011, assets held for sale and discontinued operations included four hotel properties, of which a net gain of $3.0 million was recognized related to the three hotels sold during the six months ended June 30, 2011 and an impairment charge of $6.2 million was recognized related to the fourth hotel which was under contract to sell at June 30, 2011.

Investments in Securities and Other – Securities and other investments, including U.S. treasury bills, stocks, and put and call options of certain publicly traded companies, are recorded at fair value. Put and call options are considered

derivatives. The fair value of these investments is 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. On the consolidated statements of operations, net investment income, including interest income (expense), dividends and related costs incurred, and realized gains or losses, is reported as a component of “Other income” while unrealized gains and losses on these investments are reported as “Unrealized gain (loss) on investments."

Revenue Recognition – Hotel revenues, including room, food, beverage, and ancillary revenues such as long-distance telephone service, laundry, parking, and space rentals, are recognized when services have been rendered. In 2011, rental income represents income from leasing a hotel property to a third-party tenant on a triple-net operating lease, which included base rent recognized on a straight-line basis over the lease term and variable rent recognized when earned. The remaining 11% ownership in this hotel property was assigned to us in December 2011 and the lease agreement was canceled. Interest income is recognized when earned. We discontinue recording interest and amortizing discounts/premiums when the contractual payment of interest and/or principal is not received. Asset management fees are recognized when services are rendered. Sales taxes collected from customers

and submitted to taxing authorities are not recorded in revenue.

Derivatives and Hedges – We primarily use interest rate derivatives to hedge our risks and to capitalize on the historical correlation between changes in LIBOR (London Interbank Offered Rate) and RevPAR (Revenue per Available Room). Interest rate derivatives could include swaps, caps, floors, flooridors, and corridors. We assess the effectiveness of each hedging relationship by comparing changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. We also use credit default swaps to hedge financial and capital market risk. 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.

Derivatives are recorded at fair value and reported as “Derivative assets” or “Derivative liabilities” while credit default swaps are recorded at fair value as “Investments in securities and other” or “Liabilities associated with investments in securities and other” in the consolidated balance sheets. Accrued interest on 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:

a) the effective portion of changes in fair value is initially reported as a component of “Accumulated Other Comprehensive Income (Loss)” (“OCI”) in the equity section of the consolidated balance sheets and reclassified to interest expense in the consolidated statements of operations in the period during which the hedged transaction affects earnings, and

b) the ineffective portion of changes in fair value is recognized directly in earnings as “Unrealized gain (loss) on derivatives” in the consolidated statements of operations.

For non-hedge designated interest rate derivatives and credit default swaps, changes in fair value are recognized in earnings as “Unrealized gain (loss) on derivatives” in the consolidated statements of operations.

Income Taxes - As a REIT, we generally will not be subject to federal corporate income tax on the portion of our net income (loss) that does not relate to taxable REIT subsidiaries. However, Ashford TRS is treated as a taxable REIT subsidiary for federal income tax purposes. In accordance with authoritative accounting guidance, we account for income taxes related to Ashford TRS using the asset and liability method under which deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective bases. In addition, the analysis utilized by us in determining our deferred tax asset valuation allowance involves considerable management judgment and assumptions.

Recently Adopted 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 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 have adopted this accounting guidance and made the additional required disclosures in Notes 10, 11, and 12. The adoption of this accounting guidance did not affect our financial position or results of operations.

Recently Issued Accounting Standards – 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 a 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 will adopt the new derecognition requirements when a derecognition event occurs and do not expect the adoption will have a material impact on our financial position and results of operations.

In December 2011, the FASB issued accounting guidance to require disclosures about offsetting assets and liabilities. Entities are required to disclose both gross 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, 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 any 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.

Reclassifications – Certain amounts in the consolidated financial statements for the three and six months ended June 30, 2011 have been reclassified to conform with the 2012 presentation. These reclassifications have no effect on our cash flows, equity, or net income (loss) previously reported.

3. Summary of Significant Transactions

Credit Facility Capacity Expansion - On February 21, 2012, we expanded our borrowing capacity under our $105.0 million senior credit facility to an aggregate $145.0 million, with the option, subject to lender approval, to further expand the facility to an aggregate size of $225.0 million.

At-the-Market Preferred Stock Offering – On March 2, 2012, we commenced issuances of preferred stock under our 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 in total proceeds. During the three and six months ended June 30, 2012, we issued 48,575 and 169,306 shares of 8.55% Series A Cumulative Preferred Stock for $1.2 million and $4.2 million gross proceeds, respectively, and 252,227 and 501,909 shares of 8.45% Series D Cumulative Preferred Stock for $6.2 million and $12.3 million gross proceeds, respectively. Such proceeds, net of commissions and other expenses, were $7.3 million and $16.0 million for the three and six months ended June 30, 2012, respectively.

Refinanced our $167.2 Million Mortgage Loan - On May 9, 2012, we refinanced our $167.2 million mortgage loan, due May 2012, having an interest rate of LIBOR plus 1.65%, with a $135.0 million mortgage loan, due May 2014, having an interest rate of LIBOR plus 6.50%. Our Doubletree Guest Suites hotel property in Columbus, Ohio, which was one of ten hotels securing our $167.2 million mortgage loan, is no longer encumbered as nine hotels secure our $135.0 million mortgage loan.

4. Investments in Hotel Properties

Investments in hotel properties consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Land	$486,458	$487,184
Buildings and improvements	2,790,569	2,779,828
Furniture, fixtures, and equipment	304,897	276,292
Construction in progress	5,374	5,841
Condominium properties	12,691	12,661
Total cost	3,599,989	3,561,806
Accumulated depreciation	(670,876)	(603,907)

Investment in hotel properties, net	$2,929,113	$2,957,899

At June 30, 2012, our Hilton hotel property in Tucson, Arizona, which is included in continuing operations, had a reasonable probability of being sold or foreclosed upon as operating cash flows are not anticipated to cover principal and interest payments of the related $19.7 million debt secured by this hotel. In addition, regarding this loan, we did not make our $93,500 interest payment due on August 1, 2012. Based on our assessment, which included marketing this hotel for sale, we concluded that the carrying value of this asset would not be recoverable. Consequently, in the second quarter of 2012, we recognized an impairment charge of $4.1 million related to this hotel, which reduced its carrying value to $19.7 million and represents our estimate of its fair value. The impairment charge was based on methodologies discussed in Note 2, which are considered level 3

valuation techniques.

5. Notes Receivable

As of June 30, 2012 and December 31, 2011, in connection with the restructuring of a joint venture, we owned a note receivable of $8.1 million from a city government. The note bears interest at a rate of 12.85% and matures in 2018.

In addition, as of June 30, 2012 and December 31, 2011, we had one mezzanine loan receivable with a net carrying value of $3.2 million and $3.1 million, respectively, net of a valuation allowance of $8.5 million and $8.7 million, respectively. This note is secured by one hotel property, bears interest at a rate of 6.09%, and matures in 2017. All required payments on this loan are current. Ongoing payments are treated as reductions of carrying value with related valuation allowance adjustments recorded as credits to impairment charges.

6. Investment in Unconsolidated Joint Ventures

Effective March 10, 2011, PIM Highland JV, a 28-hotel-property portfolio, became an investment in unconsolidated joint venture when we acquired a 71.74% common equity interest and a $25.0 million, or 50%, preferred equity interest earning an accrued but unpaid 15% annual return with priority over common equity distributions. Although we have majority ownership in PIM Highland JV, all major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs and 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. As a result, we utilize the equity accounting method with respect to PIM Highland JV, which had a carrying value of $169.2 million and $179.5 million at June 30, 2012 and December 31, 2011, respectively. Upon its inception in 2011, PIM Highland JV recognized a gain of $82.1 million (which was finalized in the fourth quarter of 2011), of which our share was $46.3 million, related to a bargain purchase and settlement of a preexisting relationship.

Mortgage and mezzanine loans securing PIM Highland JV are nonrecourse to the borrowers, except for customary exceptions or carve-outs that trigger recourse liability to the borrowers in certain limited instances. 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 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.

The following tables summarize the consolidated balance sheets as of June 30, 2012 and December 31, 2011 and the consolidated statements of operations for the three and six months ended June 30, 2012, the three months ended June 30, 2011, and the period from March 10, 2011 (inception) through June 30, 2011 of the PIM Highland JV (in thousands):
PIM Highland JV
Consolidated Balance Sheets

	June 30, 2012	December 31, 2011
Total assets	$1,395,569	$1,400,264
Total liabilities	1,141,339	1,132,977
Members' equity	254,230	267,287
Total liabilities and members' equity	$1,395,569	$1,400,264
Our ownership interest in PIM Highland JV	$169,246	$179,527

Table of Contents
ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

PIM Highland JV
Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	Period From March 10 to June 30,
	2012	2011	2012	2011
Total revenue	$112,802	$107,995	$206,054	$131,474
Deprecation and amortization	(18,026)	(17,672)	(35,811)	(23,522)
Corporate, general, and administrative	(1,133)	(797)	(2,074)	(970)
Other operating expenses	(76,010)	(75,110)	(147,351)	(108,888)
Operating income (loss)	17,633	14,416	20,818	(1,906)
Interest expense and amortization of loan costs	(15,863)	(15,006)	(31,366)	(18,874)
Gain recognized at acquisition (1)	—	—	—	75,372
Other expenses	(1)	(1,049)	(45)	(1,639)
Income tax expense	(1,089)	(1,568)	(2,463)	(1,807)
Net income (loss)	$680	$(3,207)	$(13,056)	$51,146
Our equity in earnings (loss) of PIM Highland JV	$23	$(2,301)	$(10,281)	$25,824

(1) In the fourth quarter of 2011, upon completion of the purchase price allocation, this gain was adjusted to $82.1 million.

Additionally, as of June 30, 2012 and December 31, 2011, we had a 14.4% subordinated beneficial interest in a trust that holds the Four Seasons hotel property in Nevis, which had a zero carrying value.

7. Assets Held for Sale and Discontinued Operations

During the six months ended June 30, 2011, we a) recognized a net gain of $3.0 million related to sales of the JW Marriott San Francisco in California, the Hilton Rye Town in New York, and the Hampton Inn Houston in Texas, which were sold during that period, and b) recognized an impairment charge of $6.2 million related to the Hampton Inn hotel in Jacksonville, Florida, which was sold in the third quarter of 2011. Operating results of these hotel properties are reported as discontinued operations for all periods presented. No hotel properties were recorded as discontinued operations for the three and six months ended June 30, 2012.

The following table summarizes the operating results of the discontinued hotel properties (in thousands):

Table of Contents

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Hotel revenues	$747	$10,248
Hotel operating expenses	(415)	(7,910)
Operating income	332	2,338
Property taxes, insurance, and other	(86)	(769)
Depreciation and amortization	(196)	(392)
Impairment charges	(6,237)	(6,237)
Gain on disposal of properties	158	2,961
Interest expense and amortization of loan costs	—	(687)
Write-off of premiums, loan costs, and exit fees	—	(948)
Loss from discontinued operations before income tax expense	(6,029)	(3,734)
Income tax expense	—	(85)
Loss from discontinued operations	(6,029)	(3,819)
Income from discontinued operations attributable to noncontrolling interest in consolidated joint venture	—	(1,031)
Loss from discontinued operations attributable to redeemable noncontrolling interest in operating partnership	749	604
Loss from discontinued operations attributable to the Company	$(5,280)	$(4,246)

13

8. Indebtedness

Indebtedness consisted of the following (in thousands):

Indebtedness	Collateral	Maturity	Interest Rate	June 30, 2012	December 31, 2011
Mortgage loan	2 hotels	Aug-13	LIBOR (1) + 2.75%	$143,667	$145,667
Mortgage loan [3]	5 hotels	Mar-14	LIBOR (1) + 4.50%	176,400	