ASHFORD HOSPITALITY TRUST INC
Form 10-Q
May 08, 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 March 31, 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	68,145,297
(Class)	Outstanding at May 8, 2012

ASHFORD HOSPITALITY TRUST, INC
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2012

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS (Unaudited)	1
Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011	1
Consolidated Statements of Operations for the Three Months Ended March 31, 2012 and 2011	1
Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended March 31, 2012 and 2011	1
Consolidated Statement of Changes in Equity for the Three Months Ended March 31, 2012	1
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and 2011	2
Notes to Consolidated Financial Statements	3
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	21
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	32
ITEM 4. CONTROLS AND PROCEDURES	33
PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	33
ITEM 1A. RISK FACTORS	33
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	33
ITEM 6. EXHIBITS	34
SIGNATURES	35

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Investments in hotel properties, net	$2,945,706	$ 2,957,899
Cash and cash equivalents	150,386	167,609
Restricted cash	96,239	84,069
Accounts receivable, net of allowance of $189 and $212, respectively	39,039	28,623
Inventories	2,368	2,371
Notes receivable	11,229	11,199
Investment in unconsolidated joint ventures	169,224	179,527
Investments in securities and other	27,505	21,374
Deferred costs, net	16,346	17,421
Prepaid expenses	11,002	11,308
Derivative assets	30,163	37,918
Other assets	4,962	4,851
Intangible assets, net	2,788	2,810
Due from third-party hotel managers	59,210	62,747
Total assets	$3,566,167	$ 3,589,726
Liabilities and Equity		
Liabilities:		
Indebtedness	$2,357,445	$ 2,362,458
Accounts payable and accrued expenses	87,713	82,282
Dividends payable	18,103	16,941
Unfavorable management contract liabilities	13,047	13,611
Due to related party	919	2,569
Due to third-party hotel managers	2,432	1,602
Liabilities associated with investments in securities and other	6,963	2,246
Other liabilities	6,265	5,400
Total liabilities	2,492,887	2,487,109
Redeemable noncontrolling interests in operating partnership	132,231	112,796
Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized:		
Series A Cumulative Preferred Stock, 1,608,631 and 1,487,900 shares issued and outstanding, respectively	16	15
Series D Cumulative Preferred Stock, 9,216,479 and 8,966,797 shares issued and outstanding, respectively	92	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, 68,184,960 and 68,032,289 shares outstanding, respectively	1,249	1,249
Additional paid-in capital	1,750,072	1,746,259
Accumulated other comprehensive loss	(181)	(184)

Accumulated deficit	(661,454)	(609,272)
Treasury stock, at cost (56,711,805 and 56,864,476 shares, respectively)	(165,227)	(164,796)
Total shareholders' equity of the Company	924,613	973,407
Noncontrolling interests in consolidated joint ventures	16,436	16,414
Total equity	941,049	989,821
Total liabilities and equity	$3,566,167	$3,589,726

See Notes to Consolidated Financial Statements.

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2012	2011
REVENUE	(Unaudited)	
Rooms	$174,548	$162,750
Food and beverage	41,702	38,407
Rental income from operating leases	—	1,220
Other	9,562	9,345
Total hotel revenue	225,812	211,722
Asset management fees and other	75	68
Total Revenue	225,887	211,790
EXPENSES		
Hotel operating expenses:		
Rooms	39,739	37,046
Food and beverage	28,643	26,481
Other expenses	69,346	65,474
Management fees	9,151	8,859
Total hotel operating expenses	146,879	137,860
Property taxes, insurance, and other	12,153	10,887
Depreciation and amortization	34,355	32,777
Impairment charges	(92)	(340)
Transaction acquisition costs	—	(1,224)
Corporate, general, and administrative	10,247	13,883
Total Operating Expenses	203,542	193,843
OPERATING INCOME	22,345	17,947
Equity in earnings (loss) of unconsolidated joint ventures	(10,304)	28,124
Interest income	32	36
Other income	7,613	48,003
Interest expense and amortization of loan costs	(35,204)	(34,578)
Unrealized gain on investments	1,785	—
Unrealized loss on derivatives	(9,941)	(16,817)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(23,674)	42,715
Income tax expense	(879)	(1,044)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(24,553)	41,671
Income from discontinued operations	—	2,211
NET INCOME (LOSS)	(24,553)	43,882
(Income) loss from consolidated joint ventures attributable to noncontrolling interests	278	(931)
Net (income) loss attributable to redeemable noncontrolling interests in operating partnership	3,057	(5,118)
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	(21,218)	37,833
Preferred dividends	(8,331)	(6,555)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(29,549)	$31,278

INCOME (LOSS) PER SHARE - BASIC AND DILUTED:		
Basic:		
Income (loss) from continuing operations attributable to common shareholders	$(0.44)	$0.51
Income from discontinued operations attributable to common shareholders	—	0.02
Net income (loss) attributable to common shareholders	$(0.44)	$0.53
Weighted average common shares outstanding – basic	67,152	57,931
Diluted:		
Income (loss) from continuing operations attributable to common shareholders	$(0.44)	$0.45
Income from discontinued operations attributable to common shareholders	—	0.01
Net income (loss) attributable to common shareholders	$(0.44)	$0.46
Weighted average common shares outstanding – diluted	67,152	79,330
Dividends declared per common share	$0.11	$0.10
Amounts attributable to common shareholders:		
Income (loss) from continuing operations, net of tax	$(21,218)	$36,798
Income from discontinued operations, net of tax	—	1,035
Preferred dividends	(8,331)	(6,555)
Net income (loss) attributable to common shareholders	$(29,549)	$31,278

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
Net income (loss)	$(24,553)	$43,882
Other comprehensive income (loss), net of tax:		
Change in unrealized loss on derivatives	(9)	8
Reclassification to interest expense	12	186
Total other comprehensive income	3	194
Comprehensive income (loss)	(24,550)	44,076
Less: Comprehensive (income) loss attributable to noncontrolling interests in consolidated joint ventures	278	(966)
Less: Comprehensive (income) loss attributable to redeemable noncontrolling interests in operating partnership	3,057	(5,138)
Comprehensive income (loss) attributable to the Company	$(21,215)	$37,972

See Notes to Consolidated Financial Statements.

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	—	—	—	—	—	—	—	—	1,262	—	—	—	—	—
Forfeitures of Restricted Common Shares	—	—	—	—	—	—	—	—	722	—	—	(177)	(1,326)	—
Issuance of Restricted Shares/Units	—	—	—	—	—	—	—	—	(895)	—	—	329	895	—
Issuances of Preferred Shares	121	1	250	2	—	—	—	—	8,721	—	—	—	—	—
Dividends Declared- Common Shares	—	—	—	—	—	—	—	—	—	(7,501)	—	—	—	—
Dividends Declared- Preferred Shares- Series A	—	—	—	—	—	—	—	—	—	(860)	—	—	—	—
Dividends Declared- Preferred Shares- Series D	—	—	—	—	—	—	—	—	—	(4,867)	—	—	—	—
Dividends Declared – Preferred shares- Series E	—	—	—	—	—	—	—	—	—	(2,604)	—	—	—	—
Net Unrealized Loss on Derivative Instruments	—	—	—	—	—	—	—	—	—	—	(8)	—	—	—
Reclassification to Interest Expense	—	—	—	—	—	—	—	—	—	—	11	—	—	—
Contributions from Noncontrolling Interests	—	—	—	—	—	—	—	—	—	—	—	—	—	3
Distributions to Noncontrolling Interests	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Redemption Value Adjustment	—	—	—	—	—	—	—	—	—	(15,132)	—	—	—	—
Unvested Operating	—	—	—	—	—	—	—	—	(5,997)	—	—	—	—	—

Partnership Units Adjustment															
Net Income (Loss)	—	—	—	—	—	—	—	—	—	(21,218)	—	—	—	(2
Balance at March 31, 2012	1,609	$16	9,217	$92	4,630	$46	124,897	$1,249	$1,750,072	$(661,454)	$(181)	(56,712)	$(165,227)	$

See Notes to Consolidated Financial Statements.

1

Table of Contents

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

	Three Months Ended March 31,	
	2012	2011
Cash Flows from Operating Activities	(Unaudited)	
Net income (loss)	$(24,553)	$43,882
Adjustments to reconcile net income (loss) to net cash flow provided by operating activities:		
Depreciation and amortization	34,355	32,973
Impairment charges	(92)	(340)
Amortization of loan costs, write-off of loan costs, and exit fees	1,212	2,051
Equity in (earnings) loss of unconsolidated joint ventures	10,304	(28,124)
Income from financing derivatives	(7,969)	(18,003)
Gain on disposition of hotel properties	—	(2,802)
Realized and unrealized gains on trading securities	(1,407)	—
Purchases of trading securities	(27,647)	—
Sales of trading securities	27,512	—
Net settlement of trading derivatives	(2,069)	—
Unrealized loss on derivatives	9,941	16,817
Equity-based compensation	5,146	1,814
Changes in operating assets and liabilities:		
Restricted cash	(12,170)	(5,819)
Accounts receivable and inventories	(10,482)	(42,382)
Prepaid expenses and other assets	179	1,208
Accounts payable and accrued expenses	7,816	16,898
Due to/from related parties	(1,650)	(1,532)
Due to/from third-party hotel managers	4,367	(978)
Other liabilities	(532)	286
Net cash provided by operating activities	12,261	15,949
Cash Flows from Investing Activities		
Proceeds from payments of notes receivable	62	313
Net proceeds from sales of hotel properties	—	143,915
Investment in unconsolidated joint venture	—	(145,750)
Acquisition of condominium properties	—	(12,000)
Improvements and additions to hotel properties	(23,253)	(13,921)
Net cash used in investing activities	(23,191)	(27,443)
Cash Flows from Financing Activities		
Repayments of indebtedness and capital leases	(6,193)	(125,219)
Payments of deferred loan costs	(210)	(2,166)
Payments of dividends	(16,941)	(7,291)
Cash income from derivatives	7,963	18,203
Issuance of common stock	—	2,814
Issuances of preferred stock	8,724	—
Contributions from noncontrolling interests in consolidated joint ventures	300	—
Distributions to noncontrolling interests in consolidated joint ventures	—	(127)
Other	64	1
Net cash used in financing activities	(6,293)	(113,785)

Net decrease in cash and cash equivalents	(17,223)	(125,279)
Cash and cash equivalents at beginning of period	167,609	217,690
Cash and cash equivalents at end of period	$150,386	$92,411
Supplemental Cash Flow Information		
Interest paid	$33,998	$32,239
Income taxes refunded	$(857)	$(63)
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Accrued interest added to principal of indebtedness	$1,180	$1,034
Asset contributed to unconsolidated joint venture	$—	$15,000

See Notes to Consolidated Financial Statements.

2

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, the terms “the Company,” “we,” “us,” or “our” refer to Ashford Hospitality Trust, Inc. and all entities included in its consolidated financial statements.

As of March 31, 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 March 31, 2012, we also owned one mezzanine loan receivable with a carrying value of $3.1 million and one $8.1 million note receivable in connection with a joint venture restructuring.

For federal income tax purposes, we elected to be treated as a REIT, which imposes limitations related to operating hotels. As of March 31, 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 March 31, 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.

Remington Lodging & Hospitality, LLC, together with its affiliates (“Remington Lodging”), is beneficially wholly owned by Mr. Archie Bennett, Jr., our Chairman, and Mr. Monty J. Bennett, our Chief Executive Officer. As of March 31, 2012, Remington Lodging managed 45 of our 96 legacy hotel properties as well as WorldQuest Resort, 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.

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 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 our 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 months ended March 31, 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 first quarters of 2012 and 2011 ended March 23 and March 25, 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 the 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. No impairment charges were recorded for investment in hotel properties included in our continuing operations for the three months ended March 31, 2012 and 2011.

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 months ended March 31, 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 March 31, 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 months ended March 31, 2012 and 2011. Valuation adjustments of $92,000 and $340,000 on previously impaired notes were credited to impairment charges during the three months ended March 31, 2012 and 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 months ended March 31, 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 March 31, 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 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 the three months ended March 31, 2012, no hotel properties were classified as assets held for sale or reported as discontinued operations. During the three months ended March 31, 2011, assets held for sale and discontinued operations included four hotel properties, of which three were sold and a net gain of $2.8 million was recognized.

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. 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

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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.

All derivatives are recorded at fair value and reported as “Derivative assets” or “Derivative liabilities.” 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 swap derivatives, changes in the fair value are recognized in earnings as “Unrealized gain (loss) on derivatives” in the consolidated statements of operations.

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 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 policy 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 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 months ended March 31, 2011 have been reclassified for discontinued operations. 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 months ended March 31, 2012, we issued 120,731 shares of 8.55% Series A Cumulative Preferred Stock for $3.0 million gross proceeds and 249,682 shares of 8.45% Series D Cumulative Preferred Stock for $6.2 million gross proceeds. Such proceeds, net of commissions and other expenses, were $8.7 million.

4. Investments in Hotel Properties

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

	March 31, 2012	December 31, 2011
Land	$487,184	$487,184
Buildings and improvements	2,787,844	2,779,828
Furniture, fixtures, and equipment	291,835	276,292
Construction in progress	4,325	5,841
Condominium properties	12,668	12,661
Total cost	3,583,856	3,561,806
Accumulated depreciation	(638,150)	(603,907)
Investment in hotel properties, net	$2,945,706	$2,957,899

5. Notes Receivable

As of March 31, 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 March 31, 2012 and December 31, 2011, we had one mezzanine loan receivable with a net carrying value of $3.1 million, net of a valuation allowance of $8.7 million. 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 March 31, 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 discounted 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

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

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.

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

	March 31, 2012	December 31, 2011
Total assets	$1,391,145	$1,400,264
Total liabilities	1,137,597	1,132,977
Members' equity	253,548	267,287
Total liabilities and members' equity	$1,391,145	$1,400,264
Our ownership interest in PIM Highland JV	$169,224	$179,527

PIM Highland JV
Consolidated Statements of Operations

	Three Months Ended March 31, 2012	Period From March 10 to March 31, 2011
Total revenue	$93,252	$23,479
Total expenses	90,067	39,801
Operating income (loss)	3,185	(16,322)
Interest expense and amortization of loan costs	(15,525)	(3,868)
Gain recognized at acquisition (1)	—	75,372
Other expenses	(1,398)	(829)
Net income (loss)	$(13,738)	$54,353
Our equity in earnings (loss) of PIM Highland JV	$(10,304)	$28,124

(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 March 31, 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

In the three months ended March 31, 2011, we completed the sales of the JW Marriott San Francisco in California, the Hilton Rye Town in New York, and the Hampton Inn Houston in Texas, and recognized a net gain of $2.8 million. In the third quarter of 2011, we completed the sale of the Hampton Inn hotel in Jacksonville, Florida. 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 months ended March 31, 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 March 31, 2011
Hotel revenues	$9,502
Hotel operating expenses	(7,495)
Operating income	2,007
Property taxes, insurance, and other	(682)
Depreciation and amortization	(196)
Gain on disposal of properties	2,802
Interest expense and amortization of loan costs	(687)
Write-off of premiums, loan costs, and exit fees	(948)
Income from discontinued operations before income tax expense	2,296
Income tax expense	(85)
Income from discontinued operations	2,211
Income from discontinued operations attributable to noncontrolling interest in consolidated joint venture	(1,031)
Income from discontinued operations attributable to redeemable noncontrolling interest in operating partnership	(145)
Income from discontinued operations attributable to the Company	$1,035

8. Indebtedness

Indebtedness consisted of the following (in thousands):

Indebtedness	Collateral	Maturity	Interest Rate	March 31, 2012	December 31, 2011	
Mortgage loan	10 hotels	May-12	LIBOR (1) + 1.65%	$167,202	$167,202	
Mortgage loan	2 hotels	Aug-13	LIBOR (1) + 2.75%	144,667	145,667	
Mortgage loan(2)	5 hotels	Mar-14	LIBOR (1) + 4.50%	177,193	178,400	
Mortgage loan	1 hotel	May-14	8.32%	5,429	5,476	
Senior credit facility	Various	Sep-14	LIBOR (1) + 2.75% to 3.5%	—	—	
Mortgage loan	1 hotel	Dec-14	Greater of 5.5% or LIBOR (1) + 3.5%	19,740	19,740	
Mortgage loan	8 hotels	Dec-14	5.75%	106,321	106,863	
Mortgage loan	10 hotels	Jul-15	5.22%	155,006	155,831	
Mortgage loan	8 hotels	Dec-15	5.7%	98,319	98,786	
Mortgage loan (3)	5 hotels	Dec-15	12.72%	152,042	151,185	
Mortgage loan	5 hotels	Feb-16	5.53%	111,885	112,453	
Mortgage loan	5 hotels	Feb-16	5.53%	92,787	93,257	
Mortgage loan	5 hotels	Feb-16	5.53%	80,374	80,782	
Mortgage loan	1 hotel	Apr-17	5.91%	35,000	35,000	(4)
Mortgage loan	2 hotels	Apr-17	5.95%	128,251	128,251	
Mortgage loan	3 hotels	Apr-17	5.95%	260,980	260,980	

Mortgage loan	5 hotels	Apr-17	5.95%	115,600	115,600	
Mortgage loan	5 hotels	Apr-17	5.95%	103,906	103,906	
Mortgage loan	5 hotels	Apr-17	5.95%	158,105	158,105	
Mortgage loan	7 hotels	Apr-17	5.95%	126,466	126,466	
TIF loan	1 hotel	Jun-18	12.85%	8,098	8,098	(4)
Mortgage loan	1 hotel	Nov-20	6.26%	103,458	103,759	
Mortgage loan	1 hotel	Apr-34	Greater of 6% or Prime + 1%	6,616	6,651	
Total				$2,357,445	$2,362,458	

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(1) LIBOR rates were 0.241% and 0.295% at March 31, 2012 and December 31, 2011, respectively.

(2) This mortgage loan has a one-year extension option subject to satisfaction of certain conditions.

(3) This mortgage loan includes reverse amortization of 8% on $45 million of the original principal balance plus 12% on the cumulative reverse

9

amortization. Since the date at which we obtained this loan, the reverse amortization has resulted in a principal increase of $9.7 million.
(4) These mortgage loans are collateralized by the same property.

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.

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. The assets of certain of our subsidiaries are pledged under non-recourse indebtedness and are not available to satisfy the debts and other obligations of Ashford or AHLP, our operating partnership, and the liabilities of such subsidiaries do not constitute the obligations of Ashford or AHLP. Presently, our existing financial covenants are non-recourse and 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 March 31, 2012, we were in compliance in all material respects with all covenants or other requirements set forth in our debt and related agreements as amended.

We have derivative agreements that incorporate the loan covenant provisions of our senior credit facility requiring us to maintain certain minimum financial covenant ratios with respect to our indebtedness. Failure to comply with the covenant provisions would result in us being in default on any derivative instrument obligations covered by the applicable agreement. At March 31, 2012, we were in compliance with all the covenants under the senior credit facility and the fair value of derivatives that incorporate our senior credit facility covenant provisions was an asset of $30.2 million, consisting of interest rate derivatives.

9. Income (Loss) Per Share

Basic income (loss) per common share is calculated using the two-class method, or the treasury stock method if more dilutive, by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares, whereby such exercise or conversion would result in lower income per share. The following table reconciles the amounts used in calculating basic and diluted income (loss) per share (in thousands, except per share amounts):

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

	Three Months Ended March 31,	
	2012	2011
Income (loss) from continuing operations allocated to common shareholders:		
Income (loss) from continuing operations attributable to the Company	$(21,218)	$36,798
Less: Dividends on preferred stocks	(8,331)	(6,555)
Less: Dividends on common stock	(7,397)	(5,830)
Less: Dividends on unvested restricted shares	(104)	(110)
Less: Income from continuing operations allocated to unvested shares	—	(452)
Undistributed income (loss) from continuing operations allocated to common shareholders	(37,050)	23,851
Add back: Dividends on common stock	7,397	5,830
Total distributed and undistributed income (loss) from continuing operations - basic	$(29,653)	$29,681
Add back: Income allocated to Series B-1 convertible preferred stock	—	1,024
Add back: Income from continuing operations allocated to operating partnership units	—	4,973
Total distributed and undistributed income (loss) from continuing operations - diluted	$(29,653)	$35,678
Income from discontinued operations allocated to common shareholders:		
Income from discontinued operations attributable to the Company	$—	$1,035
Less: (Income) from discontinued operations allocated to unvested shares	—	(20)
Income from discontinued operations allocated to common shareholders - basic	$—	$1,015
Add back: Income from discontinued operations allocated to operating partnership units	—	145
Income from discontinued operations allocated to common shareholders - diluted	$—	$1,160
Weighted average shares outstanding:		
Weighted average common shares outstanding	67,152	57,931
Effect of assumed conversion of Series B-1 convertible preferred stock	—	7,248
Effect of assumed conversion of operating partnership units	—	14,151
Weighted average diluted shares outstanding	67,152	79,330
Basic income (loss) per share:		
Income (loss) from continuing operations allocated to common shareholders per share	$(0.44)	$0.51
Income from discontinued operations allocated to common shareholders per share	—	0.02
Net income (loss) allocated to common shareholders per share	$(0.44)	$0.53
Diluted income (loss) per share:		
Income (loss) from continuing operations allocated to common shareholders per share	$(0.44)	$0.45
Income from discontinued operations allocated to common shareholders per share	—	0.01
Net income (loss) allocated to common shareholders per share	$(0.44)	$0.46

Due to the anti-dilutive effect, the computation of diluted income (loss) per diluted share does not reflect adjustments for the following items (in thousands):

Income (loss) from continuing operations distributed to common shareholders is not adjusted for:		
Income allocated to unvested restricted shares	$104	$563
Loss attributable to noncontrolling interest in operating partnership units	(3,057)	—
Total	$(2,953)	$563
Weighted average diluted shares are not adjusted for:		
Effect of unvested restricted shares	431	788
Effect of assumed conversion of operating partnership units	16,682	—
Total	17,113	788

10. Derivative Instruments and Hedging

Interest Rate Derivatives – We are exposed to risks arising from our business operations, economic conditions, and financial markets. To manage these risks, we primarily use interest rate derivatives to hedge our debt and potentially improve

cash flows. We also use non-hedge derivatives to capitalize on the historical correlation between changes in LIBOR and RevPAR. Interest rate derivatives may include interest rate swaps, caps, flooridors, and corridors. All these derivatives are subject to master netting settlement arrangements. To mitigate nonperformance risk, we routinely rely on a third party's analysis of the creditworthiness of the counterparties, which supports our belief that the counterparties' nonperformance risk is limited. All derivatives are recorded at fair value.

Credit Default Swap Derivatives – 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 as collateral by our counterparty. A credit default swap is a derivative contract that functions like an insurance policy against the credit risk of an entity or obligation. The seller of protection assumes the credit risk of the reference obligation from the buyer (us) of protection in exchange for annual premium payments. If a default or a loss, as defined in the credit default swap agreements, occurs on the underlying bonds, then the buyer of protection is protected against those losses. The only liability for us, the buyer, is the annual premium and any change in value of the underlying CMBX index (if the trade is terminated prior to maturity). For all CMBX trades completed to date, we were the buyer of protection. Credit default swaps are subject to master netting settlement arrangements and credit support annexes. Assuming the underlying bonds pay off at par over their remaining average life, our total exposure for these trades is approximately $8.5 million. 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. 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 March 31, 2012 and December 31, 2011, the credit default swap had a net carrying value of a liability of $129,000 and $2,000, respectively, which is included in "Liabilities associated with investments in securities and other" in the consolidated balance sheets. For the three months ended March 31, 2012, we recognized an unrealized loss of $2.2 million that is included in "Unrealized loss on derivatives" in the consolidated statements of operations.

Investment in Securities and Other – During the second quarter of 2011, our Board of Directors authorized the formation of a subsidiary to invest in public securities, including stocks, and put and call options. Put and call option transactions are considered derivatives. At March 31, 2012, we had investments in these derivatives totaling $262,000 and liabilities of $906,000. At December 31, 2011, we had investments in these derivatives totaling $1.0 million and liabilities of $486,000.

11. Fair Value Measurements

Fair Value Hierarchy – Both financial instruments measured at fair value, either on a recurring or nonrecurring basis, and financial instruments not measured at fair value are classified for disclosure purposes in a hierarchy consisting of three levels based on the observability of inputs in the market place as discussed below:

- Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets.
- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability.

The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts/payments and the discounted expected variable cash payments/receipts. The fair values of interest rate caps, floors, flooridors, and corridors are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below the strike rates of the floors or rise above the strike rates of the caps. The variable interest rates used in the calculation of projected receipts and payments on the swaps, caps, and floors are based on an expectation of future interest rates derived from observable market interest rate curves (LIBOR forward curves) and volatilities (level 2 inputs). We also incorporate credit valuation adjustments (level 3 inputs) to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

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 (level 2 inputs). The fair value of the credit default swaps does not contain credit-risk-related adjustments as the change in the fair value is settled net through posting cash collateral or reclaiming cash collateral between us and our counterparty.

The fair value of investments in securities and other and liabilities associated with investments in securities and other, including stocks, put and call options, and other investments, are carried at fair market value based on their closing prices (level 1 inputs).

When a majority of the inputs used to value our derivatives fall within level 2 of the fair value hierarchy, the derivative valuations in their entirety are classified in level 2 of the fair value hierarchy. However, when the valuation adjustments associated with our derivatives utilize level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and our counterparties, which we consider significant (10% or more) to the overall valuation of our derivatives, the derivative valuations in their entirety are classified in level 3 of the fair value hierarchy. Transfers of inputs between levels are determined at the end of each reporting period. In determining the fair values of our derivatives at March 31, 2012, the LIBOR interest rate forward curve (level 2 inputs) assumed an uptrend from 0.242% to 0.627% for the remaining term of our derivatives. The credit spreads (level 3 inputs) used in determining the fair values of the hedge and non-hedge designated derivatives assumed an uptrend in nonperformance risk for us and all of our counterparties through the maturity dates.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis aggregated by the level within which measurements fall in the fair value hierarchy (in thousands):

Table of Contents

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

	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting (4)	Total
March 31, 2012:					
Assets					
Derivative Assets:					