ASHFORD HOSPITALITY TRUST INC
Form 10-K
February 29, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2007**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission file number: 001-31775

ASHFORD HOSPITALITY TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland *(State or other jurisdiction of incorporation or organization)*	**86-1062192** *(I.R.S. Employer Identification No.)*
14185 Dallas Parkway, Suite 1100, Dallas, Texas *(Address of principal executive offices)*	**75254** *(Zip Code)*

(Registrant s telephone number, including area code)
(972) 490-9600
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.01 PAR
Preferred Stock, Series A, $0.01 PAR
Preferred Stock, Series D, $0.01 PAR
Securities registered pursuant to Section 12(g) of the Act:
None

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

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

Indicate by check mark whether the registrant (i) 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 (ii) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant, computed by reference to the price at which the registrant s common stock was last sold on the last business day of the registrant s most recently completed second fiscal quarter, was approximately $1.4 billion. As of February 27, 2008, the registrant had issued and outstanding 120,376,055 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant s definitive Proxy Statement pertaining to the 2008 Annual Meeting of Stockholders (the Proxy Statement), filed or to be filed not later than 120 days after the end of the fiscal year pursuant to Regulation 14A, is incorporated herein by reference into Part III.

FORM 10-K INDEX

Certification of the Chief Accounting Officer Required by Rule 13a-14(b)

Table of Contents

Forward-Looking Statements

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

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

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

- factors discussed in this Form 10-K, including those set forth under the sections titled Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business, and Properties;
- general volatility of the capital markets and the market price of our common stock;
- changes in our business or investment strategy;
- availability, terms, and deployment of capital;
- availability of qualified personnel;
- changes in our industry and the market in which we operate, interest rates, or the general economy; and
- the degree and nature of our competition.

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

Table of Contents

PART I

Item 1. ***Business***

OUR COMPANY

Ashford Hospitality Trust, Inc. and subsidiaries (the Company or we or our) is a self-advised real estate investment trust (REIT), which commenced operations on August 29, 2003 when it completed its initial public offering (IPO) and concurrently consummated certain other formation transactions, including the acquisition of six hotels (initial properties). The Company owns its lodging investments and conducts its business through Ashford Hospitality Limited Partnership, its operating partnership. Ashford OP General Partner LLC, its wholly-owned subsidiary, serves as the sole general partner of the Company s operating partnership.

As of December 31, 2007, the Company owned interest in 112 hotel properties, which includes direct ownership in 106 hotel properties and between 75-89% interest in six hotel properties through equity investments with joint venture partners. These hotel properties represent 26,553 total rooms or 26,211 net rooms excluding those attributable to joint venture partners. Of the total 112 hotel properties, 111 are located in the United States and one is located in Canada. As of December 31, 2007, the Company also owned approximately $94.2 million of mezzanine or first-mortgage loans receivable.

For federal income tax purposes, the Company elected to be treated as a REIT, which imposes limitations related to operating hotels. As of December 31, 2007, 111 of the Company s hotel properties were leased or owned by wholly-owned subsidiaries of the Company that are treated as taxable REIT subsidiaries for federal income tax purposes (collectively, such 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 results of operations. As of December 31, 2007, the remaining hotel property was leased on a triple-net lease basis to a third-party tenant who operates the hotel. Rental income from this operating lease is included in the consolidated results of operations.

Remington Lodging & Hospitality, L.P. and Remington Management, L.P. (collectively, Remington Lodging), both primary property managers for the Company, are beneficially wholly owned by Mr. Archie Bennett, Jr., the Company s Chairman, and Mr. Montgomery J. Bennett, the Company s President and Chief Executive Officer. As of December 31, 2007, Remington Lodging managed 43 of the Company s 112 hotel properties while third-party management companies managed the remaining 69 hotel properties.

As of December 31, 2007, 120,376,055 shares of common stock, 2,300,000 shares of Series A preferred stock, 7,447,865 shares of Series B preferred stock, 8,000,000 shares of Series D preferred stock, and 13,346,843 units of limited partnership interest held by entities other than the Company were outstanding and 2,389,636 shares of common stock were held as treasury stock. During the year ended December 31, 2007, the Company completed the following transactions:

On March 27, 2007, the Company issued 838,500 shares of restricted common stock to its executive officers and certain employees.

On April 11, 2007, the Company issued 8,000,000 shares of Series C cumulative redeemable preferred stock to a financial institution.

On April 24, 2007, the Company issued 48,875,000 shares of common stock in a follow-on public offering.

On May 15, 2007, the Company issued 16,000 shares of common stock to its directors as compensation for serving on the Board of Directors through May 2008.

On July 18, 2007, the Company publicly issued 8,000,000 shares of Series D cumulative preferred stock.

On July 18, 2007, the Company redeemed 8,000,000 shares of Series C cumulative redeemable preferred stock.

During the year ended December 31, 2007, the Company acquired 60,177 shares of treasury stock in connection with the Company s incentive stock plan, which allows employees to tender vested shares of restricted common stock to the Company at current market prices to cover individual federal income taxes withheld on such shares as such shares vest, of which 36,841 shares were reissued in connection with the aforementioned common stock grants.

During the year ended December 31, 2007, the Company acquired 2,366,300 shares of treasury stock in connection with its stock repurchase program.

During the year ended December 31, 2007, 35,391 unvested shares of restricted common stock were forfeited.

During the year ended December 31, 2007, the Company issued 165,582 shares of common stock in exchange for 165,582 units of limited partnership interest.

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

All reports filed with the Securities and Exchange Commission may also be read and copied at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Further information regarding the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. In addition, all of our filed reports can be obtained at the SEC s website at www.sec.gov.

OUR BUSINESS STRATEGIES

We currently focus our investment strategies on the upscale and upper-upscale segments within the lodging industry. However, we also believe that as supply, demand, and capital market cycles change, we will be able to shift our investment strategies to take advantage of newly created lodging-related investment opportunities as they develop. Currently, we do not limit our acquisitions to any specific geographical market. While our current investment strategies are well defined, our Board of Directors may change our investment policies at any time without stockholder approval.

We intend to continue to invest in a variety of lodging-related assets based upon our evaluation of diverse market conditions. These investments may include: (i) direct hotel investments; (ii) mezzanine financing through origination or acquisition in secondary markets; (iii) first-lien mortgage financing through origination or acquisition in secondary markets; and (iv) sale-leaseback transactions.

Our strategy is designed to take advantage of current lodging industry conditions and adjust to changes in market conditions over time. In the current market, we believe we can continue to purchase assets at discounts and acquire or originate debt positions with attractive relative yields. Over time, our assessment of market conditions will determine asset reallocation strategies. While we seek to capitalize on favorable market fundamentals, conditions beyond our control may have an impact on overall profitability and our investment returns.

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

capitalize on both current yield and price appreciation, while simultaneously offering diversification of types of assets within the hospitality industry;

vary investments across an array of hospitality assets to take advantage of market cycles for each asset class; and

offer an attractive liquidity alternative to asset sales (through structure and tax deferral) and traditional financing (due to rate, structure, loan-to-value, and asset class).

Our investment strategy primarily targets limited and full-service hotels in primary, secondary, and resort markets throughout the United States. To take full advantage of current and future investment opportunities in the lodging industry, we will invest according to the asset allocation strategies described below. Due to ongoing changes in market conditions, we will continually evaluate the appropriateness of our investment strategies. Our Board of Directors may change any or all of these strategies at any time.

Direct Hotel Investments In selecting hotels to acquire, we target hotels that either offer a high current return or have the opportunity to increase in value through repositioning, capital investments, market-based recovery, or improved management practices. We intend to continue to acquire existing hotels and, under appropriate market conditions, may develop new hotels. Our direct hotel acquisition strategy will continue to follow similar investment criteria and will seek to achieve both current income and income from appreciation. In addition, we will continue to assess our existing hotel portfolio and make strategic decisions to sell certain under-performing or smaller hotels that do not fit our investment strategy or criteria.

Mezzanine Financing Subordinated loans, or mezzanine loans, that we acquire or originate relate to upscale, upper-upscale and luxury hotels with reputable managers that are located in established or emerging sub-markets. These mezzanine loans are secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels. We intend to continue to acquire or originate mezzanine loans. Mezzanine loans that we acquire in the future may be secured by individual assets as well as cross-collateralized portfolios of assets. Although these types of loans generally have greater repayment risks than first mortgages due to the subordinated nature of the loans, we have a disciplined approach in underwriting the value of these assets. We expect this asset class to provide us with attractive returns.

First Mortgage Financing From time to time, we acquire or originate junior participations in first mortgages, which we often refer to as mezzanine loans. As interest rates increase and the dynamics in the hotel industry make first-mortgage investments more attractive, we intend to acquire, potentially at a discount to par, or originate loans secured by first priority mortgages on hotels. Related to commercial mortgage lenders, we may be subject to certain state-imposed licensing regulations with which we intend to comply. However, because we are not a bank or a federally chartered lending institution, we are not subject to state and federal regulatory constraints imposed on such entities. Also, we expect we will be able to offer more flexible terms than commercial lenders who contribute loans to securitized mortgage pools.

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

OUR OPERATING SEGMENTS

As addressed in Item 15, Financial Statements Schedules, we currently operate in two business segments within the hotel lodging industry: direct hotel investments and hotel financing. These operating segments are described above along with additional operating segments where we anticipate future participation.

OUR FINANCING STRATEGY

We utilize our borrowing power to leverage future investments. When evaluating our future level of indebtedness and making decisions regarding the incurrence of indebtedness, our Board of Directors considers a number of factors, including:

- the purchase price of our investments to be acquired with debt financing;
- the estimated market value of our investments upon refinancing; and

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

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

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

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

OUR DISTRIBUTION POLICY

To maintain our qualification as a REIT, we make annual distributions to our stockholders of at least 90% of our REIT taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles). Distributions are authorized by our Board of Directors and declared by us based upon a variety of factors deemed relevant by our directors. No assurance can be given that our dividend policy will not change in the future. Our ability to pay distributions to our stockholders will depend, in part, upon our receipt of distributions from our operating partnership. This, in turn, may depend upon receipt of lease payments with respect to our properties from indirect, wholly-owned subsidiaries of our operating partnership and the management of our properties by our property managers. Distributions to our stockholders are generally taxable to our stockholders as ordinary income. However, since a portion of our investments are equity ownership interests in hotels, which result in depreciation and non-cash charges against our income, a portion of our distributions may constitute a tax-free return of capital. To the extent that it is consistent with maintaining our REIT status, we may maintain accumulated earnings of Ashford TRS in that entity.

Our charter allows us to issue preferred stock with a preference on distributions. The partnership agreement of our operating partnership also allows the operating partnership to issue units with a preference on distribution. Such issuance of preferred stock or preferred units, given the dividend preference on this stock or units, could limit our ability to make a dividend distribution to our common stockholders.

OUR RECENT DEVELOPMENTS

During the year ended December 31, 2007, we completed the following significant transactions:

Business Combinations:

On April 11, 2007, the Company acquired a 51-property hotel portfolio (CNL Portfolio) from CNL Hotels and Resorts, Inc. (CNL) for approximately $2.4 billion plus closing costs of approximately $96.0 million. The Company acquired 100% of 33 properties and 70%-89% of 18 properties through existing joint ventures. To fund this acquisition, the Company utilized several sources as follows: a) borrowings of approximately $928.5 million of ten-year, fixed-rate debt at an average blended interest rate of 5.95%, approximately $555.1 million of two-year, variable-rate debt with three one-year extension options at an interest rate of LIBOR plus 1.65%, and approximately

$325.0 million of one-year, variable-rate debt with two one-year extension options at an interest rate of LIBOR plus 1.5%, b) the sale of 8.0 million shares of Series C Cumulative Redeemable Preferred Stock for approximately $200.0 million less a commitment fee of approximately $6.3 million at a dividend rate of LIBOR plus 2.5%, c) assumed fixed-rate debt of approximately $562.1 million (or approximately $432.3 million net of debt attributable to joint venture partners), representing eleven fixed-rate loans with an average blended interest rate of 6.01% and expiration dates ranging from 2008 to 2027, and d) a $50.0 million draw on a newly executed $200.0 million credit facility with an interest rate of LIBOR plus a range of 1.55% to 1.95% depending on the loan-to-value ratio, which matures April 9, 2010 with two one-year extension options, and requires interest-only payments through maturity.

On April 11, 2007, the Company acquired the remaining 15% joint venture interest in the Hyatt Regency Dearborn in Detroit, Michigan, for approximately $7.5 million, which represents approximately $2.9 million in cash and assumed debt of approximately $4.6 million. The Company acquired the other 85% interest pursuant to its acquisition of the CNL Portfolio, which was consummated April 11, 2007, as discussed above.

On May 21, 2007, the Company acquired a Marriott Residence Inn and a Hampton Inn, both in Jacksonville, Florida, from MS Resort Holdings LLC for approximately $35.8 million in cash. The acquisition of these hotel properties, which were previously owned by CNL, related to the Company s acquisition of the CNL Portfolio on April 11, 2007. The Company used proceeds from its sale of seven hotels on May 18, 2007 and cash on hand to fund this acquisition.

On December 15, 2007, the Company completed an asset swap with Hilton Hotels Corporation (Hilton), its partner in two joint ventures which were simultaneously dissolved, whereby the Company surrendered its majority ownership interest in two hotel properties in exchange for the joint venture partner s minority ownership interest in nine hotel properties. In connection with this asset swap, the Company assumed $41.9 million of debt previously attributable to the joint venture partner s minority ownership in the nine acquired hotel properties that secured such debt and ceded $109.5 million of debt, of which $80.1 million was attributable to its majority ownership in the two surrendered hotel properties that secured such debt and the remainder attributable to the joint venture partner s former minority ownership. In addition, the Company will be reimbursed $2.0 million by Hilton for expenses incurred.

Capital Stock:

On April 11, 2007, the Company issued 8.0 million shares of Series C cumulative redeemable preferred stock at $25 per share for approximately $200.0 million less a commitment fee of approximately $6.3 million. On July 18, 2007, with proceeds received from the issuance of Series D preferred stock discussed below, the Company redeemed its 8.0 million shares of Series C preferred stock for approximately $200.0 million and received a refund of related commitment fees of approximately $4.3 million.

On April 24, 2007, in a follow-on public offering, the Company issued 48,875,000 shares of its common stock at $11.75 per share, which generated gross proceeds of approximately $574.3 million. However, the aggregate proceeds to the Company, net of underwriters discount and offering costs, was approximately $548.2 million. The 48,875,000 shares issued include 6,375,000 shares sold pursuant to an over-allotment option granted to the underwriters. These net proceeds along with cash on hand were used to pay-down the $45.0 million outstanding balance on its $47.5 million credit facility, due October 10, 2008, payoff the $325.0 million variable-rate loan, due April 9, 2008, and pay-down its $555.1 million variable-rate loan, due May 9, 2009, by approximately $180.1 million. These three debt payments were made on April 25, 2007, April 24, 2007, and April 25, 2007, respectively.

On July 18, 2007, the Company issued 8.0 million shares of 8.45% Series D cumulative preferred stock at $25 per share for approximately $200.0 million less underwriting discounts and commissions of approximately $6.3 million.

During the year ended December 31, 2007, the Company acquired 60,177 shares of treasury stock for approximately $728,000 in connection with the Company s Incentive Stock Plan (Stock Plan), which allows employees to tender vested shares of restricted common stock to the Company at current market prices to cover individual federal income taxes withheld on such shares as such shares vest. During the year ended December 31, 2007, the Company reissued 36,841 treasury shares under its Stock Plan as common stock granted to its executives, certain employees, and directors.

During the year ended December 31, 2007, the Company acquired 2,366,300 shares of treasury stock for approximately $18.2 million in connection with its stock repurchase program.

Table of Contents

Discontinued Operations:

On February 6, 2007, the Company sold its Marriott located in Trumbull, Connecticut, for approximately $28.3 million. As the Company acquired this property on December 7, 2006, no gain or loss was recognized on the sale.

On February 8, 2007, the Company sold its Fairfield Inn in Princeton, Indiana, for approximately $3.2 million. In connection with this sale, the Company recognized a gain of approximately $1.4 million, of which related income tax gains were deferred through a 1031 like-kind exchange.

On April 24, 2007, the Company sold its Radisson Hotel in Indianapolis, Indiana, for approximately $5.4 million. In connection with this sale, the Company recognized a gain of approximately $2.7 million, of which related income tax gains were deferred through a 1031 like-kind exchange.

On April 26, 2007, the Company sold its Fairfield Inn in Evansville, Indiana, for approximately $5.5 million. In connection with this sale, the Company recognized a gain of approximately $531,000, of which related income tax gains were deferred through a 1031 like-kind exchange.

On April 27, 2007, the Company sold its Embassy Suites in Phoenix, Arizona, for approximately $25.0 million. In connection with this sale, the Company recognized a gain of approximately $8.5 million, of which related income tax gains were deferred through a 1031 like-kind exchange.

On May 2, 2007, the Company sold its Radisson Hotel in Covington, Kentucky, and an office building for approximately $22.4 million. In connection with this sale, the Company recognized a gain of approximately $3.4 million, of which related income tax gains were deferred through a 1031 like-kind exchange.

On May 18, 2007, the Company sold its portfolio of seven TownePlace Suites hotels for approximately $57.5 million. In connection with this sale, the Company recognized a gain of approximately $18.3 million, of which related income tax gains were deferred through a 1031 like-kind exchange.

On July 2, 2007, the Company sold its Hampton Inn in Horse Cave, Kentucky, for approximately $3.5 million. In connection with this sale, the Company recognized a gain of approximately $363,000.

On September 27, 2007, the Company sold its Doubletree Guest Suites in Dayton, Ohio, for approximately $6.5 million. In connection with this sale, the Company recognized a gain of approximately $168,000.

On October 2, 2007, the Company sold its Hilton in Birmingham, Alabama, for approximately $25.0 million. As the Company acquired this property on April 11, 2007, no gain or loss was recognized on the sale. In connection with this sale, the Company paid down its $375.0 million mortgage loan, due May 9, 2009, by approximately $23.7 million.

On November 2, 2007, the Company sold two Residence Inns in Torrance, California, and Atlanta, Georgia, for approximately $61.5 million. As the Company acquired these properties on April 11, 2007, no gain or loss was recognized on the sale. In connection with this sale and using corporate funds, the Company paid down its $375.0 million mortgage loan, due May 9, 2009, by approximately $67.7 million.

On November 20, 2007, the Company sold its Residence Inn in Kansas City, Missouri, for approximately $7.0 million. As the Company acquired this property on April 11, 2007, no gain or loss was recognized on this sale. In connection with this sale and using corporate funds, the Company paid down its $375.0 million mortgage loan, due May 9, 2009, by approximately $7.4 million.

On November 30, 2007, the Company sold its Marriott in Baltimore, Maryland, for approximately $61.5 million. As the Company acquired this property on April 11, 2007, no gain or loss was recognized on this sale. In connection with this sale, the Company paid down its $375.0 million mortgage loan, due May 9, 2009, by approximately $62.4 million.

Notes Receivable:

On February 6, 2007, the Company received approximately $8.1 million related to all principal and interest due under its $8.0 million note receivable, due February 2007.

Table of Contents

On May 8, 2007, the Company received approximately $8.6 million related to all principal and interest due under its $8.5 million note receivable, due June 2007.

On June 11, 2007, the Company received approximately $8.1 million related to all principal and interest due under its $8.0 million note receivable, due May 2010.

On June 18, 2007, the Company received approximately $5.7 million related to all principal and interest due under its $5.6 million note receivable, due July 2008.

On December 5, 2007, the Company originated a $21.5 million mezzanine loan receivable, due January 2018.

Indebtedness:

On January 30, 2007, the Company completed a $20.0 million draw on its $150.0 million credit facility, due August 16, 2008.

On February 6, 2007, in connection with the Company s sale of its Marriott located in Trumbull, Connecticut, for approximately $28.3 million, the Company paid down its $212.0 million mortgage note payable, due December 11, 2009, by approximately $28.0 million. Consequently, the $212.0 million mortgage loan secured by seven hotels outstanding at December 31, 2006 became the $184.0 million mortgage loan secured by six hotels outstanding at December 31, 2007.

On March 8, 2007, the Company terminated its $100.0 million credit facility, due December 23, 2008. This credit facility never had an outstanding balance.

On April 9, 2007, the Company drew $45.0 million on its $47.5 million credit facility, due October 10, 2008.

On April 10, 2007, the Company repaid its $45.0 million outstanding balance on its $150.0 million credit facility, due August 16, 2008, and terminated the facility.

On April 11, 2007, in connection with its acquisition of the CNL Portfolio for approximately $2.4 billion plus closing costs of approximately $96.0 million, the Company executed a $928.5 million, ten-year, fixed-rate loan at an average blended interest rate of 5.95%, a $555.1 million, two-year, variable-rate loan with three one-year extension options at an interest rate of LIBOR plus 1.65%, and a $325.0 million, one-year, variable-rate loan with two one-year extension options at an interest rate of LIBOR plus 1.5%, and assumed fixed-rate debt of approximately $562.1 million (or approximately $432.3 million net of debt attributable to joint venture partners), representing eleven fixed-rate loans with an average blended interest rate of 6.01% and expiration dates ranging from 2008 to 2027. In addition, the Company executed a $200.0 million credit facility with an interest rate of LIBOR plus a range of 1.55% to 1.95% depending on the loan-to-value ratio, which matures April 9, 2010 with two one-year extension options, requires interest-only payments through maturity, and requires quarterly commitment fees ranging from 0.125% to 0.20% of the average undrawn balance during the quarter. To fund this acquisition, the Company drew approximately $50.0 million on this credit facility.

On April 11, 2007, in connection with its acquisition of the remaining 15% joint venture interest in the Hyatt Regency Dearborn in Detroit, Michigan, for approximately $7.5 million, the Company assumed debt attributable to the joint venture partner of approximately $4.6 million. The Company acquired the other 85% interest pursuant to its acquisition of the CNL portfolio on April 11, 2007, as discussed above.

On April 16, 2007, the Company drew $25.0 million on its $200.0 million credit facility, due April 9, 2010.

On April 24 and 25, 2007, with proceeds received from its follow-on public offering completed April 24, 2007, the Company paid down the $45.0 million outstanding balance on its $47.5 million credit facility, due October 10, 2008, paid off the $325.0 million variable-rate loan, due April 9, 2008, and paid down its $555.1 million variable-rate loan, due May 9, 2009, by approximately $180.1 million. These three debt payments were made on April 25, 2007, April 24, 2007, and April 25, 2007, respectively.

On May 3, 2007, the Company repaid $25.0 million on its $200.0 million credit facility, due April 9, 2010.

On May 18, 2007, in connection with the Company s sale of its portfolio of seven TownePlace Suites hotels for approximately $57.5 million, the Company paid down approximately $32.0 million related to its mortgage loan due

Table of Contents

July 1, 2015. Consequently, the $487.1 million mortgage loan secured by 32 hotels outstanding at December 31, 2006 became the $455.1 million mortgage loan secured by 25 hotels outstanding at December 31, 2007.

On May 22, 2007, the Company modified its $200.0 million credit facility, due April 9, 2010, to increase its capacity to $300.0 million.

On October 2, 2007, in connection with the sale of its Hilton in Birmingham, Alabama, for approximately $25.0 million, the Company paid down its $375.0 million mortgage loan, due May 9, 2009, by approximately $23.7 million.

On October 9, 2007, the Company drew approximately $47.5 million on its $47.5 million credit facility, and used the proceeds to repay $20.0 million on its $300.0 million credit facility, due April 9, 2010. On October 11, 2007, the revolving period on this $47.5 million credit facility expired and the outstanding balance converted to a $47.5 million mortgage loan, due October 10, 2008, at an interest rate of LIBOR plus 2%, requiring monthly interest-only payments through maturity, with three one-year extension options.

On October 9, 2007, the Company repaid $20.0 million on its $300.0 million credit facility, due April 9, 2010.

On November 2, 2007, in connection with the sale of two Residence Inns in Torrance, California, and Atlanta, Georgia, for approximately $61.5 million, the Company paid down its $375.0 million mortgage loan, due May 9, 2009, by approximately $67.7 million pursuant to the loan agreement, with proceeds from the sale and corporate cash.

On November 20, 2007, in connection with the sale of its Residence Inn in Kansas City, Missouri, for approximately $7.0 million, the Company paid down its $375.0 million mortgage loan, due May 9, 2009, by approximately $7.4 million.

On November 30, 2007, in connection with the sale of its Marriott in Baltimore, Maryland, for approximately $61.5 million, the Company paid down its $375.0 million mortgage loan, due May 9, 2009, by approximately $62.4 million.

On December 4, 2007, the Company drew $25.0 million on its $300.0 million credit facility, due April 9, 2010.

On December 15, 2007, in connection with an asset swap with a joint venture partner, the Company assumed $41.9 million of mortgage debt previously attributable to the joint venture partner s minority ownership in nine acquired hotel properties that secured such debt and ceded $109.5 million of mortgage debt, of which $80.1 million was attributable to its majority ownership in the two surrendered hotel properties that secured such debt and the remainder attributable to the joint venture partner s former minority ownership. Such ceded debt had maturities ranging from 2010 to 2011.

On December 15, 2007, in connection with the aforementioned asset swap, the Company repaid an additional $8.7 million of mortgage debt attributable to its majority ownership in such joint ventures, which was secured by hotels involved in the asset swap and had maturities ranging from 2010 to 2011.

On December 20, 2007, the Company drew $10.0 million on its $300.0 million credit facility, due April 9, 2010.

Dividends:

During the year ended December 31, 2007, the Company declared cash dividends of approximately $100.4 million, or $0.21 per share per quarter, related to both common stockholders and common unit holders, of which approximately

$92.3 million and $8.1 million related to each, respectively. During the year ended December 31, 2007, the Company declared cash dividends of approximately $2.9 million, or $0.19 per share per quarter, related to Class B unit holders.

During the year ended December 31, 2007, the Company declared cash dividends of approximately $4.9 million, or $0.5344 per share per quarter, related to Series A preferred stockholders.

During the year ended December 31, 2007, the Company declared cash dividends of approximately $6.3 million, or $0.21 per share per quarter, related to Series B preferred stockholders.

Table of Contents

During the year ended December 31, 2007, the Company declared cash dividends of approximately $4.3 million, based on LIBOR plus 2.5% for the period outstanding, related to Series C preferred stockholders. In addition, the Company recognized non-cash preferred dividends of approximately $845,000 related to the amortization of the discount attributable to the increasing-rate preferred dividend clause effective 18 months after issuance.

During the year ended December 31, 2007, the Company declared cash dividends of approximately $7.7 million, or $0.5281 per share per quarter prorated for the period outstanding, related to Series D preferred stockholders.

OUR COMPETITION

The hotel industry is highly competitive. All of our hotels are located in developed areas that include other hotel properties. Accordingly, our hotels compete for guests with other full-service or limited-service hotels in their immediate vicinities and, secondarily, with hotels in their geographic markets. The future occupancy, ADR, and RevPAR of any hotel could be materially and adversely affected by an increase in the number or quality of competitive hotel properties in its market area. We believe that brand recognition, location, quality of the hotel and the services provided, and price are the principal competitive factors affecting our hotels.

OUR EMPLOYEES

At December 31, 2007, we had 66 full-time employees. Such employees perform directly or through our operating partnership various acquisition, development, redevelopment, and corporate management functions. All persons employed in the day-to-day operations of our hotels are employees of the management companies rather than employees of ours.

OUR ENVIRONMENTAL MATTERS

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

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

- historical reviews of the properties,
- reviews of certain public records,
- preliminary investigations of the sites and surrounding properties,

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

the preparation and issuance of a written report.

Phase I environmental assessments did not include invasive procedures, such as soil sampling or ground water analysis.

Table of Contents

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

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

OUR INSURANCE

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

OUR FRANCHISE LICENSES

We believe that the public s perception of quality associated with a franchisor is an important feature in the operation of a hotel. Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity, and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards, and centralized reservation systems. As of December 31, 2007, the Company owned interest in 112 hotels, 110 of which operated under the following franchise licenses or brand management agreements:

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

Doubletree is a registered trademark of Hilton Hospitality, Inc.

Hilton is a registered trademark of Hilton Hospitality, Inc.

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

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

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

Radisson is a registered trademark of Radisson Hotels International, Inc.

Marriott is a registered trademark of Marriott International, Inc.

JW Marriott is a registered trademark of Marriott International, Inc.

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

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

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

Table of Contents

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

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

Renaissance is a registered trademark of Marriott International, Inc.

Hyatt Regency is a registered trademark of Hyatt Corporation.

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

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