

ASHFORD HOSPITALITY TRUST INC

Form 10-K

March 02, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the fiscal year ended **December 31, 2008**

**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**  
*(Exact name of registrant as specified in its charter)*

**Maryland**

**86-1062192**

*(State or other jurisdiction of incorporation or  
organization)*

*(IRS employer identification number)*

**14185 Dallas Parkway, Suite 1100  
Dallas, Texas**

**75254**

*(Address of principal executive offices)*

*(Zip code)*

**(972) 490-9600**

*(Registrant's telephone number, including area code)*

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

| Title of each class              | Name of each exchange on which registered |
|----------------------------------|---|
| <b>Common Stock</b>              | <b>New York Stock Exchange</b>            |
| <b>Preferred Stock, Series A</b> | <b>New York Stock Exchange</b>            |
| <b>Preferred Stock, Series D</b> | <b>New York Stock Exchange</b>            |

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

**None**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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  No

As of June 30, 2008, the aggregate market value of 115,706,280 shares of the registrant's common stock held by non-affiliates was approximately \$534,563,000.

As of February 25, 2009, the registrant had 79,241,930 shares of common stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement pertaining to the 2009 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Form 10-K.

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

**FORWARD-LOOKING STATEMENTS**

Throughout this Form 10-K and documents incorporated herein by reference, we make forward-looking statements that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, 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, or 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****GENERAL**

Ashford Hospitality Trust, Inc. and subsidiaries is a self-advised real estate investment trust ( REIT ), which commenced operations in August 2003 with six hotel properties (the Initial Properties ) when it completed its initial public offering and concurrently consummated certain other formation transactions. We own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. Ashford OP General Partner LLC, a wholly-owned subsidiary of the REIT, serves as the sole general partner of our operating partnership.

We began investing in mezzanine loans in November 2003 and originated our first mortgage loan secured by a hotel property in 2004. During 2004, we acquired 15 hotel properties in seven transactions. In 2005, we closed three purchase transactions, resulting in the acquisition of 43 hotel properties. In 2006, we acquired an additional nine hotel properties in five transactions.

In April 2007, we acquired a 51-property hotel portfolio ( CNL Portfolio ) from CNL Hotels and Resorts, Inc. ( CNL ). Pursuant to the purchase agreement, we acquired 100% of 33 properties and interests ranging from 70% to 89% in 18 properties through existing joint ventures. In connection with the CNL transaction, we acquired the 15% remaining joint venture interest in one hotel property not owned by CNL at the acquisition and acquired in May 2007 two other hotel properties previously owned by CNL (collectively, the CNL Acquisition ). In December 2007, we completed an asset swap with Hilton Hotels Corporation ( Hilton ), whereby we surrendered our majority ownership interest in two hotel properties in exchange for Hilton 's minority ownership interest in nine hotel properties. Net of subsequent sales and the asset swap, 43 of these hotels were included in our hotel property portfolio at December 31, 2008.

As of December 31, 2008, we owned 97 hotel properties directly and six hotel properties through equity investments with joint venture partners, which represented 23,255 total rooms, or 22,913 net rooms excluding those attributable to joint venture partners. Our hotels are operated under the widely recognized upper upscale brands of Crown Plaza, Hilton, Hyatt, Marriott, Sheraton and Westin. All these hotels are located in the United States. As of December 31, 2008, we also owned \$212.8 million of mezzanine or first-mortgage loans receivable. In addition, at December 31, 2008, we had a 25% ownership in a joint venture which had \$75.2 million of mezzanine loans. See Notes 3 and 6 of Notes to Consolidated Financial Statements included in Item 8.

For federal income tax purposes, we elected to be treated as a REIT, which imposes limitations related to operating hotels. As of December 31, 2008, 102 of our hotel properties were leased or owned by our wholly-owned subsidiaries 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. As of December 31, 2008, one hotel property was leased on a triple-net lease basis to a third-party tenant who operates the hotel and we only recognize rental income on this hotel property.

We do not operate any of our hotels directly; instead we employ hotel management companies to operate them for us under management contracts or operating leases. Remington Lodging & Hospitality, L.P. and Remington Management, L.P. (collectively, Remington Lodging ), both primary property managers for us, are beneficially wholly owned by Mr. Archie Bennett, Jr., our Chairman, and Mr. Montgomery J. Bennett, our Chief Executive Officer. As of December 31, 2008, Remington Lodging managed 40 of our 103 hotel properties while third-party management companies managed the remaining 63 hotel properties.

**SIGNIFICANT TRANSACTIONS IN 2008**

During the year ended December 31, 2008, we completed the following significant transactions:

**Investing in Mezzanine Loans** On January 22, 2008, we formed a joint venture (the PREI JV ) with Prudential Real Estate Investors ( PREI ) to invest in structured debt and equity hotel investments in the United States. We and PREI have contributed the capital required for each mezzanine investment on a 25%/75% basis,



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respectively. We are entitled to annual management and sourcing fees, reimbursement of expenses, and a promoted yield equal to a current 1.3x the venture yield subject to maximum threshold limitations, but further enhanced by an additional promote based upon a total net return to PREI. PREI's equity is in a senior position on each investment. On February 6, 2008, PREI acquired a 75% interest in our \$21.5 million mezzanine loan receivable, which we originated December 5, 2007, and is secured by two hotels maturing January 2018. Simultaneously, we and PREI capitalized the joint venture by contributing this \$21.5 million mezzanine loan receivable to the joint venture. We do not control the joint venture, therefore, PREI JV is not consolidated in our financial statements. Subsequently in late 2008, as a result of this loan being in default, we provided an allowance for losses for the entire balance of the note and related deferred loan costs. See Note 6 of Notes to Consolidated Financial Statements included in Item 8.

In addition, we completed the following mezzanine loans transactions including the loans acquired through PREI JV (\$ in thousands):

| Source                  | Interest Rate | Maturity | Collateral | Original<br>Principal | Discounted           |                               | Amount<br>Recorded |
|-------------------------|---------------|----------|------------|-----------------------|----------------------|-------------------------------|--------------------|
|                         |               |          |            |                       | Acquisition<br>Price | Percentage<br>of<br>Ownership |                    |
| Company originated      | LIBOR + 9%    | 2011     | 1 hotel    | \$ 7,056              | \$                   | 100%                          | \$ 7,056           |
| Company acquired        | 9.66%         | 2017     | 1 hotel    | \$ 38,000             | \$32,956             | 100%                          | \$32,956           |
| PREI JV acquired<br>(1) | LIBOR + 2.75% | 2010     | 29 hotels  | \$ 84,032             | \$69,904             | 25%                           | \$17,476           |
| Company acquired        | LIBOR + 2.5%  | 2009     | 681 hotels | \$164,000             | \$98,400             | 100%                          | \$98,400           |

(1) Reported as Investment in unconsolidated joint venture in the accompanying financial statements.

**Sales of Properties** During 2008, we completed the sale of nine hotel properties and an office building for an aggregate sales price of \$437.1 million. Net proceeds from the sales were \$428.5 million and a net gain of \$48.5 million was recognized. We repaid a total of \$251.9 million of related mortgage debt with the sales proceeds. In connection with the repayments of the debt, we wrote off unamortized loan costs of \$1.8 million and debt premiums of \$2.1 million.

**Debt Financing and Refinancing** During 2008, we refinanced the following debt:

\$73.1 million loan, scheduled to mature in 2008, secured by two hotel properties, which we refinanced with a new \$53.4 million interest-only loan bearing an interest rate of LIBOR plus 2%, maturing in 2011. With a subsequent paydown in connection with the sale of one hotel property, the outstanding balance on this loan at December 31, 2008 was \$19.7 million.

\$127.2 million loan, scheduled to mature in 2009, secured by interests in two hotel properties owned through a joint venture, which was refinanced with a new \$160.0 million loan bearing an interest rate of LIBOR plus 2.75%, maturing in 2011, with two one-year extensions.

In addition, we obtained a \$55.0 million loan on a hotel property, bearing an interest rate of LIBOR plus 3.75%, maturing in 2010 with two one-year extensions. In connection with the \$160.0 million refinanced loan described above and this \$55.0 million loan, the lenders required us to enter interest rate cap agreements with notional amounts totaling \$215.0 million to hedge the interest rate risk at a strike rate of 5.0% for two years.

Additionally, we obtained a \$65.0 million loan on another hotel property, bearing interest rate of LIBOR plus 2.5%, maturing in 2011 with two one-year extensions. Along with this refinancing, we entered into an interest rate cap with a notional amount of \$52.0 million and a strike rate of 5.75% for three years. The \$65.0 million loan was subsequently repaid and the \$52.0 million interest rate cap was sold in connection with the sale of the hotel property securing this loan.

Proceeds from these borrowings were used to pay for the acquisition of a \$98.4 million mezzanine loan and for other general corporate purposes.

***Interest Rate Derivatives Transactions*** - To hedge our asset cash flows, we enter into derivative transactions with major financial institutions. In March 2008, we executed a five-year interest rate swap on \$1.8 billion of fixed-rate debt at a weighted average interest rate of 5.84% for a floating interest rate of LIBOR plus 2.64%. In conjunction with the swap execution, we sold a five-year LIBOR floor notional amount of \$1.8 billion at 1.25% and purchased a LIBOR cap notional amount of \$1.0 billion at 3.75% for the first three years. On September 30, 2008, we entered into an additional LIBOR interest rate cap with \$800 million notional amount at 3.75% effective October

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14, 2008 for a one year. Subsequently in December 2008, we purchased a one-year \$1.8 billion interest flooridior to bring down the LIBOR floor to 0.75%. Under the flooridior, the counterparties will pay us the interest on the \$1.8 billion notional amount when the interest rates are below the original floor of 1.25% and above the new floor of 0.75%. The upfront cost of the swap, LIBOR cap, and floor transactions was \$8.8 million. The net fair value at December 31, 2008 was \$88.5 million. See Notes 11 and 12 of Notes to Consolidated Financial Statements included Item 8.

Additionally, as noted above, in connection with a \$160.0 million debt refinancing and a \$55.0 million new loan, we entered into three LIBOR interest rate caps with notional amounts totaling \$215.0 million at 5.0% maturing in 2010 and 2011. The cost of these caps was \$1.1 million. These interest rate caps are designated as cash flow hedges and had a fair value of \$88,000 at December 31, 2008. In addition, in connection with a new \$65.0 million financing, we purchased a LIBOR interest rate cap with a notional amount of \$52.0 million at 5.75%, maturing in 2011. The cost for this cap was \$123,000. The \$65.0 million loan was subsequently repaid and the \$52.0 million interest rate cap was sold in connection with the sale of the hotel property securing this loan.

**Authorization of Repurchases of Common and Preferred Shares and Debt** In the fourth quarter of 2007, the Board of Directors authorized a \$50 million common stock repurchase program. By September 5, 2008, we had completed the repurchase of substantially all of the shares authorized under this program, and the Board of Directors authorized the repurchase of an additional \$75 million of our common stock under the program. In November 2008, the Board of Directors modified the share repurchase program to include both common and preferred shares. During the year ended December 31, 2008, we repurchased 34.0 million shares of our common stock for an aggregate purchase price of \$96.9 million, 114,500 shares of our Series A preferred stock and 1.6 million shares of our Series D preferred stock for an aggregate purchase price of \$9.9 million.

**RECENT DEVELOPMENTS**

Due to the current financial market crisis, beginning in late 2008 and continuing into 2009, we have undertaken a series of actions to manage the sources and uses of our funds in an effort to conservatively navigate through challenging market conditions while still pursuing opportunities that can create long-term shareholder value:

**Liquidity** To hedge our asset cash flows, in March 2008, we swapped \$1.8 billion of fixed-rate debt for floating-rate debt at a spread of 2.64% over LIBOR with a view that interest rates would decline if RevPAR (revenue per available room) decelerated due to a slowing economy. In connection with this transaction, we purchased a three-year LIBOR cap with a notional amount of \$1.0 billion at 3.75% and sold a five-year LIBOR floor with a notional amount of \$1.8 billion at 1.25%. In early December 2008, we bought down the LIBOR floor to 0.75% through December 2009 to capitalize on LIBOR's decline.

We continue to execute aggressive cost saving measures at the property level that include payroll freezes, vendor contract renegotiation and adjustments to service levels. In addition, corporate level cost containment plans have been implemented which include reductions in overhead from staff layoffs, salary freezes, and reduced benefits and fees along with other cost saving measures.

**Credit Facility Amendments** In December 2008, we amended various terms of our credit facility with Wachovia Bank, National Association, as agent and the 10 other lenders party to that facility agreement. This facility expires in 2012 after extension. The amendments include:

reducing the fixed charge coverage ratio to 1.25x effective from the date of amendment until March 31, 2011, at which time the ratio increases to 1.35x;

reducing the revolver commitment level from \$300 million to \$250 million;

reducing the maximum leverage ratio from 75% to 65%;

adjusting the previous interest spread of 1.65% to 2.75% upward to a spread of 2.75% to 3.50%; and

suspending the dividend payable to common stockholders through 2009, except to the extent of any minimum dividend required to maintain REIT status.



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**Dividend Policy** Effective with the fourth quarter ended December 31, 2008, and in conjunction with the credit facility amendment outlined above, the Board of Directors suspended the common stock dividend. We expect to distribute the minimum dividend required to maintain our REIT status in 2009, which is likely to be determined, if necessary, in the fourth quarter of 2009. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of common stock as permitted under federal income tax laws governing REIT distribution requirements.

**Additional Authorization of Repurchase of Shares and Prepayment of Debt** In January 2009, the Board of Directors authorized an additional \$200 million repurchase plan authorization (excluding fees, commissions and all other ancillary expenses) for: (i) the repurchase of shares of our common stock, Series A preferred stock, Series B-1 preferred stock and Series D preferred stock and/or (ii) the prepayment of our outstanding debt obligations, including debt secured by our hotel assets and debt senior to our mezzanine or loan investments.

**BUSINESS STRATEGIES**

Our long-term investment strategies focus 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 or notice.

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 are focused on creating long term shareholder value, enhancing liquidity and implementing cost savings measures. 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 without notice.

**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. 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 non-strategic hotels that do not fit our investment strategy or criteria due to micro or macro market changes.

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***Mezzanine Financing*** Subordinated loans, or mezzanine loans, that we acquire or originate relate to a diverse segment of hotels with reputable managers that are located across the U.S. These mezzanine loans are secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels. 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 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 the dynamics in the capital markets and 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.

**BUSINESS SEGMENTS**

We currently operate in two business segments within the hotel lodging industry: direct hotel investments and hotel financing. A discussion of each operating segment is incorporated by reference in Note 20 of Notes to Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data.

**FINANCING STRATEGY**

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

our leverage levels across the portfolio;

the purchase price of our investments to be acquired with debt financing;

impact on financial covenants;

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;

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finance the origination or purchase of mortgage investments; or

finance acquisitions, expand, redevelop or improve existing properties, or develop new properties or other uses.

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

**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, excluding net capital gains, (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles). We have also elected to distribute 100% of our net capital gains to our stockholders rather than retain such gains which subjects the gains to income taxes at the REIT level. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of common stock as permitted under federal income tax laws governing REIT distribution requirements. 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.

**COMPETITION**

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

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

**EMPLOYEES**

At December 31, 2008, we had 66 full-time employees. These employees perform directly or indirectly various acquisition, development, asset management, capital markets, accounting, redevelopment, and corporate management functions. None of our employees are unionized. All persons employed in day-to-day hotel operations are employees of the management companies.

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

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

**INSURANCE**

We maintain comprehensive insurance, including liability, property, workers' compensation, rental loss, environmental, terrorism, and, when available on 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.

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**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, 2008, we owned an interest in 103 hotels, 101 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.

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.

Crowne Plaza is a registered trademark of InterContinental Hotels Group.

One Ocean is a registered trademark of Remington Hotels LP.

Our management companies, including Remington Lodging, must operate each hotel pursuant to the terms of the related franchise or brand management agreement, and must use their best efforts to maintain the right to operate each hotel as such. In the event of termination of a particular franchise or brand management agreement, our management companies must operate any affected hotels under another franchise or brand management agreement,

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if any, that we enter into. We anticipate that most of the additional hotels we acquire will be operated under franchise licenses or brand management agreements as well.

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

training of operational personnel;

safety;

maintaining specified insurance;

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

display of signage; and

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

## **SEASONALITY**

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

## **ACCESS TO REPORTS AND OTHER INFORMATION**

We maintain a website at [www.ahtreit.com](http://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](http://www.sec.gov).

### **Item 1A. Risk Factors**

#### **RISKS RELATED TO OUR BUSINESS**

***In the past, events beyond our control, including an economic slowdown or downturn and terrorism, harmed the operating performance of the hotel industry generally. If these or similar events occur or continue to occur, such as the current financial crisis and general economic downturn, our operating and financial results may be harmed by declines in occupancy, average daily room rates and/or other operating revenues.***

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



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trips. In addition, the terrorist attacks of September 11, 2001 had a dramatic adverse effect on business and leisure travel, and on the occupancy and average daily rate of our hotels. Future terrorist activities could have a harmful effect on both the industry and us. Likewise, the volatility in the credit and equity markets and the economic recession will continue to have an adverse effect on our business.

***Our lenders may have suffered losses related to the weakening economy and may not be able to fund our borrowings.***

Our lenders, including the lenders participating in our \$250.0 million credit facility, may have suffered losses related to their lending and other financial relationships, especially because of the general weakening of the national economy and increased financial instability of many borrowers. As a result, lenders may become insolvent or tighten their lending standards, which could make it more difficult for us to borrow under our credit facility (if at any time in the future there are unfunded commitments) or to obtain other financing on favorable terms or at all. Our financial condition and results of operations would be adversely affected if we were unable to draw funds under our credit facility because of a lender default or to obtain other cost-effective financing.

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

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

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

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

***Conflicts of interest could result in our management acting other than in our stockholders' best interest.***

Conflicts of interest relating to Remington Lodging may lead to management decisions that are not in the stockholders' best interest. The Chairman of our Board of Directors, Mr. Archie Bennett, Jr., serves as the Chairman of the Board of Directors of Remington Lodging, and our Chief Executive Officer, Mr. Montgomery Bennett, serves as the Chief Executive Officer of Remington Lodging. Messrs. Archie and Montgomery Bennett own 100% of Remington Lodging, which, as of December 31, 2008, manages 40 of our 103 properties and provides related services, including property management services and project management services.

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



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

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

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

In addition, Ashford Financial Corporation, an affiliate, contributed certain asset management and consulting agreements to us in connection with our initial public offering relating to management and consulting services that Ashford Financial Corporation agreed to perform for hotel property managers with respect to 27 identified hotel properties in which Messrs. Archie and Montgomery Bennett held a minority interest. Ashford Financial Corporation is 100% owned by Messrs. Archie and Montgomery Bennett. The agreements provided for annual payments to us, as the assignee of Ashford Financial Corporation, in consideration for our performance of certain asset management and consulting services. The exact amount of the consideration due to us under the remaining asset management and consulting agreements was initially contingent upon the revenue generated by the hotels underlying the asset management and consulting agreements. Ashford Financial Corporation guaranteed a minimum payment to us of \$1.2 million per year, subject to adjustments based on the consumer price index, through August 2008. All of the 27 hotel properties for which we previously provided the asset management and consulting services have been sold, including our acquisition of 21 of the hotel properties in March 2005. We have collected all the guaranteed minimum payment from Ashford Financial Corporation under its guarantee.

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

If we dispose of the four remaining properties that were contributed to us in exchange for units in our operating partnership in connection with our initial public offering, we may be obligated to indemnify the contributors, including Messrs. Archie and Monty Bennett whom have substantial ownership interests, against the tax consequences of the sale. In addition, under the tax indemnification agreements, we have agreed for a period of 10 years to use commercially reasonable efforts to maintain non-recourse mortgage indebtedness in the amount of at least \$16.0 million, which will allow the contributors to defer recognition of gain in connection with the contribution of the

Las Vegas hotel property as part of our formation.



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Additionally, for certain periods of time, we are prohibited from selling or transferring the Marriott Crystal Gateway in Arlington, Virginia, if as a result, the entity from which we acquired the property would recognize gain for federal tax purposes.

Further, in connection with our acquisition of certain properties in March 2005 that were contributed to us in exchange for units in our operating partnership, we agreed to certain tax indemnities with respect to 8 additional properties. If we dispose of any of these 8 properties or reduce the debt on these properties in a transaction that results in a taxable gain to the contributors, we may be obligated to indemnify the contributors or their specified assignees against the tax consequences of the transaction.

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

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

***Hotel franchise requirements could adversely affect distributions to our stockholders.***

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

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

***Future terrorist attacks similar in nature to the events of September 11, 2001 may negatively affect the performance of our properties, the hotel industry in general, and our future results of operations and financial condition.***

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

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

***Our investments will be concentrated in particular segments of a single industry.***

Our entire business is hotel related. Our current investment strategy is to acquire or develop upscale to upper-upscale hotels, acquire first mortgages on hotel properties, invest in other mortgage-related instruments such as

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mezzanine loans to hotel owners and operators, and participate in hotel sale-leaseback transactions. Adverse conditions in the hotel industry will have a material adverse effect on our operating and investment revenues and cash available for distribution to our stockholders.

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

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

Accordingly, while we may lease hotels to a TRS that we own, the TRS must engage a third-party operator to manage the hotels. Thus, our ability to direct and control how our hotels are operated is less than if we were able to manage our hotels directly. We have entered into management agreements with Remington Lodging, which is owned 100% by Messrs. Archie and Montgomery Bennett, to manage 40 of our 103 lodging properties owned as of December 31, 2008 and have hired unaffiliated third-party property managers to manage our remaining properties. We do not supervise any of the property managers or their respective personnel on a day-to-day basis, and we cannot assure you that the property managers will manage our properties in a manner that is consistent with their respective obligations under the applicable management agreement or our obligations under our hotel franchise agreements. We also cannot assure you that our property managers will not be negligent in their performance, will not engage in other criminal or fraudulent activity, or will not otherwise default on their respective management obligations to us. If any of the foregoing occurs, our relationships with the franchisors may be damaged, we may be in breach of the franchise agreement, and we could incur liabilities resulting from loss or injury to our property or to persons at our properties. Any of these circumstances could have a material adverse effect on our operating results and financial condition, as well as our ability to pay dividends to stockholders.

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

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

***We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay dividends to our stockholders.***

As a REIT, we are required to distribute at least 90% of our REIT taxable income each year, excluding net capital gains, to our stockholders. Our ability to make distributions may be adversely affected by the risk factors described herein. We cannot assure you that we will be able to make distributions in the future. In the event of continued or future downturns in our operating results and financial performance, unanticipated capital improvements to our hotels, or declines in the value of our mortgage portfolio, we may be unable to declare or pay distributions to our stockholders. The timing and amount of distributions are in the sole discretion of our Board of Directors, which will consider, among other factors, our financial performance, debt service obligations applicable debt covenants, and capital expenditure requirements. Effective with the fourth quarter ended December 31, 2008, and in conjunction with the credit facility amendment outlined above, the Board of Directors suspended the common stock dividend. We expect to distribute the minimum dividend required to maintain our REIT status in 2009, which is likely to be

determined, if necessary, in the fourth quarter of 2009. We may elect to pay dividends on our common

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stock in cash or a combination of cash and shares of common stock as permitted under federal income tax laws governing REIT distribution requirements.

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

The interest we pay on variable-rate debt increases as interest rates increase, which may decrease cash available for distribution to stockholders. We cannot assure you that we will be able to meet our debt service obligations. If we do not meet our debt service obligations, we risk the loss of some or all of our assets to foreclosure. Changes in economic conditions or our financial results or prospects could (i) result in higher interest rates on variable-rate debt, (ii) reduce the availability of debt financing generally or debt financing at favorable rates, (iii) reduce cash available for distribution to stockholders, and (iv) increase the risk that we could be forced to liquidate assets to repay debt, any of which could have a material adverse effect on us.

If we violate covenants in any debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of certain debt covenants may prohibit us from borrowing unused amounts under our lines of credit, even if repayment of some or all the borrowings is not required. In any event, financial covenants under our current or future debt obligations could impair our planned business strategies by limiting our ability to borrow beyond certain amounts or for certain purposes. Our governing instruments do not contain any limitation on our ability to incur indebtedness.

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

The mid, upscale, and upper-upscale segments of the hotel business are competitive. Our hotels compete on the basis of location, room rates, quality, service levels, reputation, and reservation systems, among many other factors. New hotels may be constructed and these additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms. The result in some cases may be lower revenue, which would result in lower cash available for distribution to stockholders.

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

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

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

***We may engage in derivative transactions, which can limit our gains and increase exposure to losses.***

We may enter into hedging transactions to protect (i) us from the effects of interest rate fluctuations on floating-rate debt and (ii) our portfolio of mortgage assets from interest rate and prepayment rate fluctuations. Our hedging transactions may include entering into interest rate swap agreements or interest rate cap or floor agreements, purchasing or selling futures contracts, purchasing put and call options on securities or securities underlying futures contracts, or entering into forward rate agreements. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition. No hedging activity can completely insulate us from the risks associated with changes in interest rates and prepayment rates.

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

Available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought.

The duration of the hedge may not match the duration of the related liability.

The party owing money in the hedging transaction may default on its obligation to pay.

The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction.

The value of derivatives used for hedging may be adjusted from time to time in accordance with generally accepted accounting rules to reflect changes in fair value. Downward adjustments, or mark-to-market losses, would reduce our stockholders' equity.

Hedging involves both risks and costs, including transaction costs, which may reduce our overall returns on our investments. These costs increase as the period covered by the hedging relationship increases and during periods of rising and volatile interest rates. These costs will also limit the amount of cash available for distributions to stockholders. We generally intend to hedge as much of the interest rate risk as management determines is in our best interests given the cost of such hedging transactions. The REIT qualification rules may limit our ability to enter into hedging transactions by requiring us to limit our income and assets from hedges. However, for transactions occurring after July 30, 2008 that we enter into to protect against interest rate risks on debt incurred to acquire qualified REIT assets and for which we identify as hedges for tax purposes, any associated hedging is qualifying REIT income. If we are unable to hedge effectively because of the REIT rules, we will face greater interest rate exposure than may be commercially prudent.

***We may not be able to sell our investments on favorable terms.***

We may decide to sell investments for a variety of reasons. We cannot assure you that we will be able to sell any of our investments on favorable terms or that our investments will not be sold for a loss.

**RISKS RELATED TO HOTEL INVESTMENTS**

***We are subject to general risks associated with operating hotels.***

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

our hotels compete with other hotel properties in their geographic markets and many of our competitors have substantial marketing and financial resources;

over-building in our markets, which adversely affects occupancy and revenues at our hotels;

dependence on business and commercial travelers and tourism; and

adverse effects of general, regional, and local economic conditions and increases in energy costs or labor costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists.

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

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

Our hotels have an ongoing need for renovations and other capital improvements, including replacements of furniture, fixtures, and equipment. Franchisors of our hotels may also require periodic capital improvements as a

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condition of maintaining franchise licenses. Generally, we are responsible for the cost of these capital improvements, which gives rise to the following risks:

cost overruns and delays;

renovations can be disruptive to operations and can displace revenue at the hotels, including revenue lost while rooms under renovation are out of service;

the cost of funding renovations and the possibility that financing for these renovations may not be available on attractive terms; and

the risk that the return on our investment in these capital improvements will not be what we expect.

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

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

The hotel industry is seasonal in nature. Generally, occupancy rates and hotel revenues are greater in the second and third quarters than in the first and fourth quarters. This seasonality can cause quarterly fluctuations in our revenues.

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

During 2008, approximately 15.5% of total revenue from 11 hotels was generated from hotels located in the Washington D.C. and Baltimore areas, areas considered vulnerable to terrorist attack. Our financial and operating performance may be adversely affected by potential terrorist activity. That may cause in the future, our results to differ materially from anticipated results.

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

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

actual development costs may exceed our budgeted or contracted amounts;

construction delays may prevent us from opening hotels on schedule;

we may not be able to obtain all necessary zoning, land use, building, occupancy, and construction permits;

our developed properties may not achieve our desired revenue or profit goals; and

we may incur substantial development costs and then have to abandon a development project before completion.

## **RISKS RELATED TO INVESTMENTS IN MORTGAGES AND MEZZANINE LOANS**

***Mortgage investments that are not United States government insured and non-investment grade mortgage assets involve risk of loss.***

As part of our business strategy, we originate and acquire lodging-related uninsured and non-investment grade mortgage loans and mortgage assets, including mezzanine loans. While holding these interests, we are subject to risks of borrower defaults, bankruptcies, fraud and related losses, and special hazard losses that are not covered by standard hazard insurance. Also, costs of financing the mortgage loans could exceed returns on the mortgage loans. In the event of any default under mortgage loans held by us, we will bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the mortgage loan. To the extent we suffer such losses with respect to our investments in mortgage loans, our value and the price of our securities may be adversely affected.

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

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

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

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

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

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

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

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

**RISKS RELATED TO REAL ESTATE INDUSTRY**

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

Incurring mortgage debt increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on the foreclosure but would not receive any cash proceeds. As a result, we may be required to identify and utilize other sources of cash for distributions to our stockholders of that income.

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

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

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

adverse changes in national and local economic and market conditions;

changes in interest rates and in the availability, cost, and terms of debt financing;

changes in governmental laws and regulations, fiscal policies, and zoning and other ordinances, and costs of compliance with laws and regulations;

the ongoing need for capital improvements, particularly in older structures;

changes in operating expenses; and

civil unrest, acts of war, and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

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

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

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

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

our knowledge of the contamination;

the timing of the contamination;

the cause of the contamination; or

the party responsible for the contamination.

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





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

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

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

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold at any of our properties or the properties underlying our loan assets could require us or our borrowers to undertake a costly remediation program to contain or remove the mold from the affected property. In addition, the presence of significant mold could expose us or our borrowers to liability from guests, employees, and others if property damage or health concerns arise.

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

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

***We may experience uninsured or underinsured losses.***

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

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

uninsured or underinsured losses could have a material adverse affect on us.

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

### **RISKS RELATED TO OUR STATUS AS A REIT**

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

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

If we fail to qualify as a REIT in any tax year, then:

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

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

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

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

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

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

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

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

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

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

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



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

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

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

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders, and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of common stock as permitted under federal income tax laws governing REIT distribution requirements. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

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

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

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

To qualify as a REIT, we must also ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities, and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% (25% beginning in 2009) of the value of our total securities can be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

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

As a REIT, we must distribute at least 90% of our annual REIT taxable income, excluding net capital gains, (subject to certain adjustments) to our stockholders. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws.



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From time to time, we may generate taxable income greater than our net income for financial reporting purposes due to, among other things, amortization of capitalized purchase premiums, or our taxable income may be greater than our cash flow available for distribution to stockholders. If we do not have other funds available in these situations, we could be required to borrow funds, sell investments at disadvantageous prices, or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of common stock as permitted under federal income tax laws governing REIT distribution requirements. In January 2009, the Internal Revenue Service issued Revenue Procedure 2009-15 which provides guidance on a REIT's payment of dividends in shares of its common stock. For stock distributions declared for a tax year ending on or before December 31, 2009, the distributions will qualify as part of the 90% distribution requirement if certain conditions are met. These include a requirement to provide each stockholder the opportunity to elect to receive its entire distribution in either cash or stock and any limitation imposed on the amount of cash that may be distributed cannot be less than 10% of the aggregate declared distribution.

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

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or our stockholders. On May 28, 2003, the President signed the Jobs and Growth Tax Relief Reconciliation Act of 2003, which we refer to as the Jobs and Growth Tax Act. Effective for taxable years beginning after December 31, 2002, the Jobs and Growth Tax Act reduced the maximum rate of tax applicable to individuals on dividend income from regular C corporations from 38.6% to 15.0%. This reduced substantially the so-called "double taxation" (that is, taxation at both the corporate and stockholder levels) that has generally applied to corporations that are not taxed as REITs. Generally, dividends from REITs will not qualify for the dividend tax reduction. The implementation of the Jobs and Growth Tax Act could ultimately cause individual investors to view stocks of non-REIT corporations as more attractive relative to shares of REITs because the dividends paid by non-REIT corporations would be subject to lower tax rates. We cannot predict whether in fact this will occur or whether, if it occurs, what the impact will be on the value of our securities. Unless extended, the provision allowing for reduction in the tax rate on dividend income from regular C corporations is scheduled to expire after December 31, 2010.

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

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

**RISKS RELATED TO OUR CORPORATE STRUCTURE**

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

Effective with the fourth quarter ended December 31, 2008, and in conjunction with the credit facility amendment outlined above, the Board of Directors suspended the common stock dividend. We expect to distribute the minimum dividend required to maintain our REIT status in 2009, which is likely to be determined, if necessary, in the fourth quarter of 2009. However, our ability to pay dividends may be adversely affected by the risk factors described herein. All distributions will be made at the discretion of our Board of Directors and will depend upon our earnings, our financial condition, maintenance of our REIT status, and such other factors as our Board of Directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future. In addition, some of our distributions may include a return of capital.



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

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

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

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

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

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

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

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

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

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

We may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, and classes of preferred stock or common stock or classes of preferred units. Upon liquidation, holders of our debt securities or preferred units and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of shares of preferred stock or common stock. Furthermore, holders of our debt securities and preferred stock or preferred units and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common or preferred stock or both. Our preferred stock or preferred units could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our securities and diluting their securities holdings in us.

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

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

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

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

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

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

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



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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

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

**HOTEL PROPERTIES.** As of December 31, 2008, we owned an interest in 103 hotel properties, which includes direct ownership in 97 hotel properties and between 75-89% in six hotel properties through equity investments with joint venture partners. All these hotel properties are located in the United States.

The following table presents certain information related to our hotel properties.

| Hotel Property               | Location            | Total Room | % Owned | Owned Room | Year Ended December 31, |           |           |
|------------------------------|---------------------|------------|---------|------------|-------------------------|-----------|-----------|
|                              |                     |            |         |            | 2008 Occupancy          | ADR       | RevPAR    |
| <b>Fee Simple Properties</b> |                     |            |         |            |                         |           |           |
| Embassy Suites               | Austin, TX          | 150        | 100%    | 150        | 82.5%                   | \$ 152.38 | \$ 125.68 |
| Embassy Suites               | Dallas, TX          | 150        | 100%    | 150        | 74.0%                   | \$ 136.44 | \$ 100.97 |
| Embassy Suites               | Herndon, VA         | 150        | 100%    | 150        | 82.4%                   | \$ 174.69 | \$ 143.98 |
| Embassy Suites               | Las Vegas, NV       | 220        | 100%    | 220        | 76.1%                   | \$ 151.08 | \$ 115.04 |
| Embassy Suites               | Syracuse, NY        | 215        | 100%    | 215        | 74.4%                   | \$ 123.55 | \$ 91.86  |
| Embassy Suites               | Flagstaff, AZ       | 119        | 100%    | 119        | 81.7%                   | \$ 120.33 | \$ 98.29  |
| Embassy Suites               | Houston, TX         | 150        | 100%    | 150        | 84.4%                   | \$ 167.05 | \$ 140.95 |
| Embassy Suites               | West Palm Beach, FL | 160        | 100%    | 160        | 76.4%                   | \$ 139.33 | \$ 106.37 |
| Embassy Suites               | Philadelphia, PA    | 263        | 100%    | 263        | 62.2%                   | \$ 152.33 | \$ 94.74  |
| Embassy Suites               | Walnut Creek, CA    | 249        | 100%    | 249        | 69.8%                   | \$ 139.55 | \$ 97.42  |
| Embassy Suites               | Arlington, VA       | 267        | 100%    | 267        | 81.7%                   | \$ 206.24 | \$ 168.43 |
| Embassy Suites               | Portland, OR        | 276        | 100%    | 276        | 79.7%                   | \$ 170.65 | \$ 135.97 |
| Embassy Suites               | Santa Clara, CA     | 257        | 100%    | 257        | 72.1%                   | \$ 166.34 | \$ 119.99 |
| Embassy Suites               | Orlando, FL         | 174        | 100%    | 174        | 78.5%                   | \$ 134.27 | \$ 105.45 |
| Hilton Garden Inn            | Jacksonville, FL    | 119        | 100%    | 119        | 68.8%                   | \$ 121.52 | \$ 83.58  |
| Hilton                       | Houston, TX         | 243        | 100%    | 243        | 76.2%                   | \$ 128.45 | \$ 97.88  |
| Hilton                       | St. Petersburg, FL  | 333        | 100%    | 333        | 60.8%                   | \$ 132.36 | \$ 80.52  |
| Hilton                       | Santa Fe, NM        | 157        | 100%    | 157        | 76.0%                   | \$ 149.04 | \$ 113.30 |
| Hilton                       | Bloomington, MN     | 300        | 100%    | 300        | 83.6%                   | \$ 123.92 | \$ 103.59 |
| Hilton                       | Washington DC       | 544        | 75%     | 408        | 83.2%                   | \$ 217.55 | \$ 181.07 |
| Hilton                       | Costa Mesa, CA      | 486        | 100%    | 486        | 74.9%                   | \$ 124.86 | \$ 93.53  |
| Hilton                       | Tucson, AZ          | 428        | 100%    | 428        | 60.6%                   | \$ 159.16 | \$ 96.41  |
| Hilton                       | Rye Town, NY        | 446        | 100%    | 446        | 50.7%                   | \$ 174.50 | \$ 88.50  |
| Hilton                       | Auburn Hills, MI    | 224        | 100%    | 224        | 62.9%                   | \$ 115.01 | \$ 72.34  |
| Homewood Suites              | Mobile, AL          | 86         | 100%    | 86         | 84.4%                   | \$ 115.66 | \$ 97.65  |
| Hampton Inn                  | Lawrenceville, GA   | 86         | 100%    | 86         | 61.8%                   | \$ 96.67  | \$ 59.74  |
| Hampton Inn                  | Evansville, IN      | 141        | 100%    | 141        | 71.8%                   | \$ 98.49  | \$ 70.75  |

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|             |                 |     |      |     |       |           |          |
|-------------|-----------------|-----|------|-----|-------|-----------|----------|
| Hampton Inn | Terre Haute, IN | 112 | 100% | 112 | 68.9% | \$ 95.83  | \$ 66.01 |
| Hampton Inn | Buford, GA      | 92  | 100% | 92  | 76.8% | \$ 117.99 | \$ 90.67 |
| Hampton Inn | Houston, TX     | 176 | 85%  | 150 | 65.6% | \$ 145.18 | \$ 95.27 |

(Continued on Next Page)

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| Hotel Property                | Location             | Total Room | % Owned | Owned Room | Year Ended December 31, |           |             |  |
|-------------------------------|----------------------|------------|---------|------------|-------------------------|-----------|-------------|--|
|                               |                      |            |         |            | Occupancy               | 2008 ADR  | 2008 RevPAR |  |
| Hampton Inn                   | Jacksonville, FL     | 118        | 100%    | 118        | 71.2%                   | \$ 120.93 | \$ 86.13    |  |
| Marriott                      | Durham, NC           | 225        | 100%    | 225        | 62.7%                   | \$ 147.09 | \$ 92.16    |  |
| Marriott                      | Arlington, VA        | 697        | 100%    | 697        | 75.0%                   | \$ 186.28 | \$ 139.61   |  |
| Marriott                      | Seattle, WA          | 358        | 100%    | 358        | 74.0%                   | \$ 209.76 | \$ 155.30   |  |
| Marriott                      | Bridgewater, NJ      | 347        | 100%    | 347        | 74.2%                   | \$ 175.52 | \$ 130.16   |  |
| Marriott                      | Plano, TX            | 404        | 100%    | 404        | 71.3%                   | \$ 154.36 | \$ 109.99   |  |
| Marriott                      | Dallas, TX           | 266        | 100%    | 266        | 67.0%                   | \$ 133.33 | \$ 89.28    |  |
| SpringHill Suites by Marriott | Jacksonville, FL     | 102        | 100%    | 102        | 73.3%                   | \$ 105.92 | \$ 77.67    |  |
| SpringHill Suites by Marriott | Baltimore, MD        | 133        | 100%    | 133        | 75.6%                   | \$ 128.51 | \$ 97.13    |  |
| SpringHill Suites by Marriott | Kennesaw, GA         | 90         | 100%    | 90         | 70.8%                   | \$ 103.49 | \$ 73.25    |  |
| SpringHill Suites by Marriott | Buford, GA           | 96         | 100%    | 96         | 77.0%                   | \$ 113.62 | \$ 87.43    |  |
| SpringHill Suites by Marriott | Gaithersburg, MD     | 162        | 100%    | 162        | 63.9%                   | \$ 130.38 | \$ 83.36    |  |
| SpringHill Suites by Marriott | Centreville, VA      | 136        | 100%    | 136        | 66.1%                   | \$ 106.87 | \$ 70.58    |  |
| SpringHill Suites by Marriott | Charlotte, NC        | 136        | 100%    | 136        | 68.4%                   | \$ 104.72 | \$ 71.64    |  |
| SpringHill Suites by Marriott | Durham, NC           | 120        | 100%    | 120        | 72.0%                   | \$ 99.18  | \$ 71.44    |  |
| SpringHill Suites by Marriott | Orlando, FL          | 400        | 100%    | 400        | 76.0%                   | \$ 96.89  | \$ 73.63    |  |
| SpringHill Suites by Marriott | Manhattan Beach, CA  | 164        | 100%    | 164        | 81.2%                   | \$ 115.72 | \$ 93.98    |  |
| SpringHill Suites by Marriott | Plymouth Meeting, PA | 199        | 100%    | 199        | 60.4%                   | \$ 126.36 | \$ 76.29    |  |
| SpringHill Suites by Marriott | Glen Allen, VA       | 136        | 100%    | 136        | 66.8%                   | \$ 105.54 | \$ 70.44    |  |
| Fairfield Inn by Marriott     | Kennesaw, GA         | 87         | 100%    | 87         | 71.2%                   | \$ 93.03  | \$ 66.25    |  |
| Fairfield Inn by Marriott     | Orlando, FL          | 388        | 100%    | 388        | 80.0%                   | \$ 77.61  | \$ 62.07    |  |
| Courtyard by Marriott         | Bloomington, IN      | 117        | 100%    | 117        | 70.3%                   | \$ 118.21 | \$ 83.05    |  |
| Courtyard by Marriott         | Columbus, IN         | 90         | 100%    | 90         | 71.3%                   | \$ 101.36 | \$ 72.24    |  |
| Courtyard by Marriott         | Louisville, KY       | 150        | 100%    | 150        | 63.5%                   | \$ 130.51 | \$ 82.81    |  |
| Courtyard by Marriott         | Crystal City, VA     | 272        | 100%    | 272        | 72.7%                   | \$ 166.51 | \$ 120.96   |  |
| Courtyard by Marriott         | Ft. Lauderdale, FL   | 174        | 100%    | 174        | 67.9%                   | \$ 117.11 | \$ 79.52    |  |
| Courtyard by Marriott         | Overland Park, KS    | 168        | 100%    | 168        | 57.4%                   | \$ 112.11 | \$ 64.38    |  |
| Courtyard by Marriott         | Palm Desert, CA      | 151        | 100%    | 151        | 47.8%                   | \$ 122.42 | \$ 58.56    |  |
| Courtyard by Marriott         | Foothill Ranch, CA   | 156        | 100%    | 156        | 65.0%                   | \$ 133.56 | \$ 86.87    |  |
| Courtyard by Marriott         | Alpharetta, GA       | 154        | 100%    | 154        | 58.8%                   | \$ 117.36 | \$ 68.99    |  |
| Courtyard by Marriott         | Philadelphia, PA     | 498        | 89%     | 443        | 79.5%                   | \$ 155.62 | \$ 123.76   |  |
| Courtyard by Marriott         | Seattle, WA          | 250        | 100%    | 250        | 72.7%                   | \$ 161.57 | \$ 117.41   |  |
| Courtyard by Marriott         | San Francisco, CA    | 405        | 100%    | 405        | 81.5%                   | \$ 188.80 | \$ 153.83   |  |

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|                               |                      |     |      |     |       |           |           |
|-------------------------------|----------------------|-----|------|-----|-------|-----------|-----------|
| Courtyard by Marriott         | Orlando, FL          | 312 | 100% | 312 | 75.6% | \$ 102.33 | \$ 77.34  |
| Courtyard by Marriott         | Oakland, CA          | 156 | 100% | 156 | 73.7% | \$ 128.57 | \$ 94.74  |
| Courtyard by Marriott         | Scottsdale, AZ       | 180 | 100% | 180 | 66.6% | \$ 115.56 | \$ 76.93  |
| Courtyard by Marriott         | Plano, TX            | 153 | 100% | 153 | 72.4% | \$ 124.21 | \$ 89.95  |
| Courtyard by Marriott         | Edison, NJ           | 146 | 100% | 146 | 71.9% | \$ 111.51 | \$ 80.18  |
| Courtyard by Marriott         | Newark, CA           | 181 | 100% | 181 | 63.2% | \$ 103.92 | \$ 65.71  |
| Courtyard by Marriott         | Manchester, CT       | 90  | 85%  | 77  | 69.0% | \$ 113.32 | \$ 78.23  |
| Courtyard by Marriott         | Basking Ridge, NJ    | 235 | 100% | 235 | 69.2% | \$ 155.20 | \$ 107.37 |
| Marriott Residence Inn        | Lake Buena Vista, FL | 210 | 100% | 210 | 75.0% | \$ 135.09 | \$ 101.38 |
| Marriott Residence Inn        | Evansville, IN       | 78  | 100% | 78  | 81.5% | \$ 102.37 | \$ 83.38  |
| Marriott Residence Inn        | Orlando, FL          | 350 | 100% | 350 | 80.1% | \$ 118.95 | \$ 95.23  |
| Marriott Residence Inn        | Falls Church, VA     | 159 | 100% | 159 | 76.5% | \$ 161.42 | \$ 123.51 |
| Marriott Residence Inn        | San Diego, CA        | 150 | 100% | 150 | 76.7% | \$ 152.86 | \$ 117.22 |
| Marriott Residence Inn        | Salt Lake City, UT   | 144 | 100% | 144 | 71.9% | \$ 132.89 | \$ 95.60  |
| Marriott Residence Inn        | Palm Desert, CA      | 130 | 100% | 130 | 60.8% | \$ 127.41 | \$ 77.47  |
| Marriott Residence Inn        | Las Vegas, NV        | 256 | 100% | 256 | 73.1% | \$ 135.76 | \$ 99.23  |
| Marriott Residence Inn        | Phoenix, AZ          | 200 | 100% | 200 | 66.9% | \$ 117.54 | \$ 78.69  |
| Marriott Residence Inn        | Plano, TX            | 126 | 100% | 126 | 75.3% | \$ 112.47 | \$ 84.66  |
| Marriott Residence Inn        | Newark, CA           | 168 | 100% | 168 | 82.0% | \$ 93.02  | \$ 76.24  |
| Marriott Residence Inn        | Manchester CT        | 96  | 85%  | 82  | 84.8% | \$ 109.50 | \$ 92.81  |
| Marriott Residence Inn        | Atlanta, GA          | 150 | 100% | 150 | 71.8% | \$ 109.21 | \$ 78.39  |
| Buckhead)                     |                      |     |      |     |       |           |           |
| Marriott Residence Inn        | Jacksonville, FL     | 120 | 100% | 120 | 81.2% | \$ 114.54 | \$ 92.97  |
| TownePlace Suites by Marriott | Manhattan Beach, CA  | 144 | 100% | 144 | 76.4% | \$ 108.13 | \$ 82.57  |
| One Ocean <sup>(a)</sup>      | Atlantic Beach, FL   | 193 | 100% | 193 | 24.8% | \$ 160.78 | \$ 39.85  |

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| <b>Hotel Property</b>                                | <b>Location</b>   | <b>Total<br/>Room</b> | <b>%<br/>Owned</b> | <b>Owned<br/>Room</b> | <b>Year Ended December 31,<br/>2008</b> |                  |                  |
|--|-------------------|-----------------------|--------------------|-----------------------|---|------------------|------------------|
|  |                   |                       |                    |                       | <b>Occupancy</b>                        | <b>ADR</b>       | <b>RevPAR</b>    |
| Sheraton Hotel                                       | Langhorne, PA     | 187                   | 100%               | 187                   | 59.5%                                   | \$ 122.40        | \$ 72.83         |
| Sheraton Hotel                                       | Minneapolis, MN   | 222                   | 100%               | 222                   | 66.8%                                   | \$ 120.10        | \$ 80.25         |
| Sheraton Hotel                                       | Indianapolis, IN  | 371                   | 100%               | 371                   | 68.6%                                   | \$ 109.14        | \$ 74.84         |
| Sheraton Hotel                                       | Anchorage, AK     | 370                   | 100%               | 370                   | 67.7%                                   | \$ 132.60        | \$ 89.77         |
| Sheraton Hotel                                       | San Diego, CA     | 260                   | 100%               | 260                   | 74.7%                                   | \$ 133.87        | \$ 100.02        |
| Hyatt Regency  | Detroit, MI       | 772                   | 100%               | 772                   | 60.4%                                   | \$ 114.79        | \$ 69.31         |
| Hyatt Regency  | Coral Gables, FL  | 242                   | 100%               | 242                   | 73.8%                                   | \$ 179.76        | \$ 132.65        |
| Crowne Plaza   | Beverly Hills, CA | 260                   | 100%               | 260                   | 71.2%                                   | \$ 175.10        | \$ 124.71        |
| Annapolis Historic<br>Inn                            | Annapolis, MD     | 124                   | 100%               | 124                   | 59.1%                                   | \$ 135.74        | \$ 80.27         |
| Westin   | Rosemont, IL      | 525                   | 100%               | 525                   | 68.9%                                   | \$ 143.91        | \$ 98.94         |
| <b><i>Air Rights/Ground<br/>Lease Properties</i></b> |                   |                       |                    |                       |   |                  |                  |
| Doubletree Guest<br>Suites <sup>(b)</sup>            | Columbus, OH      | 194                   | 100%               | 194                   | 66.6%                                   | \$ 115.60        | \$ 76.96         |
| Hilton <sup>(c)</sup>                                | Ft. Worth, TX     | 294                   | 100%               | 294                   | 74.3%                                   | \$ 138.91        | \$ 103.23        |
| Hilton <sup>(d)</sup>                                | Lo Jolla, CA      | 394                   | 75%                | 296                   | 71.9%                                   | \$ 193.47        | \$ 139.18        |
| JW Marriott <sup>(d)</sup>                           | San Francisco     | 338                   | 100%               | 338                   | 82.2%                                   | \$ 230.16        | \$ 189.29        |
| Crowne Plaza <sup>(f)</sup>                          | Key West, FL      | 160                   | 100%               | 160                   | 87.0%                                   | \$ 204.72        | \$ 178.02        |
| Renaissance <sup>(g)</sup>                           | Tampa, FL         | 293                   | 100%               | 293                   | 70.8%                                   | \$ 178.82        | \$ 126.54        |
| <b>Total</b>   |                   | <b>23,255</b>         |                    | <b>22,913</b>         | <b>71.4%</b>                            | <b>\$ 142.99</b> | <b>\$ 102.03</b> |

(a) This hotel was completely shutdown for renovation for the first four months of 2008.

(b) This hotel was built on an air rights lease above the parking garage that expires in 2045.

(c) The partial ground lease expires in 2040.

(d) The ground lease expires in



2043 (including all extensions).

(e) The ground lease expires in 2083.

(f) The ground lease expires in 2084.

(g) The ground lease expires in 2080.

**Item 3. *Legal Proceedings***

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

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

There were no matters submitted to our security holders during the fourth quarter ended December 31, 2008.

**PART II**

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

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

**Market Price and Dividend Information**

Our common stock is listed and traded on the New York Stock Exchange under the symbol AHT. On February 20, 2009, there were 97 registered holders of record of our common stock. In order to comply with certain requirements related to our qualification as a REIT, our charter limits the number of shares of capital stock that may be owned by any single person or affiliated group without our permission to 9.8% of the outstanding shares of any class of our capital stock. According to a Schedule 13G/A filed on February 13, 2009, The Vanguard Group has reflected beneficial ownership of 9,128,812 common shares which exceeds the ownership limitation of 9.8%. Ashford has contacted this shareholder and has informed them that the ownership limitation has been exceeded (although Ashford understands that apparently 10 or more separate funds own these shares). No waiver of the ownership limitation has been granted to this shareholder.

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

|                                   | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
|-----------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| <b>2008</b>                       |                          |                           |                          |                           |
| High                              | \$ 7.35                  | \$ 6.45                   | \$ 5.34                  | \$ 4.07                   |
| Low                               | \$ 5.16                  | \$ 4.52                   | \$ 3.08                  | \$ 0.86                   |
| Close                             | \$ 5.68                  | \$ 4.62                   | \$ 4.05                  | \$ 1.15                   |
| Cash dividends declared per share | \$ 0.21                  | \$ 0.21                   | \$ 0.21                  | \$                        |
| <b>2007</b>                       |                          |                           |                          |                           |
| High                              | \$13.05                  | \$12.54                   | \$12.62                  | \$10.57                   |
| Low                               | \$11.25                  | \$11.53                   | \$ 9.80                  | \$ 7.19                   |
| Close                             | \$11.94                  | \$11.76                   | \$10.05                  | \$ 7.19                   |
| Cash dividends declared per share | \$ 0.21                  | \$ 0.21                   | \$ 0.21                  | \$ 0.21                   |

In connection with an amendment to our credit facility, in December 2008, we suspended our common stock dividend effective with the fourth quarter ended December 31, 2008. We intend to distribute only the minimum dividend required to maintain REIT status in 2009, which is likely to be determined, if necessary, in the fourth quarter of 2009. To maintain our qualification as a REIT, we intend to make annual distributions to our stockholders of at least 90% of our REIT taxable income, excluding net capital gains (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles). Distributions will be authorized by our Board of Directors and declared by us based upon a variety of factors deemed relevant by our Directors. Our ability to pay distributions to our 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.

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**Performance Graph**

The following graph compares the percentage change in the cumulative total stockholder return on our common stock with the cumulative total return of the S&P 500 Stock Index, the NAREIT Mortgage Index, and the NAREIT Lodging Resort Index for the period from December 31, 2003, through December 31, 2008, assuming an initial investment of \$100 in stock on December 31, 2003 with reinvestment of dividends. The NAREIT Lodging Resorts Index is not a published index; however, we believe the companies included in this index provide a representative example of enterprises in the lodging resort line of business in which we engage. Stockholders who wish to request a list of companies in the NAREIT Lodging Resorts Index may send written requests to Ashford Hospitality Trust, Inc., Attention: Stockholder Relations, 14185 Dallas Parkway, Suite 1100, Dallas, Texas 75254. The stock price performance shown on the graph is not necessarily indicative of future price performance.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Ashford Hospitality Trust, Inc., The S&P 500 Index,  
The FTSE NAREIT Mortgage Index And The FTSE NAREIT Lodging & Resorts Index

\* \$100 invested  
on 12/31/03 in  
stock &  
index-including  
reinvestment of  
dividends.

Fiscal year ending December 31.

**Table of Contents****(c) Purchases of Equity Securities by the Issuer**

The following table provides the information with respect to purchases of shares of our common and preferred stocks during each of the months in the fourth quarter of 2008:

| <b>Period</b>             | <b>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>Per<br/>Share</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased as<br/>Part of Publicly<br/>Announced<br/>Plan<sup>(1)</sup></b> | <b>Maximum Dollar<br/>Value of Shares<br/>That<br/>May Yet Be<br/>Purchased<br/>Under the Plan</b> |
|---------------------------|---|---|--|--|
| Common stock:             |   |   |  |  |
| October 1 to October 31   | 16,229,600  | \$ 2.37   | 16,229,600   | \$ 22,361,000  |
| November 1 to November 30 | 5,189,636   | \$ 1.74   | 5,189,636  | \$ 13,326,000  |
| December 1 to December 31 | 2,017,100   | \$ 1.70   | 2,017,100  | \$   |
| <b>Total</b>              | <b>23,436,336</b>                                   | <b>\$ 2.17</b>                                      | <b>23,436,336</b>  |  |
| Preferred Series A stock: |   |   |  |  |
| November 1 to November 30 | 114,500   | \$ 6.12   | 114,500  | \$ 12,626,000  |
| Preferred Series D stock: |   |   |  |  |
| November 1 to November 30 | 1,605,653   | \$ 5.72   | 1,605,653  | \$ 3,438,000   |

(1) In November 2007, the Board of Directors authorized management to purchase up to a total of \$50 million of our common stock from time to time on the open market. By September 2008, we had completed the repurchases of substantially all of the shares originally authorized under this program and the Board of Directors authorized the

repurchase of an additional \$75 million of our common stock. Although there was no expiration date for this repurchase program, we completed the repurchase of the aggregate \$125 million authorized under this plan in December 2008.

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

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

|   | <b>Year Ended December 31,</b>                  |              |             |             |             |
|---|---|--------------|-------------|-------------|-------------|
|   | <b>2008</b>                                     | <b>2007</b>  | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|   | <b>(in thousands, except per share amounts)</b> |              |             |             |             |
| <b>Statements of Operations Data:</b>       |   |              |             |             |             |
| Total revenue                               | \$ 1,172,856                                    | \$ 1,007,801 | \$ 401,222  | \$ 254,638  | \$ 94,391   |
| Total operating expenses                    | \$ 1,012,528                                    | \$ 868,950   | \$ 332,965  | \$ 206,154  | \$ 80,346   |
| Operating income                            | \$ 160,328                                      | \$ 138,851   | \$ 68,257   | \$ 48,484   | \$ 14,045   |
| Income/(loss) from continuing operations    | \$ 80,006                                       | \$ (2,907)   | \$ 27,224   | \$ 3,315    | \$ 2,421    |
| Income/(loss) from discontinued operations  | \$ 49,188                                       | \$ 33,067    | \$ 10,572   | \$ 6,122    | \$ (1,002)  |
| Net income                                  | \$ 129,194                                      | \$ 30,160    | \$ 37,796   | \$ 9,437    | \$ 1,419    |
| Net income available to common shareholders | \$ 102,552                                      | \$ 6,170     | \$ 26,921   | \$ 134      | \$ 64       |
| Diluted income/(loss) per common share:     |   |              |             |             |             |
| Income/(loss) from continuing operations    | \$ 0.48   | \$ (0.25)    | \$ 0.26     | \$ (0.15)   | \$ 0.04     |
| Income from discontinued operations         | 0.44  | 0.31         | 0.17        | 0.15        | (0.04)      |
| Net income                                  | \$ 0.92   | \$ 0.06      | \$ 0.43     | \$          | \$          |
| Weighted average diluted common shares      | 111,306   | 105,787      | 62,128      | 40,194      | 25,121      |

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|  | <b>At December 31,</b> |             |             |             |             |
|--|------------------------|-------------|-------------|-------------|-------------|
|  | <b>2008</b>            | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> |
| <b>Balance Sheets Data:</b>                |                        |             |             |             |             |
| Investments in hotel properties, net       | \$3,568,215            | \$3,885,737 | \$1,632,946 | \$1,106,668 | \$427,005   |
| Cash, cash equivalents and restricted cash | \$ 311,403             | \$ 145,143  | \$ 82,756   | \$ 85,837   | \$ 61,168   |
| Notes receivable                           | \$ 212,815             | \$ 94,225   | \$ 102,833  | \$ 107,985  | \$ 79,662   |
| Total assets                               | \$4,339,682            | \$4,380,411 | \$2,011,912 | \$1,482,486 | \$595,945   |
| Total indebtedness continuing operations   | \$2,790,364            | \$2,639,546 | \$1,015,555 | \$ 782,938  | \$292,897   |
| Total stockholders equity                  | \$1,212,219            | \$1,285,003 | \$ 641,709  | \$ 358,323  | \$218,692   |

|  | <b>Year Ended December 31,</b>                  |               |             |             |             |
|--|---|---------------|-------------|-------------|-------------|
|  | <b>2008</b>                                     | <b>2007</b>   | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|  | <b>(in thousands, except per share amounts)</b> |               |             |             |             |
| <b>Other Data:</b>                                     |   |               |             |             |             |
| Cash provided by operating activities                  | \$ 144,943                                      | \$ 155,737    | \$ 139,691  | \$ 56,528   | \$ 6,652    |
| Cash provided by/(used in) investing activities        | \$ 168,455                                      | \$(1,872,900) | \$(565,473) | \$(652,267) | \$(310,624) |
| Cash (used in)/provided by financing activities        | \$(164,072)                                     | \$ 1,736,022  | \$ 441,130  | \$ 606,625  | \$ 274,827  |
| Cash dividends declared per common share               | \$ 0.63   | \$ 0.84       | \$ 0.80     | \$ 0.71     | \$ 0.45     |
| EBITDA (unaudited) <sup>(1)</sup>                      | \$ 472,836                                      | \$ 357,151    | \$ 138,757  | \$ 79,346   | \$ 23,909   |
| Funds From Operations (unaudited) (FFO) <sup>(1)</sup> | \$ 240,862                                      | \$ 147,680    | \$ 84,748   | \$ 32,741   | \$ 11,076   |

<sup>(1)</sup> A more detailed description and computation of FFO and EBITDA is contained in the Non-GAAP Financial Measures section of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

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

## CRITICAL ACCOUNTING POLICIES

Our accounting policies are more fully described in Note 2 to our consolidated financial statements. We believe that the following discussion addresses our most critical accounting policies, representing those policies considered most vital to the portrayal of our financial condition and results of operations and require management's most difficult, subjective, and complex judgments.

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

**Income Taxes** At December 31, 2008, we increased the valuation allowance to approximately \$77.2 million to fully offset our net deferred tax asset. As a result of Ashford TRS losses in 2008 and 2007, and the limitations imposed by the Internal Revenue Code on the utilization of net operating losses of acquired subsidiaries, we believe that it is more likely than not our net deferred tax asset will not be realized, and therefore, have provided a valuation allowance to fully reserve against these amounts. At December 31, 2008, we also recorded a deferred tax liability for the difference in the final purchase price allocation for financial reporting purposes and tax basis for a real estate asset owned in one of our consolidated joint ventures. In addition, at December 31, 2008, Ashford TRS has net operating loss carryforwards for federal income tax purposes of approximately \$127.0 million, which are available to offset future taxable income, if any, through 2027. The analysis utilized in determining our deferred tax asset valuation allowance involves considerable management judgment and assumptions.

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 ( FIN No. 48 ), effective January 1, 2007. FIN No. 48 prescribes a recognition threshold and measurement attribute for the

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recognition and measurement of a tax position taken in a tax return. FIN No. 48 requires that a determination be made as to whether it is more likely than not that a tax position taken, based on its technical merits, will be sustained upon examination, including resolution of any appeals and litigation processes. If the more-likely-than-not threshold is met, the related tax position must be measured to determine the amount of provision or benefit, if any, to recognize in the financial statements. FIN No. 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, Accounting for Income Taxes, but does not apply to tax positions related to FASB Statement No. 5,

Accounting for Contingencies. We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various states, and in Canada (2008 is final year for Canadian filings). Tax years 2005 through 2007 remain subject to potential examination by certain federal and state taxing authorities, respectively. No income tax examinations are currently in process. As we determined no material unrecognized tax benefits or liabilities exist, the adoption of FIN No. 48, effective January 1, 2007, did not impact our financial condition or results of operations. We classify interest and penalties related to underpayment of income taxes as income tax expense.

**Investment in Hotel Properties** Hotel properties are generally stated at cost. However, the Initial Properties contributed upon our formation are stated at the predecessor's historical cost, net of any impairment charges, plus a minority interest partial step-up related to the acquisition of minority interest from third parties associated with four of the Initial Properties. In addition, in connection with the 51-hotel CNL portfolio acquired on April 11, 2007 and subsequent asset swap completed on December 15, 2007, we own between 75%-89% ownership interest in certain hotel properties owned by joint ventures. For these hotel properties, 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 interest in the joint ventures. All improvements and additions which extend the useful life of hotel properties are capitalized.

**Impairment of Investment in Hotel Properties and Hotel Related Intangibles** Hotel properties and hotel related intangibles are reviewed for impairment at each balance sheet date. We test for impairment in several situations, including when current or projected cash flows are less than historical cash flows, when it becomes more likely than not that a hotel property will be sold before its previously estimated useful life expires, and when events or changes in circumstances indicate that a hotel property's net book value or the carrying value of the related intangibles may not be recoverable. In evaluating the impairment of hotel properties, we make many assumptions and estimates, including projected cash flows, holding period, expected useful life, future capital expenditures, and fair values, which considers capitalization rates, discount rates, and comparable selling prices. If an asset was deemed to be impaired, we would record an impairment charge for the amount that the property's net book value exceeds its fair value. To date, no such impairment charges have been recognized.

**Depreciation and Amortization Expense** Depreciation expense is based on the estimated useful life of the assets, while amortization expense for leasehold improvements is based on the shorter of the lease term or the estimated useful life of the related assets. Presently, hotel properties are depreciated using the straight-line method over lives which range from 15 to 39 years for buildings and improvements and 3 to 5 years for furniture, fixtures, and equipment. While we believe our estimates are reasonable, a change in estimated lives could affect depreciation expense and net income (loss) as well as resulting gains or losses on potential hotel sales.

**Assets Held For Sale and Discontinued Operations** We classify assets as held for sale when management has obtained a firm commitment from a buyer, and consummation of the sale is considered probable and expected within one year. 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.

**Notes Receivable** We provide mezzanine and first-mortgage financing in the form of notes receivable, which are recorded at cost, adjusted for net origination fees and costs. These loans are held for investment and are intended to be held to maturity and accordingly, are recorded at cost, net of unamortized loan origination costs and fees, loan purchase discounts and net of the allowance for losses when such 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 accruing interest and amortizing discounts/premiums when the contractual payment of interest and/or principal is past due. Unpaid interest accrued and discounts amortized are reversed.

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In accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 46, Consolidation of Variable Interest Entities, as revised ( FIN No. 46(R) ), variable interest entities, as defined, must be consolidated by their primary beneficiaries if the variable interest entities do not effectively disperse risks among parties involved. Our mezzanine and first-mortgage loan receivables are each secured by various hotel properties or partnership interests in hotel properties and are subordinate to primary loans related to the secured hotels. All such loans receivable are considered to be variable interests in the entities that own the related hotels, which are variable interest entities. However, we are not considered to be the primary beneficiary of these hotel properties as a result of holding these loans. Therefore, we do not consolidate such hotels for which we have provided financing. Interests in entities acquired or created in the future will be evaluated based on FIN No. 46 criteria, and such entities will be consolidated, if required. In evaluating FIN No. 46(R) criteria, our analysis involves considerable management judgment and assumptions.

**Impairment of Notes Receivable** We review notes receivables for impairment at each balance sheet date pursuant Statements of Financial Accounting Standards ( SFAS ) No. 114, *Accounting by Creditors for Impairment of a Loan-an amendment of FASB Statements No. 5 and 15*. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts recorded as assets on the balance sheet according to the contractual terms of the loan agreement. We apply normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment.

When a loan is impaired, we measure impairment based on the present value of expected cash flows discounted at the loan s effective interest rate against the value of the asset recorded on the balance sheet. We may also measure impairment based on a loan s observable market price or the fair value of collateral if the loan is collateral dependent. If a loan is deemed to be impaired, we would record a reserve for loan losses through a charge to income for any shortfall, if any. For example, if a loan is determined to be impaired but based on the present value of the expected cash flow calculation, does not result in any shortfall, no charge is taken. Our assessment of impairment is based on considerable judgment and estimates. Based on our assessment and judgment, no such impairment charges have been recorded for our notes receivable as of December 31, 2008. However, a loss reserve was established for a note receivable held by our unconsolidated joint venture in which we have a 25% ownership. See Note 6 of Notes to Consolidated Financial Statements included in Item 8.

**Investment in Unconsolidated Joint Venture** Investment in a joint venture in which we have a 25% ownership is accounted for under the equity method of accounting by recording the initial investment and our percentage of interest in the joint venture s net income. The equity accounting method is employed due to the fact that we do not control the joint venture pursuant to the guidance provided by Emerging Issue Task Force ( EITF ) Abstract No. 04-5.

**Derivative Financial Instruments and Hedges** - We primarily use interest rate derivatives to hedge our asset cash flows. We also use non-hedge derivatives to capitalize on the historical correlation between changes in LIBOR (London Interbank Offered Rate) and RevPAR (Revenue per Available Room) and to hedge our asset cash flows. Interest rate swaps designated as fair value hedges involve the exchange of fixed-rate payments for variable-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges provide us with interest rate protection above the strike rate on the cap and result in us receiving interest payments when actual rates exceed the cap strike. Because these derivatives are not designated as hedges under SFAS 133, the related interest savings is reported as Other income rather than a reduction of interest expense in accordance with GAAP. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, while the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the 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. For derivatives not designated as hedges, changes in the fair value are recognized in earnings. We record all derivatives on the balance sheet at fair value.

The valuation of these instruments was determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual

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terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, and implied volatilities. The fair values of interest rate derivatives 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 variable cash payments/receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair values of interest rate options 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 rate of the floors or rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the floor (cap) are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of SFAS No. 157, *Fair Value Measurements*, we incorporate credit valuation adjustments to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of non-performance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combinations. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations we engage in will be recorded and disclosed following existing accounting principles until January 1, 2009. We expect SFAS 141R will affect our consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquisitions, if any, we consummate after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS 160 states that accounting and reporting for minority interests will be re-characterized as non-controlling interests and classified as a component of equity. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, and will impact the recording of minority interest. We do not expect the adoption of SFAS 160 will have an impact on our financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. There will be additional disclosure needed upon adoption of SFAS 161.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, effective 60 days following SEC approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. SFAS 162 identifies sources of accounting principles and a framework for selecting the principles to be used in preparation of financial statements that are prepared in conformity with generally accepted accounting principles in the United States (the GAAP Hierarchy). We do not expect this statement will result in changes to our current practice.

**EXECUTIVE OVERVIEW**

We are a real estate investment trust ( REIT ) that commenced operations upon completion of our initial public offering and related formation transactions on August 29, 2003. At December 31, 2008, we owned interests in 103 hotel properties, which included direct ownership in 97 hotel properties and between 75-89% interests in six hotel properties through equity investments with joint venture partners. Of these hotels, 43 were acquired in 2007. In

addition, at December 31, 2008, we owned \$212.8 million of mezzanine or first-mortgage loans receivable and a 25% interest in a joint venture with Prudential Real Estate Investors ( PREI ) formed in January 2008 (the PREI JV ). The joint venture owned \$75.2 million of mezzanine loans at December 31, 2008.

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

preserving capital, enhancing liquidity and implementing cost saving measures;

acquiring hotels with a favorable current yield with an opportunity for appreciation;

implementing selective capital improvements designed to increase profitability;

directing our hotel managers to minimize operating costs and increase revenues;

originating or acquiring mezzanine loans; and

other investments that our Board of Directors deems appropriate.

Throughout 2008, the sluggish economy in the United States has caused slight declines in RevPAR (revenue per available room) and occupancy throughout the lodging industry. For 2009, forecasts for the lodging industry are considerably bearish.

To hedge our asset cash flows, we enter into derivative transactions with major financial institutions. In March 2008, we executed a five-year interest rate swap on \$1.8 billion of fixed-rate debt at a weighted average interest rate of 5.84% for a floating interest rate of LIBOR plus 2.64%. In conjunction with the swap execution, we sold a five-year LIBOR floor notional amount of \$1.8 billion at 1.25% and purchased a LIBOR cap notional amount of \$1.0 billion at 3.75% for the first three years. On September 30, 2008, we entered into an additional LIBOR interest rate cap with \$800 million notional amount at 3.75% effective October 14, 2008 for one year. Subsequently in December 2008, we purchased a one-year \$1.8 billion interest floor to bring down the LIBOR floor to 0.75%. Under the floor, the counterparties will pay us the interest on the \$1.8 billion notional amount when the interest rates are below the original floor of 1.25% and above the new floor of 0.75%. The upfront cost of the swap, LIBOR cap, and floor transactions was \$8.8 million. The net fair value at December 31, 2008 was \$88.5 million. See Notes 11 and 12 of Notes to Consolidated Financial Statements included Item 8.

## **RESULTS OF OPERATIONS**

Marriott International, Inc. ( Marriott ) manages 41 of our properties. For these Marriott-managed hotels, the fiscal year reflects twelve weeks of operations for each of the first three quarters of the year and seventeen weeks for the fourth quarter of the year. Therefore, in any given quarterly period, period-over-period results will have different ending dates. For Marriott-managed hotels, the fourth quarters of 2008, 2007 and 2006 ended January 2, 2009, December 28, 2007 and December 29, 2006, respectively.

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

In April 2007, we acquired a 51-property hotel portfolio ( CNL Portfolio ) from CNL Hotels and Resorts, Inc. ( CNL ). Pursuant to the purchase agreement, we acquired 100% of 33 properties and interests ranging from 70% to 89% in 18 properties through existing joint ventures. In conjunction with the CNL transaction, we acquired the 15% remaining joint venture interest in one hotel property not owned by CNL at the acquisition and acquired in May 2007 two other hotel properties previously owned by CNL (collectively, the CNL Acquisition ). In December 2007, we completed an asset swap with Hilton Hotels Corporation ( Hilton ), whereby we surrendered our majority ownership interest in two hotel properties in exchange for Hilton 's minority ownership interest in nine hotel properties. Net of

subsequent sales and the asset swap, 43 of these hotels were included in our hotel property portfolio at December 31, 2008. In 2008, we finalized the allocation of the CNL Acquisition purchase price. These

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hotels are referred to as non-comparable hotels in comparing the operating results of 2008 to 2007 in the following discussions as we did not own these properties for the entire year of 2007.

Similarly, in comparing the operating results of 2007 to 2006, 52 hotel properties acquired during 2006 and 2007 are referred as non-comparable hotels.

The following table summarizes the changes in key line items from our consolidated statements of operations for the years ended December 31, 2008, 2007 and 2006 (in thousands):

|  | Year Ended December 31, |              |            | Favorable (Unfavorable) Change<br>2008 Compared to |          |                       |          |
|--|-------------------------|--------------|------------|--|----------|-----------------------|----------|
|  | 2008                    | 2007         | 2006       | 2007   |          | 2007 Compared to 2006 |          |
|  | \$                      | \$           | \$         | \$ Change  | % Change | \$ Change             | % Change |
| Total revenue  | \$ 1,172,856            | \$ 1,007,801 | \$ 401,222 | \$ 165,055   | 16.4%    | \$ 606,579            | 151.2%   |
| Total hotel expenses   | 753,587                 | 651,434      | 249,122    | (102,153)  | (15.7)%  | (402,312)             | (161.5)% |
| Property taxes, insurance and other                          | 62,509                  | 52,409       | 22,754     | (10,100)   | (19.3)%  | (29,655)              | (130.3)% |
| Depreciation and amortization                                | 167,730                 | 138,154      | 40,730     | (29,576)   | (21.4)%  | (97,424)              | (239.2)% |
| Corporate general and administrative                         | 28,702                  | 26,953       | 20,359     | (1,749)  | (6.5)%   | (6,594)               | (32.4)%  |
| Operating income   | 160,328                 | 138,851      | 68,257     | 21,477   | 15.5%    | 70,594                | 103.4%   |
| Equity loss in unconsolidated joint venture                  | (2,205)                 |              |            | (2,205)  | *        |                       | *        |
| Interest income  | 2,062                   | 3,178        | 2,917      | (1,116)  | (35.1)%  | 261                   | 8.9%     |
| Other income   | 10,153                  |              |            | 10,153   | *        |                       | *        |
| Interest expense and amortization of loan costs              | (156,383)               | (135,841)    | (42,720)   | (20,542)   | (15.1)%  | (93,121)              | (218.0)% |
| Write-off of loan costs and exit fees                        | (1,226)                 | (3,850)      | (101)      | 2,624  | *        | (3,749)               | *        |
| Unrealized gains (losses) on derivatives                     | 79,620                  | (211)        | (16)       | 79,831   | *        | (195)                 | *        |
| Income tax (expense)/benefit                                 | (967)                   | (3,835)      | 2,655      | 2,868  | 74.8*    | (6,490)               | *        |
| Minority interest in earnings of consolidated joint ventures | (1,444)                 | (323)        |            | (1,121)  | *        | (323)                 | *        |
| Minority interest in earnings of operating partnership       | (9,932)                 | (876)        | (3,768)    | (9,056)  | *        | 2,892                 | 76.8%    |
| Income/(loss) from continuing operations                     | 80,006                  | (2,907)      | 27,224     | 82,913   | *        | (30,131)              | *        |
| Income from discontinued                                     | 49,188                  | 33,067       | 10,572     | 16,121   | 48.8%    | 22,495                | 212.8%   |



|                 |         |        |        |        |         |         |         |
|-----------------|---------|--------|--------|--------|---------|---------|---------|
| operations, net |         |        |        |        |         |         |         |
| Net income      | 129,194 | 30,160 | 37,796 | 99,034 | 328.4%* | (7,636) | (20.2)% |

\* Not meaningful.

#### Comparison of Year Ended December 31, 2008 with Year Ended December 31, 2007

Income from continuing operations includes the operating results of 60 hotel properties that we have owned throughout the entire 2008 and 2007 (the comparable hotels). The following table illustrates the key performance indicators of the comparable hotels for the periods indicated:

|                                       | Year Ended<br>December 31, |           |
|---------------------------------------|----------------------------|-----------|
|                                       | 2008                       | 2007      |
| Total revenue (in thousands)          | \$547,531                  | \$554,185 |
| Total operating income (in thousands) | \$ 80,564                  | \$ 98,120 |
| RevPAR (revenue per available room)   | \$ 98.81                   | \$ 100.59 |
| Occupancy                             | 70.71%                     | 73.80%    |
| ADR (average daily rate)              | \$ 139.74                  | \$ 136.29 |

The 43 non-comparable hotels that are included in continuing operations contributed the following for the years ended December 31, 2008 and 2007 (in thousands):

|                        | Year Ended<br>December 31, |           |
|------------------------|----------------------------|-----------|
|                        | 2008                       | 2007      |
| Total revenue          | \$599,262                  | \$441,276 |
| Total operating income | \$ 82,513                  | \$ 55,345 |

**Revenue.** Total revenue for the year ended December 31, 2008 ( 2008 ) increased \$165.1 million, or 16.4%, to \$1.2 billion from \$1.0 billion for the year ended December 31, 2007 ( 2007 ). The increase was substantially due to the \$158.0 million in incremental revenues attributable to the 43 non-comparable hotels, which is offset by a \$6.7 million decrease in revenues from comparable hotels as a result of economic downturn. Mezzanine loans originated and acquired in 2008 contributed a \$16.7 million increase in interest income from notes receivable which was

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partially offset by decreased interest income from existing variable rate notes as a result of significantly lower LIBOR rates in 2008. Fees received from certain asset management consulting agreements we entered into in December 2007 also contributed \$522,000 to the increase.

Room revenues at comparable hotels for 2008 decreased \$4.2 million, or 1.0%, compared to 2007, primarily due to a slight decrease in RevPAR from \$100.59 to \$98.81 driven by 3.09% decrease in occupancy principally as a result of the economic downturn and four hotel properties being under renovation. The effect of decreased occupancy is partially offset by a 2.5% increase in ADR. Excluding the four hotel properties under renovation, the remaining 56 comparable hotel properties RevPAR decreased from \$101.12 in 2007 to \$99.63 in 2008 driven by a 2.5% increase in ADR which effect is partially offset by a 2.86% decrease in occupancy. Due to the economic downturn, many hotels experienced lower occupancy rates, however, the lower occupancy is partially offset by moderate increases in ADR which is consistent with industry trends. Certain hotels benefited from increasing or garnering more favorable group room-night contracts, eliminating less favorable contracts, and charging higher rates on transient business. Although occupancy increased at several hotels, renovations at certain hotels reduced room availability, which offset these increases.

Food and beverage revenues increased \$29.3 million in 2008 compared to 2007 primarily due to a \$32.7 million contribution from the 43 non-comparable hotels. This increase is partially offset by a decrease of \$3.4 million at comparable hotels which is attributable to decline in group bookings, corporate banquet and catered events.

Rental income from operating leases represents rental income recognized on a straight-line basis associated with a hotel property acquired in April 2007, which is leased to a third-party tenant on a triple-net basis.

Other hotel revenues for 2008 increased \$10.0 million compared to 2007 due primarily to a \$9.0 million increase attributable to the non-comparable hotels. Other revenues at comparable hotels reported a slight increase of \$952,000.

Interest income from notes receivable increased \$13.0 million for 2008 compared to 2007. The increase is attributable to the acquisition and origination of new mezzanine loans during 2008 totaling \$209.1 million in principal balance which accounted for \$16.7 million (including an amortization of discounts on these notes of \$8.5 million) of the increase. The increase was partially offset by the income from variable rates notes as a result of the decline in LIBOR rates during 2008. Weighted average yield of mezzanine loans for 2008 and 2007 were 15.4% and 12.9%, respectively.

The discount of \$65.6 million on the mezzanine loan acquired for \$98.4 million in July 2008 that is secured by 681 extended stay hotel properties with a principal amount of \$164.0 million is being amortized over the life of the loan including extension periods. Based on trailing 12-month net cash flow from the portfolio, the debt service coverage ratio at closing through our position of approximately 1.63x, and our investment in the capital structure of approximately 75% to 80% loan to cost, or \$82,142 per key, we expect full repayment of the principal amount at maturity and are recognizing the discount amount of \$65.6 million over the potential four year life of the loan. There can be no assurance that our estimate of collectible amounts will not change over time or that they will be representative of the amounts we may actually collect. The risk is that changes in market conditions may prevent the borrower from repaying the loan amount in full and we may have to reverse some of the discount recognized in our income stream in prior periods which may have a material impact on our future financial position and results of operations.

Asset management fees and other increased \$679,000 during 2008. The increase is primarily related to a sourcing fee and service fee of \$148,000 from PREI JV and a consulting fee of \$522,000 from a consulting agreement we entered into in December 2007 in connection with an asset swap transaction.

**Hotel Operating Expenses.** Hotel operating expenses, which consists of room expense, food and beverage expense, other direct expenses, indirect expenses, and management fees, increased \$102.2 million, or 15.7%, for 2008 compared to 2007, primarily due to \$105.1 million of expenses associated with the 43 non-comparable hotels. Hotel operating expenses at comparable hotels experienced a decrease of \$3.0 million, or 0.8%, for 2008 compared to 2007. Management has instituted better cost controls to mitigate the effects of lower revenue.

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In December 2008, we executed aggressive cost saving measures at the property level that include payroll freezes, vendor contract renegotiation and adjustments to service levels and expect the hotel operating expenses to decrease in 2009 from their 2008 levels.

**Property Taxes, Insurance and Other.** Property taxes, insurance, and other increased \$10.1 million, or 19.3%, for 2008 compared to 2007, due to \$10.2 million of expenses associated with the non-comparable hotels. Property taxes, insurance, and other expense at comparable hotels experienced a slight decrease of \$96,000 in 2008 compared to 2007. Property taxes increased \$1.8 million for the comparable hotels due to appraised property values increasing significantly at certain hotels, which is completely offset by a decline of \$1.9 million in insurance expense as new insurance policies were negotiated effective June 1, 2007.

**Depreciation and Amortization.** Depreciation and amortization increased \$29.6 million, or 21.4%, for 2008 compared to 2007. The increase is primarily associated with the non-comparable hotels which accounted for \$15.5 million of the increase. During 2008, we finalized the allocation of the purchase price of the CNL Acquisition which resulted in adjustments to asset values and the reclassification of certain assets into asset groups that have longer useful lives. In addition, a \$14.1 million increase of depreciation is attributable to capital improvements made at several comparable hotels in 2008.

**Corporate General and Administrative.** Corporate general and administrative expense increased to \$28.7 million for 2008 compared to \$27.0 million for 2007. These expenses include non-cash stock-based compensation expense of \$6.8 million and \$6.2 million for 2008 and 2007, respectively. Excluding the non-cash stock-based compensation, these expenses increased \$1.1 million in 2008 compared to 2007 primarily due to the increase in headcount and audit and legal expenses and as a result of the CNL Acquisition. These increases were partially offset by a \$220,000 credit recorded for the deferred compensation expense as the accrued liability under the deferred compensation declined due to the decrease in the value of the related investments.

In December 2008, we implemented a cost saving plan at the corporate level which includes reductions in overhead from staff layoffs, salary freezes, and reduced benefits and fees along with other cost saving measures. Management expects that corporate general and administrative expenses will decrease in 2009.

**Equity Loss in Unconsolidated Joint Venture.** Equity loss in the PREI JV of \$2.2 million represents our 25% of the interest in the operating results of the PREI JV. Interest earned on the mezzanine notes was \$3.3 million which is offset by an impairment charge of \$5.5 million. In October 2008, the borrower of the mezzanine note receivable of \$21.5 million which matures in 2018 defaulted on debt service payments on both the first mortgage and our mezzanine loan. After an impairment test, we and our joint venture partner determined to provide a loss reserve for the entire amount of the loan balance.

**Interest Income.** Interest income decreased \$1.1 million for 2008 compared to 2007 primarily due to the significant decline in short-term interest rates which is partially offset by an increase in average cash balances.

**Other Income.** Other income of \$10.2 million represents the interest income of \$10.4 million on the non-hedge interest rate swap, cap and floor that we entered into since March 2008 which is partially offset by a loss of \$199,000 recorded for the change in cash surrender value related to an insurance contract for our deferred compensation plan.

**Interest Expense and Amortization of Loan Costs.** Interest expense and amortization of loan costs increased \$20.6 million to \$156.4 million for 2008 from \$135.8 million for 2007. The increase is primarily attributable to higher average debt balance in 2008 as a result of the CNL acquisition in April 2007 as the related borrowings on the acquisition were not outstanding for the entire 2007 period. This increase was partially offset by the decreased interest costs related to our variable rate debt as a result of lower LIBOR rates during 2008.

**Write-off of Loan Cost and Exit Fees.** During 2008, we wrote off unamortized loan costs of \$424,000 on the \$127.2 million debt that was refinanced with a \$160.0 million new debt and incurred \$802,000 of prepayment penalties on other loans. During 2007, we repaid the balance and terminated two credit facilities with total borrowing capacity of \$250 million. We also paid off our then outstanding loans totaling \$505.1 million. In connection with these terminations and pay-offs, we wrote-off unamortized loan costs of \$3.6 million and incurred prepayment penalties of \$559,000 of which \$193,000 was allocated to continuing operations.

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**Unrealized Gains/(Losses) on Derivatives.** In 2008, we entered into various interest rate swap, floor and cap transactions that were not designated as hedges. As a result, the changes in market value of these derivatives are included in the earnings. During 2008, we recorded unrealized gains of \$79.7 million on these derivatives as a result of the LIBOR future curve used in determining the fair values turning significantly downward during the fourth quarter as a result of global economic downturn. Unrealized losses were \$44,000 and \$211,000 for 2008 and 2007, respectively, on other interest rate caps that were designated as cash flow hedges. See Note 11 and Note 12 of Notes to Consolidated Financial Statements included in Item 8.

**Income Tax (Expense)/Benefit.** Income tax expense was \$967,000 and \$3.8 million for 2008 and 2007, respectively. The 2008 tax expense consisted primarily of certain state taxes assessed on partnership subsidiaries and the Texas margin tax and the new Michigan Business Tax. Income tax for 2007 consists primarily of the expense associated with fully reserving our deferred tax asset at December 31, 2007. As a result of Ashford TRS losses in 2008 and prior years, and the limitations imposed by the Internal Revenue Code on the utilization of net operating losses of acquired subsidiaries, we believe that it is more likely than not our net deferred tax asset would not be realized, and therefore, have provided a valuation allowance to fully reserve against these amounts.

**Minority Interests in Earnings of Consolidated Joint Ventures.** Minority interests represent the joint venture partners who have ownerships of 11% to 25% in six hotel properties owned and operated by our consolidated joint ventures. We acquired these joint ventures in connection with the CNL Acquisition in April 2007. During 2008 and 2007, the minority interest partners were allocated an income from consolidated joint ventures of \$1.4 million and \$323,000, respectively.

**Minority Interest in Earnings of Operating Partnership.** Minority interest in operating partnership represents the limited partners' proportionate share of equity in earnings/losses of the operating partnership which is an allocation of net income available to common shareholders based on the weighted average ownership percentage of these limited partners' common unit holdings throughout the period plus dividends paid to these limited partners' Class B unit holdings. Income from continuing operations allocated plus dividends paid to these limited partners were \$9.9 million and \$876,000 for 2008 and 2007, respectively. Income from discontinued operations allocated to these limited partners was \$5.1 million and \$3.1 million for 2008 and 2007, respectively.

**Income from Discontinued Operations.** Included in income from discontinued operations were gains of \$48.5 million and \$35.1 million from hotel sales for 2008 and 2007, respectively. Operating results of discontinued operations also reflected interest and related debt expense of \$3.5 million and \$20.1 million for 2008 and 2007, respectively. In addition, unamortized loan costs of \$1.8 million and \$4.8 million in 2008 and 2007, respectively, were written off when the related debt was repaid upon the sale of the hotel properties collateralizing that debt. The 2008 result also reflects a \$2.1 million write-off of loan premiums upon the sale of related hotel property.

**Comparison of Year Ended December 31, 2007 with Year Ended December 31, 2006**

Income from continuing operations includes the operating results of 51 comparable hotels. The following table illustrates the key performance indicators of the comparable hotels for the periods indicated:

|                                       | <b>Year Ended<br/>December 31,</b> |             |
|---------------------------------------|------------------------------------|-------------|
|                                       | <b>2007</b>                        | <b>2006</b> |
| Total revenue (in thousands)          | \$342,162                          | \$324,396   |
| Total operating income (in thousands) | \$ 73,178                          | \$ 68,561   |
| RevPAR (revenue per available room)   | \$ 93.71                           | \$ 88.43    |
| Occupancy                             | 73.09%                             | 73.81%      |
| ADR (average daily rate)              | \$ 128.21                          | \$ 119.82   |

The 52 non-comparable hotels that are included in continuing operations contributed the following for the years ended December 31, 2007 and 2006 (in thousands):

**Year Ended  
December 31,**

|                        | <b>2007</b> | <b>2006</b> |
|------------------------|-------------|-------------|
| Total revenue          | \$653,300   | \$60,702    |
| Total operating income | \$ 80,287   | \$ 3,931    |

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**Revenue.** Total revenue for the year ended December 31, 2007 ( 2007 ) increased \$606.6 million, or 151.2%, to \$1.0 billion from \$401.2 million for the year ended December 31, 2006 ( 2006 ). The increase was substantially due to the \$592.6 million in incremental revenues attributable to the 52 non-comparable hotels and a \$17.8 million increase from comparable hotels primarily due to increases in room revenues. The increase was partially offset by a decrease in interest income from mezzanine loans of \$3.9 million as a result of a decline in the average balance outstanding during 2007.

Room revenues at comparable hotels for the 2007 increased \$14.6 million or 5.4% compared to 2006, primarily due to an increase in RevPAR from \$88.43 to \$93.71, which consisted of a 7.0% increase in ADR and a 72 basis point decrease in occupancy. Due to the continued recovery in the economy during 2007 and consistent with industry trends, several hotels experienced significant increases in ADR and relatively flat occupancy. In addition to improved market conditions, certain hotels also benefited in 2007 from increasing or garnering more favorable group room-night contracts, eliminating less favorable contracts, and charging higher rates on transient business. Although occupancy increased at several hotels, renovations at certain hotels in 2007 reduced room availability, which offset these increases.

Food and beverage revenues at comparable hotels for 2007 increased \$2.3 million or 5.5% compared to 2006 primarily due to increased occupancy at certain hotels, increased prices overall, and increased banquets at certain hotels. The remainder of the increase is primarily attributable to the 52 non-comparable hotels.

Rental income from operating leases represents rental income recognized on a straight-line basis associated with a hotel property acquired on April 11, 2007, which is leased to a third-party tenant on a triple-net lease basis.

Other revenues for 2007 compared to 2006 increased \$29.6 million due to \$28.7 million in incremental revenues attributable to the 52 non-comparable hotels and \$873,000 increase at comparable hotels primarily due to increased ancillary revenues at certain hotels.

Interest income from notes receivable decreased to \$11.0 million for 2007 compared to \$14.9 million for 2006 due to a decrease in the average mezzanine loans portfolio balance outstanding during 2007 compared to 2006.

Asset management fees and other related to 27 hotel properties previously owned by affiliates for which we provided asset management and consulting services. We acquired 21 of these hotel properties from the affiliates on March 16, 2005, and the affiliates subsequently sold the remaining six hotel properties. However, the affiliates, pursuant to an agreement, continue to guarantee a minimum annual fee of approximately \$1.2 million through December 31, 2008.

**Hotel Operating Expenses.** Hotel operating expenses increased \$402.3 million, or 161.5%, for 2007 compared to 2006, primarily due to \$392.7 million of expenses associated with the non-comparable hotels. In addition, hotel operating expenses at comparable hotels increased \$9.6 million, or 4.7%, for 2007 compared to 2006 primarily due to increases in rooms, food and beverage, and indirect expenses. These increases were partially offset by a \$2.0 million transaction fee we were reimbursed by Hilton Hotels Corporation relating to the asset swap transaction.

Rooms expense at comparable hotels increased \$1.7 million or 2.9% for 2007 compared to 2006 primarily due to increased occupancy at certain hotels, virtually flat costs at hotels experiencing comparable occupancy due to the fixed nature of maintaining staff, and increased prices overall. The increase in food and beverage expense of \$818,000 at comparable hotels is consistent with the related increase in food and beverage revenues. Indirect expenses at comparable hotels increased approximately \$6.2 million or 6.3% for 2007 compared to 2006. Indirect expenses primarily increased as a result of increased hotel-level general and administrative expenses due to increased salaries and staffing needs consistent with increased revenues, and increased franchise fees and incentive management fees due to increased room revenues at certain hotels.

**Property Taxes, Insurance and Other.** Property taxes, insurance, and other increased \$29.7 million or 130.3% for 2007 compared to 2006 due to \$30.6 million of expenses associated with the 52 non-comparable hotels. Property taxes, insurance, and other expense at comparable hotels decreased \$818,000 in 2007 compared to 2006 primarily resulting from declined property insurance rates incurred under new policies related to several hotels.

**Depreciation and Amortization.** Depreciation and amortization increased \$97.4 million or 239.2% for 2007 compared to 2006 primarily due to \$93.0 million of depreciation associated with the 52 non-comparable hotels.



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Depreciation and amortization at comparable hotels increased \$4.4 million for 2007 compared to 2006 as a result of capital improvements made at several hotels.

**Corporate General and Administrative.** Corporate general and administrative expense increased to \$27.0 million for 2007 compared to \$20.4 million for 2006. These expenses include non-cash stock-based compensation expense of \$6.2 million and \$5.2 million for 2007 and 2006, respectively. Excluding the non-cash stock-based compensation, these expenses increased \$5.6 million in 2007 compared to 2006 primarily due to the increase in headcount and audit expense as a result of the CNL Acquisition. As a percentage of total revenue, however, corporate general and administrative expense decreased to 2.7% of total revenue in 2007 from approximately 7.5% in 2006 due to corporate synergies inherent in overall growth.

**Interest Income.** Interest income increased \$261,000 to \$3.2 million for 2007 from \$2.9 million in 2006 primarily due to interest earned on funds received from borrowings and equity offerings during 2007 in excess of interest earned on funds received from borrowings and equity offerings during 2006.

**Interest Expense and Amortization of Loan Costs.** Interest expense and amortization of loan costs increased \$93.1 million to \$135.8 million for 2007 from \$42.7 million in 2006. The increase in interest expense and amortization of loan costs is associated with the higher average debt balance during 2007 as a result of the CNL acquisition.

**Write-off of Loan Cost and Exit Fees.** During 2007, we repaid the balance and terminated two credit facilities with total borrowing capacity of \$250 million. We also paid off our then outstanding loans totaling \$505.1 million. In connection with these terminations and pay-offs, we wrote-off unamortized loan costs of \$3.6 million and incurred prepayment penalties of \$559,000 of which \$193,000 was allocated to continuing operations. During 2006, we recorded write-off of loan costs and exit fees of \$101,000 relating to the repayment on our then outstanding mortgage note of \$11.1 million.

**Unrealized Gains/(Losses) on Derivatives.** Unrealized losses were \$211,000 and \$16,000 for 2007 and 2006, respectively, on interest rate caps that we entered into in 2007 and 2006.

**Income Tax (Expense)/Benefit.** We recorded an income tax expense of \$3.8 million for 2007 and a benefit of \$2.7 million for 2006. The income tax for 2007 consists primarily of the expense associated with fully reserving our deferred tax asset at December 31, 2007. As a result of Ashford TRS losses in 2007 and 2006, and the limitations imposed by the Internal Revenue Code on the utilization of net operating losses of acquired subsidiaries, we believe that it is more likely than not our net deferred tax asset would not be realized, and therefore, had provided a valuation allowance to fully reserve against these amounts. For 2006, the income tax benefit related to the net loss associated with Ashford TRS.

**Minority Interests in Earnings of Consolidated Joint Ventures.** Minority interests represent the joint venture partners who have ownerships between 11% to 25% in six hotel properties owned and operated by our consolidated joint ventures. We acquired these joint ventures in connection with the CNL Acquisition in April 2007. Income from consolidated joint ventures allocated to the minority interests was \$323,000 for 2007.

**Minority Interest in Earnings of Operating Partnership.** Income from continuing operations allocated to these limited partners were \$876,000 and \$3.8 million for 2007 and 2006, respectively. Income from discontinued operations allocated to these limited partners was \$3.1 million and \$1.5 million for 2007 and 2006, respectively.

**Income from Discontinued Operations.** Included in income from discontinued operations were gains of \$35.1 million for 2007. Operating results of discontinued operations also reflected interest and related debt expense of \$20.1 million and \$5.7 million for 2007 and 2006, respectively. In addition, unamortized loan costs of \$4.8 million and \$687,000 in 2007 and 2006, respectively, were written off when the related debt was repaid upon the sale of the hotel properties collateralizing that debt.

**NON-GAAP FINANCIAL MEASURES**

EBITDA is defined as net income before interest expense, interest income other than interest income from mezzanine loans, income taxes, depreciation and amortization, and minority interest in earnings of operating partnership. We believe EBITDA is useful to investors as it is an indicator of our ability to service debt and pay cash



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dividends. EBITDA, as calculated by us may not be comparable to EBITDA reported by other companies that do not define EBITDA exactly as we define the term. EBITDA does not represent cash generated from operating activities determined in accordance with generally accepted accounting principles ( GAAP ), and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as determined by GAAP as a indicator of liquidity.

The following table reconciles net income to EBITDA (in thousands) (unaudited):

|   | <b>Year Ended December 31,</b> |                   |                   |
|---|--------------------------------|-------------------|-------------------|
|   | <b>2008</b>                    | <b>2007</b>       | <b>2006</b>       |
| Net income  | \$ 129,194                     | \$ 30,160         | \$ 37,796         |
| Depreciation and amortization                           | 172,262                        | 166,161           | 52,863            |
| Interest expense and amortization of loan costs         | 157,274                        | 154,338           | 48,457            |
| Income tax expense (benefit)                            | 1,093                          | 5,599             | (2,719)           |
| Minority interests in earnings of operating partnership | 15,033                         | 3,957             | 5,277             |
| Interest income   | (2,020)                        | (3,064)           | (2,917)           |
| <b>EBITDA <sup>(1)</sup></b>                            | <b>\$ 472,836</b>              | <b>\$ 357,151</b> | <b>\$ 138,757</b> |

(1) EBITDA is not adjusted for income received from interest rate derivatives because the related derivatives are not designated as hedges under SFAS 133 and therefore, this income is reported as other income instead of a reduction of interest expense in accordance with GAAP.

The White Paper on Funds From Operations ( FFO ) approved by the Board of Governors of the National Association of Real Estate Investment Trusts ( NAREIT ) in April 2002 defines FFO as net income computed in accordance with GAAP, excluding gains (or losses) on sales of properties and extraordinary items as defined by GAAP, plus depreciation and amortization of real estate assets, and net of adjustments for the portion of these items attributable to minority interests in earnings/(losses) of operating partnership. NAREIT developed FFO as a relative measure of performance of an equity REIT to recognize that income-producing real estate historically has not depreciated on the basis determined by GAAP. We compute FFO in accordance with our interpretation of standards established by NAREIT, which may not be comparable to FFO reported by other REITs that either do not define the term in accordance with the current NAREIT definition or interpret the NAREIT definition differently than us. FFO does not represent cash generated from operating activities as determined by GAAP and should not be considered as

an alternative to a) GAAP net income/(loss) as an indication of our financial performance or b) GAAP cash flows from operating activities as a measure of our liquidity, nor is it indicative of funds available to satisfy our cash needs, including our ability to make cash distributions. However, to facilitate a clear understanding of our historical operating results, we believe that FFO should be considered along with our net income/(loss) and cash flows reported in the consolidated financial statements. The following table reconciles net income to FFO (in thousands) (unaudited):

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| Net income  | \$ 129,194                     | \$ 30,160   | \$ 37,796   |
| Preferred dividends                                     | (26,642)                       | (23,990)    | (10,875)    |
| Net income available to common stockholders             | 102,552                        | 6,170       | 26,921      |
| Depreciation and amortization on real estate            | 171,791                        | 165,757     | 52,550      |
| Gains on sales of properties                            | (48,514)                       | (28,204)    |             |
| Minority interests in earnings of operating partnership | 15,033                         | 3,957       | 5,277       |
| FFO   | \$ 240,862                     | \$ 147,680  | \$ 84,748   |

### **LIQUIDITY AND CAPITAL RESOURCES**

Our principal sources of funds to meet our cash requirements include: positive cash flow from operations, cash income from mezzanine loans, property refinancing proceeds, asset sales, property level preferred equity, return of capital from existing mezzanine loans, and income derived from the interest rate swap. Our principal uses of funds are expected to include possible operating shortfalls from mezzanine investments, owner-funded capital expenditures, debt interest and principal payments, and repurchases of our securities. Items that impact our cash flows and liquidity are summarized as follows:

***Net Cash Flows Provided By Operating Activities.*** Net cash flows provided by operating activities, pursuant to our Consolidated Statement of Cash Flows which includes the changes in balance sheet items, were \$144.9 million

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and \$155.7 million for 2008 and 2007, respectively. The decrease is principally due to the economic downturn in 2008 that resulted in decreased ADR and declined occupancy. These decreases are partially offset by the inclusion of an entire year of operations in the 2008 operating results for hotel properties related to the CNL Acquisition.

**Net Cash Flows Provided by/(Used In) Investing Activities.** For 2008, investing activities provided net cash flows of \$168.5 million, which consisted of net proceeds of \$428.5 million from sales of 10 hotel properties and one office building and a payment of \$23.2 million for the 75% note receivable acquired by PREI JV. These cash inflows were partially offset by \$138.0 million for acquisitions or originations of notes receivable, \$17.9 million for the acquisition of 25% interest in a mezzanine loan acquired by PREI JV, and \$127.3 million of improvements to various hotel properties. For 2007, investing activities used net cash of \$1.9 billion, which consisted of \$2.1 billion for the CNL Acquisition, \$127.3 million for improvements to various hotel properties and \$21.5 million for the acquisition of mezzanine loans. These cash outlays were partially offset by \$304.9 million from the sales of 22 hotel properties and one office building and \$30.1 million cash received from payments of notes receivables.

**Net Cash Flows (Used in)/Provided by Financing Activities.** For 2008, net cash flow used in financing activities was \$164.1 million consisting of payments of \$741.6 million on indebtedness and capital leases, \$138.6 million of dividends, \$9.9 million for entering into interest rate swap, floor and cap transactions, \$96.9 million for purchases of treasury shares, and \$7.8 million of debt refinancing costs. These cash outlays were partially offset by \$833.4 million of aggregate draws on our \$250.0 million credit facility and refinances of existing mortgage loans, a \$52,000 payment from minority interest in consolidated joint ventures and \$53,000 attributed to buy-ins of long-term incentive partnership units issued to our executives under the our equity incentive plan. For 2007, net cash flow provided in financing activities was \$1.7 billion consisting of \$2.0 billion in debt borrowings, \$193.3 million of net proceeds from the issuance of Series C preferred stock, \$193.8 million of net proceeds received from issuance of Series D preferred stock, and \$548.2 million of net proceeds received from the follow-on public offering in April 2007. These cash inflows were partially offset by payments of \$832.1 million on indebtedness and capital leases, \$195.7 million for the redemption of Series C preferred stock, \$111.4 million of dividends, \$11.8 million of loan costs, \$2.4 million for penalties on early repayment of indebtedness and \$728,000 for purchases of treasury shares.

We are required to maintain certain financial ratios under various debt agreements. If we violate covenants in any debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of certain debt covenants may result in us being unable to borrow unused amounts under a line of credit, even if repayment of some or all borrowings is not required. In any event, financial covenants under our current or future debt obligations could impair our planned business strategies by limiting our ability to borrow (i) beyond certain amounts or (ii) for certain purposes. Presently, our existing financial debt covenants primarily relate to maintaining minimum debt coverage ratios at certain properties, maintaining an overall minimum net worth, maintaining a maximum loan to value, and maintaining an overall minimum total assets. At December 31, 2008, we were in compliance with all covenants or other requirements set forth in our credit agreements as amended.

In December 2008, we negotiated an amendment with the 11 banks in our \$300 million credit facility. The main provision changes to the facility, which expires in 2012 after extension, include: (i) reducing the fixed charge coverage ratio to 1.25x (1.72x at December 31, 2008) effective from the date of the amendment until March 31, 2011, at which time the ratio increases to 1.35x; (ii) reducing the revolver commitment level from \$300 million to \$250 million; (iii) reducing the maximum leverage ratio from 75% to 65% (57.0% at December 31, 2008); (iv) adjusting the previous interest spread of 1.65% to 2.75% upward to a spread of 2.75% to 3.50%; and (v) suspending the dividend payable to common stockholders through 2008, except to the extent of any minimum dividend required to maintain our REIT status.

**Interest Rate Derivative Transactions.** To hedge our asset cash flows, we enter into derivative transactions with major financial institutions. In March 2008, we executed a five-year interest rate swap on \$1.8 billion of fixed-rate debt at a weighted average interest rate of 5.84% for a floating interest rate of LIBOR plus 2.64%. In conjunction with the swap execution, we sold a five-year LIBOR floor notional amount of \$1.8 billion at 1.25% and purchased a LIBOR cap notional amount of \$1.0 billion at 3.75% for the first three years. On September 30, 2008, we entered into an additional LIBOR interest rate cap with \$800 million notional amount at 3.75% effective October 14, 2008 for a

one year. Subsequently in December 2008, we purchased a one-year \$1.8 billion interest flooridior to bring down the LIBOR floor to 0.75%. Under this flooridior, the counterparties will pay us the interest on the \$1.8 billion notional amount when the interest rates are below the original floor of 1.25% and above the new floor of 0.75%. The

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upfront cost of the swap, LIBOR cap, and floor transactions was \$8.8 million. The net fair value at December 31, 2008 was \$88.5 million. See Notes 11 and 12 of Notes to Consolidated Financial Statements included Item 8.

**Authorization of Repurchase of Common and Preferred Shares and Debt** - In the fourth quarter of 2007, the Board of Directors authorized a \$50 million common stock repurchase program. On September 5, 2008, we had completed the repurchase of substantially all of the shares authorized under this program, and the Board of Directors authorized the repurchase of an additional \$75 million of our common stock under the program. In November 2008, the Board of Directors modified the share repurchase program to include both common and preferred shares. During the year ended December 31, 2008, we have repurchased 34.0 million shares of our common stock for an aggregate purchase price of \$96.9 million, and 114,500 shares of our Series A preferred stock and 1.6 million shares of our Series D preferred stock for an aggregate purchase price of \$9.9 million.

In January 2009, the Board of Directors authorized an additional \$200 million repurchase plan authorization (excluding fees, commissions and all other ancillary expenses) for: (i) the repurchase of shares of the our common stock, Series A preferred stock, Series B-1 preferred stock and Series D preferred stock and/or (ii) the prepayment of our outstanding debt obligations, including debt secured by our hotel assets and debt senior to our mezzanine or loan investments.

**Dividend Policy.** Effective with the fourth quarter ended December 31, 2008, and in conjunction with the credit facility amendment outlined above, the Board of Directors suspended the common stock dividend. We expect to distribute the minimum dividend required to maintain our REIT status in 2009, which is likely to be determined, if necessary, in the fourth quarter of 2009.

We continue to execute aggressive cost saving measures at the property level that include payroll freezes, vendor contract renegotiation and adjustments to service levels. In addition, corporate level cost containment plans have been implemented which include reductions in overhead from staff layoffs, salary freezes, and reduced benefits and fees along with other cost saving measures.

We may incur indebtedness to meet distribution requirements imposed on REITs under the Internal Revenue Code to the extent that working capital and cash flow from our investments are insufficient to fund required distributions.

Based upon the current level of operations, management believes that our cash flow from operations along with our significant cash balances will be adequate to meet upcoming anticipated requirements for scheduled maturities, dividends, working capital, capital expenditures, interest and upcoming scheduled principal payments, and share repurchases for the foreseeable future. With respect to upcoming maturities, no assurances can be given that we will obtain additional financings or, if we do, what the amount and terms will be. Our failure to obtain future financing under favorable terms could adversely impact our ability to execute our business strategy. In addition, we may selectively pursue mortgage financing on individual properties and our mortgage investments.

We will acquire or develop additional hotels and invest in structured financings only as suitable opportunities arise, and we will not undertake such investments unless adequate sources of financing are available. Funds for future hotel-related investments are expected to be derived, in whole or in part, from future borrowings under a credit facility or other loan or from proceeds from additional issuances of common stock, preferred stock, or other securities. However, we have no formal commitment or understanding to invest in additional assets, and there can be no assurance that we will successfully make additional investments.

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

**INFLATION**

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

**Table of Contents****SEASONALITY**

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

**OFF-BALANCE SHEET ARRANGEMENTS**

During 2008, we did not maintain any off-balance sheet arrangements and do not currently anticipate any such arrangements.

**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The table below summarizes our obligations for principal and estimated interest payments on our debt, future minimum lease payments on our operating and capital leases, projected capital expenditures and other long-term liabilities, each as of December 31, 2008 (in thousands):

|   | <b>Payments Due by Period</b> |                     |                   |                     | <b>Total</b>        |
|---|-------------------------------|---------------------|-------------------|---------------------|---------------------|
|   | <b>&lt; 1 Year</b>            | <b>2-3 Years</b>    | <b>4-5 Years</b>  | <b>&gt; 5 Years</b> |                     |
| <b>Contractual obligations excluding extension options:</b> |                               |                     |                   |                     |                     |
| Long-term debt obligations <sup>(1)</sup>                   | \$ 408,326                    | \$ 653,320          | \$ 62,332         | \$ 1,665,007        | \$ 2,788,985        |
| Capital lease obligations                                   | 117                           | 90                  |                   |                     | 207                 |
| Operating lease obligations                                 | 5,099                         | 8,456               | 7,250             | 186,314             | 207,119             |
| Estimated interest obligations <sup>(2)</sup>               | 132,523                       | 220,123             | 196,592           | 1,051,268           | 1,600,506           |
| <b>Total contractual obligations</b>                        | <b>\$ 546,065</b>             | <b>\$ 881,989</b>   | <b>\$ 266,174</b> | <b>\$ 2,902,589</b> | <b>\$ 4,596,817</b> |
| <b>Contractual obligations including extension options:</b> |                               |                     |                   |                     |                     |
| Long-term debt obligations <sup>(1)</sup>                   | \$ 37,724                     | \$ 856,720          | \$ 229,534        | \$ 1,665,007        | \$ 2,788,985        |
| Capital lease obligations                                   | 117                           | 90                  |                   |                     | 207                 |
| Operating lease obligations                                 | 5,099                         | 8,456               | 7,250             | 186,314             | 207,119             |
| Estimated interest obligations <sup>(2)</sup>               | 135,214                       | 235,505             | 197,755           | 1,051,268           | 1,619,742           |
| <b>Total contractual obligations</b>                        | <b>\$ 178,154</b>             | <b>\$ 1,100,771</b> | <b>\$ 434,539</b> | <b>\$ 2,902,589</b> | <b>\$ 4,616,053</b> |

<sup>(1)</sup> Payments do not reflect the premiums of \$1.4 million that are being amortized as a reduction of interest expense.

<sup>(2)</sup> For variable interest rate

indebtedness,  
interest  
obligations are  
estimated based  
on the LIBOR  
interest rate at  
December 31,  
2008.

In addition to the amounts discussed above, we also have management agreements which require us to pay monthly management fees, market service fees and other general fees, if required. These management agreements expire from 2011 through 2029. See Note 14 of Notes to Consolidated Financial Statements included in Item 8.

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

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

At December 31, 2008, our \$2.8 billion debt portfolio included \$854.3 million of variable-rate debt. The impact on the results of operations of a 25-basis point change in interest rate on the outstanding balance of variable-rate debt at December 31, 2008 would be approximately \$2.1 million per year. Based on the LIBOR rates in effect on December 31, 2008, the interest rate derivatives we entered into in 2008 would result in an annual savings of approximately \$44 million. Due to the interest rate cap and floor on these derivatives, a 25-basis point change to the LIBOR rates would not change the amount of the interest savings.

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Periodically, we purchase derivatives to increase stability related to interest expense and to manage our exposure to interest rate movements or other identified risks. To accomplish this objective, we primarily use interest rate swaps, caps and floors as part of our cash flow hedging strategy. Interest rate swaps involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the derivative agreements without exchange of the underlying principal amount. Interest rate caps provide us with interest rate protection above the strike rate on the cap and result in us receiving interest payments when interest rates exceed the cap strike. In March 2008, we entered into interest rate swap, cap and floor transactions that were not designated as hedges. The changes in the fair market values of these transactions are recorded in earnings.

The following table summarizes our interest rate swap, caps and floor at December 31, 2008 and the earnings/(losses) recognized for the year ended December 31, 2008 (\$ in thousands):

| Notional     | Interest            | Cash Flow Hedge Designation       | Fair Value | Unrealized Gain/(Loss) Recorded In Earnings |           |           |
|--------------|---------------------|-----------------------------------|------------|---|-----------|-----------|
| Amount       | Type                | Rates                             | Yes / No   | Maturity                                    | Value     | Earnings  |
| \$ 212,000   | Interest Rate Cap   | 6.25%                             | Yes        | 2009  | \$        | \$ (15)   |
| \$ 35,000    | Interest Rate Cap   | 6.25%                             | No         | 2009  |           |           |
| \$ 375,036   | Interest Rate Cap   | 6.00%                             | No         | 2009  |           | (4)       |
| \$ 160,000   | Interest Rate Cap   | 5.00%                             | Yes        | 2010  | 7         | (8)       |
| \$ 160,000   | Interest Rate Cap   | 5.00%                             | Yes        | 2011  | 78        | (21)      |
| \$ 55,000    | Interest Rate Cap   | 5.00%                             | Yes        | 2010  | 3         |           |
| \$ 1,800,000 | Interest Rate Cap   | 3.75%                             | No         | 2009 to 2011                                | 758       | (9,037)   |
|              |                     | Pays LIBOR                        |            |   |           |           |
|              |                     | plus                              |            |   |           |           |
| \$ 1,800,000 | Interest Rate Swap  | 2.64%,<br>receives fixed<br>5.84% | No         | 2013  | 99,206    | 95,014    |
| \$ 1,800,000 | Interest Rate Floor | Floor rate<br>1.25%               | No         | 2013  | (17,167)  | (9,047)   |
| \$ 1,800,000 | Interest Rate Floor | Floor rate<br>0.75%               | No         | 2009  | 5,718     | 2,738     |
|              |                     |                                   |            |   | \$ 88,603 | \$ 79,620 |

At December 31, 2008, our \$212.8 million notes receivable included \$168.3 million of variable-rate notes. The impact on the results of operations of a 25-basis point change in interest rate on the outstanding balance of variable-rate notes at December 31, 2008 would be \$421,000 annually.

The above amounts were determined based on the impact of hypothetical interest rates on our borrowings and lending portfolios, and assume no changes in our capital structure. As the information presented above includes only those exposures that existed at December 31, 2008, it does not consider exposures or positions that could arise after that date. Accordingly, the information presented herein has limited predictive value. As a result, the ultimate realized gain or loss with respect to interest rate fluctuations will depend on exposures that arise during the period, the hedging strategies at the time, and the related interest rates.



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

Index to Consolidated Financial Statements

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|---|----|
| <u>Report of Independent Registered Public Accounting Firm</u>  | 50 |
| <u>Consolidated Balance Sheets December 31, 2008 and 2007</u>   | 51 |
| <u>Consolidated Statements of Operations Years Ended December 31, 2008, 2007 and 2006</u>                     | 52 |
| <u>Consolidated Statements of Comprehensive Income Years Ended December 31, 2008, 2007 and 2006</u>           | 53 |
| <u>Consolidated Statements of Changes in Stockholders Equity Years Ended December 31, 2008, 2007 and 2006</u> | 54 |
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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
Ashford Hospitality Trust, Inc.

We have audited the accompanying consolidated balance sheets of Ashford Hospitality Trust, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also include the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years ended in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the Standards of the Public Company Accounting Oversight Board (United States), Ashford Hospitality Trust, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Dallas, Texas  
February 26, 2009

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

|   | <b>December 31,</b> |                     |
|---|---------------------|---------------------|
|   | <b>2008</b>         | <b>2007</b>         |
| <b>Assets</b>   |                     |                     |
| Investments in hotel properties, net  | \$ 3,568,215        | \$ 3,885,737        |
| Cash and cash equivalents   | 241,597             | 92,271              |
| Restricted cash   | 69,806              | 52,872              |
| Accounts receivable, net of allowance of \$598 and \$1,458, respectively  | 41,110              | 51,314              |
| Inventories   | 3,341               | 4,100               |
| Notes receivable  | 212,815             | 94,225              |
| Investment in unconsolidated joint venture  | 19,122              |                     |
| Assets held for sale  |                     | 75,739              |
| Deferred costs, net   | 24,211              | 25,714              |
| Prepaid expenses  | 12,903              | 20,223              |
| Interest rate derivatives   | 88,603              | 21                  |
| Other assets  | 6,766               | 6,006               |
| Intangible assets, net  | 3,077               | 13,889              |
| Due from third-party hotel managers   | 48,116              | 58,300              |
| <br>  |                     |                     |
| Total assets  | <b>\$ 4,339,682</b> | <b>\$ 4,380,411</b> |
| <br>  |                     |                     |
| <b>Liabilities and Stockholders Equity</b>  |                     |                     |
| <b>Liabilities:</b>   |                     |                     |
| Indebtedness - continuing operations  | \$ 2,790,364        | \$ 2,639,546        |
| Indebtedness - assets held for sale   |                     | 61,229              |
| Capital leases payable  | 207                 | 498                 |
| Accounts payable and accrued expenses   | 93,476              | 124,696             |
| Dividends payable   | 6,285               | 35,031              |
| Unfavorable management contract liabilities   | 20,950              | 23,396              |
| Due to affiliates   | 2,378               | 2,732               |
| Due to third-party hotel managers   | 3,855               | 4,699               |
| Other liabilities   | 8,124               | 8,514               |
| <br>  |                     |                     |
| Total liabilities   | <b>2,925,639</b>    | <b>2,900,341</b>    |
| <br>  |                     |                     |
| <b>Commitments and contingencies (Note 14)</b>  |                     |                     |
| Minority interests in consolidated joint ventures   | 19,355              | 19,036              |
| Minority interests in operating partnership   | 107,469             | 101,031             |
| Series B-1 cumulative convertible redeemable preferred stock, \$0.01 par value, 7,447,865 shares issued and outstanding                       | 75,000              | 75,000              |
| <b>Stockholders equity:</b>   |                     |                     |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized -   |                     |                     |
| Series A cumulative preferred stock, 2,185,500 shares and 2,300,000 shares issued and outstanding at December 31, 2008 and 2007, respectively | 22                  | 23                  |
| Series D cumulative preferred stock, 6,394,347 shares and 8,000,000 shares issued and outstanding at December 31, 2008 and 2007, respectively | 64                  | 80                  |

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|   |              |              |
|---|--------------|--------------|
| Common stock, \$0.01 par value, 200,000,000 shares authorized, 122,748,859 shares issued and 86,555,149 shares outstanding at December 31, 2008 and 122,765,691 shares issued and 120,376,055 shares outstanding at December 31, 2007 | 1,227        | 1,228        |
| Additional paid-in capital  | 1,450,146    | 1,455,917    |
| Accumulated other comprehensive loss  | (860)        | (115)        |
| Accumulated deficit   | (124,782)    | (153,664)    |
| Treasury stock, at cost, 36,193,710 and 2,389,636 shares, respectively  | (113,598)    | (18,466)     |
| Total stockholders' equity  | 1,212,219    | 1,285,003    |
| Total liabilities and stockholders' equity  | \$ 4,339,682 | \$ 4,380,411 |

*See Notes to Consolidated Financial Statements.*

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

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| <b>Revenue</b>  |                                |             |             |
| Rooms   | \$ 850,611                     | \$ 740,237  | \$ 313,579  |
| Food and beverage   | 237,579                        | 208,289     | 58,723      |
| Rental income from operating leases   | 6,218                          | 4,548       |             |
| Other   | 52,385                         | 42,388      | 12,796      |
| <br>  |                                |             |             |
| Total hotel revenue   | 1,146,793                      | 995,462     | 385,098     |
| Interest income from notes receivable   | 24,050                         | 11,005      | 14,858      |
| Asset management fees and other   | 2,013                          | 1,334       | 1,266       |
| <br>  |                                |             |             |
| Total revenue   | 1,172,856                      | 1,007,801   | 401,222     |
| <br>  |                                |             |             |
| <b>Expenses</b>   |                                |             |             |
| Hotel operating expenses:   |                                |             |             |
| Rooms   | 188,556                        | 165,129     | 68,560      |
| Food and beverage   | 168,317                        | 147,091     | 43,261      |
| Other expenses  | 351,288                        | 300,259     | 122,046     |
| Management fees   | 45,426                         | 38,955      | 15,255      |
| <br>  |                                |             |             |
| Total hotel expenses  | 753,587                        | 651,434     | 249,122     |
| Property taxes, insurance and other   | 62,509                         | 52,409      | 22,754      |
| Depreciation and amortization   | 167,730                        | 138,154     | 40,730      |
| Corporate general and administrative  | 28,702                         | 26,953      | 20,359      |
| <br>  |                                |             |             |
| Total expenses  | 1,012,528                      | 868,950     | 332,965     |
| <br>  |                                |             |             |
| <b>Operating Income</b>   | 160,328                        | 138,851     | 68,257      |
| Equity loss in unconsolidated joint venture                                       | (2,205)                        |             |             |
| Interest income   | 2,062                          | 3,178       | 2,917       |
| Other income  | 10,153                         |             |             |
| Interest expense and amortization of loan costs                                   | (156,383)                      | (135,841)   | (42,720)    |
| Write-off of loan costs and exit fees   | (1,226)                        | (3,850)     | (101)       |
| Unrealized gains/(losses) on derivatives  | 79,620                         | (211)       | (16)        |
| <br>  |                                |             |             |
| <b>Income before Income Taxes, Minority Interests and Discontinued Operations</b> | 92,349                         | 2,127       | 28,337      |
| Income tax (expense)/benefit  | (967)                          | (3,835)     | 2,655       |
| Minority interests in earnings of consolidated joint ventures                     | (1,444)                        | (323)       |             |
| Minority interests in earnings of operating partnership                           | (9,932)                        | (876)       | (3,768)     |
| <br>  |                                |             |             |
| <b>Income/(Loss) from Continuing Operations</b>                                   | 80,006                         | (2,907)     | 27,224      |

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|   |                   |                  |                  |
|---|-------------------|------------------|------------------|
| Income from discontinued operations                       | 49,188            | 33,067           | 10,572           |
| <b>Net Income</b>   | 129,194           | 30,160           | 37,796           |
| Preferred dividends                                       | (26,642)          | (23,990)         | (10,875)         |
| <b>Net Income Available to Common Shareholders</b>        | <b>\$ 102,552</b> | <b>\$ 6,170</b>  | <b>\$ 26,921</b> |
| <b>Income Available to Common Shareholders Per Share:</b> |                   |                  |                  |
| <b>Basic -</b>  |                   |                  |                  |
| <b>Income/(loss) from continuing operations</b>           | <b>\$ 0.48</b>    | <b>\$ (0.25)</b> | <b>\$ 0.27</b>   |
| <b>Income from discontinued operations</b>                | <b>0.44</b>       | <b>0.31</b>      | <b>0.17</b>      |
| <b>Net income</b>   | <b>\$ 0.92</b>    | <b>\$ 0.06</b>   | <b>\$ 0.44</b>   |
| <b>Diluted -</b>  |                   |                  |                  |
| <b>Income/(loss) from continuing operations</b>           | <b>\$ 0.48</b>    | <b>\$ (0.25)</b> | <b>\$ 0.26</b>   |
| <b>Income from discontinued operations</b>                | <b>0.44</b>       | <b>0.31</b>      | <b>0.17</b>      |
| <b>Net income</b>   | <b>\$ 0.92</b>    | <b>\$ 0.06</b>   | <b>\$ 0.43</b>   |
| <b>Weighted average common shares outstanding -</b>       |                   |                  |                  |
| <b>Basic</b>  | 111,295           | 105,787          | 61,713           |
| <b>Diluted</b>  | 111,306           | 105,787          | 62,128           |
| <b>Dividends declared per common share</b>                | <b>\$ 0.63</b>    | <b>\$ 0.84</b>   | <b>\$ 0.80</b>   |

*See Notes to Consolidated Financial Statements.*

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

|  | <b>Year Ended December 31,</b> |                  |                  |
|--|--------------------------------|------------------|------------------|
|  | <b>2008</b>                    | <b>2007</b>      | <b>2006</b>      |
| <b>Net Income</b>                        | \$ 129,194                     | \$ 30,160        | \$ 37,796        |
| <b>Other Comprehensive Loss</b>          |                                |                  |                  |
| Reclassification to interest expense     | 58                             | (144)            | (1,228)          |
| Net unrealized loss on derivatives       | (952)                          | (151)            | (33)             |
| Foreign currency translation adjustments | (126)                          | 69               |                  |
| Other comprehensive loss                 | (1,020)                        | (226)            | (1,261)          |
| <b>Total Comprehensive Income</b>        | <b>\$ 128,174</b>              | <b>\$ 29,934</b> | <b>\$ 36,535</b> |

*See Notes to Consolidated Financial Statements.*

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**ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(in thousands)**

|                                 | Series A |         | Preferred Stock<br>Series C |         | Series D |         | Common Stock |         | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Treasury Stock<br>Shares | Treasury Stock<br>Amounts |
|---------------------------------|----------|---------|-----------------------------|---------|----------|---------|--------------|---------|----------------------------------|------------------------|--|--------------------------|---------------------------|
|                                 | Shares   | Amounts | Shares                      | Amounts | Shares   | Amounts | Shares       | Amounts |                                  |                        |  |                          |                           |
| 2006                            | 2,300    | \$ 23   |                             | \$      |          | \$      | 43,831       | \$ 438  | \$ 399,127                       | \$ (42,637)            | \$ 1,372   |                          | \$                        |
| Shares<br>on<br>beginning<br>of |          |         |                             |         |          |         | 27,058       | 271     | 289,822                          |                        |  |                          |                           |
| Per<br>d<br>ion                 |          |         |                             |         |          |         | 662          | 6       | 180                              |                        |  |                          |                           |
| f<br>shares                     |          |         |                             |         |          |         |              |         |                                  |                        |  |                          |                           |
| of                              |          |         |                             |         |          |         |              |         |                                  |                        |  |                          |                           |
|                                 |          |         |                             |         |          |         | 1,394        | 14      | 14,273                           |                        |  |                          |                           |
| d<br>ion                        |          |         |                             |         |          |         |              |         | 5,018                            |                        |  |                          |                           |
| of                              |          |         |                             |         |          |         |              |         |                                  |                        |  |                          |                           |
| e                               |          |         |                             |         |          |         | (2)          |         |                                  | 37,796                 |  |                          |                           |
|                                 |          |         |                             |         |          |         |              |         |                                  | (51,859)               |  |                          |                           |
| A                               |          |         |                             |         |          |         |              |         |                                  | (4,916)                |  |                          |                           |
| 3-1                             |          |         |                             |         |          |         |              |         |                                  | (5,958)                |  |                          |                           |
|                                 |          |         |                             |         |          |         |              |         |                                  | (33)                   |  |                          |                           |
|                                 |          |         |                             |         |          |         |              |         |                                  | (1,228)                |  |                          |                           |



ation

|        |       |         |       |        |     |           |          |          |     |
|--------|-------|---------|-------|--------|-----|-----------|----------|----------|-----|
| 31,    | 2,300 | 23      |       | 72,943 | 729 | 708,420   | (67,574) | 111      |     |
| shares |       |         |       |        |     |           |          |          |     |
| on     |       |         |       |        |     |           |          |          |     |
| ring   |       |         |       | 48,875 | 489 | 547,760   |          |          |     |
| f      |       |         |       |        |     |           |          |          |     |
| Stock  |       | 8,000   | 80    |        |     | 193,239   |          |          |     |
| n of   |       |         |       |        |     |           |          |          |     |
| Stock  |       | (8,000) | (80)  |        |     | (195,620) |          |          |     |
| f      |       |         |       |        |     |           |          |          |     |
| Stock  |       |         | 8,000 | 80     |     | 193,759   |          |          |     |
| of     |       |         |       |        |     |           |          |          |     |
| shares |       |         |       |        |     |           | (2,427)  | (18,919) |     |
| f      |       |         |       |        |     |           |          |          |     |
| er     |       |         |       |        |     |           |          |          |     |
| d      |       |         |       |        |     |           |          |          |     |
| ion    |       |         |       | 817    | 8   | (268)     |          | 37       | 453 |
| d      |       |         |       |        |     |           |          |          |     |
| ion    |       |         |       |        |     |           |          |          |     |
| of     |       |         |       |        |     | 6,032     |          |          |     |
|        |       |         |       |        |     |           |          |          |     |
| f      |       |         |       | (35)   |     |           |          |          |     |
| shares |       |         |       |        |     |           |          |          |     |
| of     |       |         |       |        |     |           |          |          |     |
|        |       |         |       |        |     |           |          |          |     |
|        |       |         |       | 166    | 2   | 1,750     |          |          |     |
| e      |       |         |       |        |     |           | 30,160   |          |     |
|        |       |         |       |        |     |           |          |          |     |
|        |       |         |       |        |     |           | (92,260) |          |     |
|        |       |         |       |        |     |           |          |          |     |
| A      |       |         |       |        |     |           | (4,916)  |          |     |
|        |       |         |       |        |     |           | (6,256)  |          |     |

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(73,670)

|       |       |       |    |       |       |         |          |              |              |          |          |              |    |
|-------|-------|-------|----|-------|-------|---------|----------|--------------|--------------|----------|----------|--------------|----|
| A     |       |       |    |       |       |         |          | (4,855)      |              |          |          |              |    |
| B-1   |       |       |    |       |       |         |          | (5,735)      |              |          |          |              |    |
| D     |       |       |    |       |       |         |          | (16,052)     |              |          |          |              |    |
|       |       |       |    |       |       |         |          |              | (952)        |          |          |              |    |
| ation |       |       |    |       |       |         |          |              |              | 58       |          |              |    |
| ative |       |       |    |       |       |         |          |              |              |          |          |              |    |
| ted   |       |       |    |       |       |         |          |              |              |          |          |              |    |
|       |       |       |    |       |       |         |          |              |              |          |          |              |    |
| ed    |       |       |    |       |       |         |          |              |              |          |          |              |    |
| res   |       |       |    |       |       |         |          |              |              | 218      |          |              |    |
|       |       |       |    |       |       |         |          |              |              |          |          |              |    |
| s     |       |       |    |       |       |         |          |              |              | (126)    |          |              |    |
| t     |       |       |    |       |       |         |          |              |              |          |          |              |    |
| om    |       |       |    |       |       |         |          |              |              |          |          |              |    |
| erty  |       |       |    |       |       |         |          |              |              | 57       |          |              |    |
| 31,   | 2,185 | \$ 22 | \$ | 6,394 | \$ 64 | 122,749 | \$ 1,227 | \$ 1,450,146 | \$ (124,782) | \$ (860) | (36,194) | \$ (113,598) | \$ |

*See Notes to Consolidated Financial Statements.*

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

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| <b>Cash Flows from Operating Activities</b>   |                                |             |             |
| Net income  | \$ 129,194                     | \$ 30,160   | \$ 37,796   |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |                                |             |             |
| Depreciation and amortization   | 174,365                        | 168,586     | 52,863      |
| Equity in loss of unconsolidated joint venture  | 2,205                          |             |             |
| Distributions of earnings from unconsolidated joint venture                             | 1,800                          |             |             |
| Income from derivatives   | (10,352)                       |             |             |
| Gains on sales of properties  | (48,514)                       | (35,071)    |             |
| Loss on reclassification from discontinued to continuing operations                     |                                |             | 863         |
| Amortization of loan costs, write-off of loan costs, premiums and exit fees             | 7,650                          | 15,885      | 2,826       |
| Amortization discounts and deferred costs and income on notes receivable                | (9,051)                        | 25          | (317)       |
| Unrealized (gains)/losses on derivatives  | (79,620)                       | 211         | 16          |
| Stock-based compensation  | 6,834                          | 6,225       | 5,204       |
| Minority interests in consolidated joint ventures and operating partnership             | 16,477                         | 6,278       | 5,277       |
| Changes in operating assets and liabilities -   |                                |             |             |
| Restricted cash   | (16,934)                       | (29,773)    | 22,555      |
| Accounts receivable and inventories   | 13,607                         | 9,950       | 5,650       |
| Prepaid expenses and other assets   | 6,570                          | (2,210)     | (2,204)     |
| Accounts payable and accrued expenses   | (39,327)                       | 31,432      | 10,531      |
| Other liabilities   | (9,961)                        | (45,961)    | (1,369)     |
| Net cash provided by operating activities   | 144,943                        | 155,737     | 139,691     |
| <b>Cash Flows from Investing Activities</b>   |                                |             |             |
| Acquisitions/originations of notes receivable   | (138,039)                      | (21,500)    | (37,308)    |
| Proceeds from sale/payments of notes receivable   | 23,165                         | 30,083      | 42,777      |
| Investment in unconsolidated joint venture  | (17,877)                       |             |             |
| Acquisitions of hotel properties  |                                | (2,059,155) | (540,638)   |
| Improvements and additions to hotel properties  | (127,293)                      | (127,271)   | (47,749)    |
| Net proceeds from sales of properties   | 428,499                        | 304,943     | 17,445      |
| Net cash provided by/(used in) investing activities                                     | 168,455                        | (1,872,900) | (565,473)   |
| <b>Cash Flows from Financing Activities</b>   |                                |             |             |
| Borrowings on indebtedness and capital leases   | 833,400                        | 1,986,037   | 491,958     |
| Repayments of indebtedness and capital leases   | (741,634)                      | (832,090)   | (271,444)   |
| Penalties paid on early extinguishment of indebtedness                                  |                                | (2,390)     |             |
| Payments of loan costs  | (7,845)                        | (11,785)    | (3,330)     |

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|   |            |              |            |
|---|------------|--------------|------------|
| Payments of dividends   | (138,620)  | (111,375)    | (66,093)   |
| Purchases of treasury stock   | (96,920)   | (18,919)     |            |
| Purchase of preferred stock   | (9,889)    |              |            |
| Payments for derivatives  | (9,914)    |              |            |
| Cash income from derivatives  | 8,599      |              |            |
| Proceeds from follow-on public offerings  |            | 548,249      | 290,092    |
| Proceeds from issuance of Series C preferred stock                              |            | 193,319      |            |
| Proceeds from issuance of Series D preferred stock                              |            | 193,839      |            |
| Redemption of Series C preferred stock  |            | (195,700)    |            |
| Distributions to joint venture partners   | (1,354)    | (13,153)     |            |
| Other   | 105        | (10)         | (53)       |
| Net cash (used in)/provided by financing activities                             | (164,072)  | 1,736,022    | 441,130    |
| Net change in cash and cash equivalents   | 149,326    | 18,859       | 15,348     |
| Effect of foreign currency exchange rate on cash                                |            | 69           |            |
| Cash and cash equivalents at beginning of year                                  | 92,271     | 73,343       | 57,995     |
| Cash and cash equivalents at end of year  | \$ 241,597 | \$ 92,271    | \$ 73,343  |
| <b>Supplemental Cash Flow Information</b>                                       |            |              |            |
| Interest paid   | \$ 160,255 | \$ 138,266   | \$ 45,033  |
| Income taxes paid   | \$ 276     | \$ 701       | \$ 1,283   |
| <b>Supplemental Disclosure of Investing and Financing Activities</b>            |            |              |            |
| Note receivable contributed to unconsolidated joint venture                     | \$ 5,230   | \$           | \$         |
| Hotel properties and capital leases acquired                                    | \$         | \$ 2,529,214 | \$ 643,018 |
| Debt and capital leases assumed in acquisition                                  | \$         | \$ 455,320   | \$ 55,427  |
| Net other liabilities acquired (net of other assets acquired and cash received) | \$         | \$ 14,739    | \$ 46,953  |
| Non-cash dividends on Series C preferred stock                                  | \$         | \$ 845       | \$         |

*See Notes to Consolidated Financial Statements.*

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**ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2008, 2007 and 2006**

**1. Organization and Description of Business**

Ashford Hospitality Trust, Inc. ( Ashford ) 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 ). Ashford owns its lodging investments and conducts its business through Ashford Hospitality Limited Partnership, the operating partnership. Ashford OP General Partner LLC, our wholly-owned subsidiary, serves as the sole general partner of our operating partnership. In this report, the terms the Company, we, us or our mean Ashford Hospitality Trust, Inc. and all entities included in its consolidated financial statements.

As of December 31, 2008, we owned 103 hotel properties directly and six hotel properties through equity investments with joint venture partners, which represents 23,255 total rooms, or 22,913 net rooms excluding those attributable to joint venture partners. All of these hotel properties are located in the United States. As of December 31, 2008, we also wholly owned \$212.8 million of mezzanine or first-mortgage loans receivable. In addition, at December 31, 2008, we had a 25% ownership in \$75.2 million of mezzanine loans held in a joint venture. See Notes 3 and 6.

For federal income tax purposes, we elected to be treated as a real estate investment trust ( REIT ), which imposes limitations related to operating hotels. As of December 31, 2008, 102 of our 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 results of operations. As of December 31, 2008, one 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.

In April 2007, we acquired a 51-property hotel portfolio ( CNL Portfolio ) from CNL Hotels and Resorts, Inc. ( CNL ). Pursuant to the purchase agreement, we acquired 100% of 33 properties and interests ranging from 70% to 89% in 18 properties through existing joint ventures. In conjunction with the CNL transaction, we acquired the 15% remaining joint venture interest in one hotel property not owned by CNL at the acquisition and acquired in May 2007 two other hotel properties previously owned by CNL (collectively, the CNL Acquisition ). In December 2007, we completed an asset swap with Hilton Hotels Corporation ( Hilton ), whereby we surrendered our majority ownership interest in two hotel properties in exchange for Hilton 's minority ownership interest in nine hotel properties. Net of subsequent sales and the asset swap, 43 of these hotels were included in our hotel property portfolio at December 31, 2008.

Remington Lodging & Hospitality, L.P. and Remington Management, L.P. (collectively, Remington Lodging ), two of our primary property managers, are beneficially wholly owned by Mr. Archie Bennett, Jr., our Chairman, and Mr. Montgomery J. Bennett, our Chief Executive Officer. As of December 31, 2008, Remington Lodging managed 40 of our 103 hotel properties while third-party management companies managed the remaining 63 hotel properties.

**2. Significant Accounting Policies**

**Basis of Presentation** The accompanying 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 inter-company accounts and transactions between consolidated entities have been eliminated in these consolidated financial statements.

Marriott International, Inc. ( Marriott ) manages 41 of our properties. For these Marriott-managed hotels, the fiscal year reflects twelve weeks of operations for each of the first three quarters of the year and sixteen weeks for the fourth quarter of the year. Therefore, in any given quarterly period, period-over-period results will have different ending dates. For Marriott-managed hotels, the fourth quarters of 2008, 2007 and 2006 ended January 2, 2009, December 28, 2007 and December 29, 2006, respectively.



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

**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.

**Cash and Cash Equivalents** Cash and cash equivalents represent cash on hand or held in banks and short-term investment with an initial maturity of three months or less at the date of purchase.

**Restricted Cash** Restricted cash includes reserves for debt service, real estate taxes, and insurance, as well as excess cash flow deposits and reserves for furniture, fixtures, and equipment replacements of approximately 4% to 6% of property revenue for certain hotels, as required by certain management or mortgage debt agreement restrictions and provisions. Restricted cash also includes cash collateral deposited with us related to one mezzanine loan that may be used by us toward the payments of principal and interest of the loan and any other amounts due under the loan in the event of default.

**Accounts Receivable** Accounts receivable consists primarily of meeting and banquet room rental and hotel guest receivables. We generally do not require collateral. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

**Inventories** Inventories, which primarily consist of food, beverages, and gift store merchandise, are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

**Investments in Hotel Properties** Hotel properties are generally stated at cost. However, the Initial Properties contributed upon the Ashford's formation are stated at the predecessor's historical cost, net of any impairment charges, if any, plus a minority interest partial step-up related to the acquisition of minority interest from third parties associated with four of the Initial Properties. In addition, in connection with the acquisition of the 51-hotel property portfolio from CNL Hotels and Resorts, Inc. (the CNL Portfolio) on April 11, 2007, and subsequent asset swap completed on December 15, 2007, we own between 75% to 89% ownership interests in certain hotel properties owned by joint ventures. For these hotel properties, 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.

**Intangible Assets** Intangible assets with finite lives are amortized over their estimated useful lives. Intangible assets with indefinite lives are reviewed annually for impairment.

**Impairment of Investment in Hotel Properties and Hotel Related Intangibles** Hotel properties and hotel related intangibles are reviewed for impairment at each balance sheet date. We test for impairment in several situations, including when current or projected cash flows are less than historical cash flows, when it becomes more likely than not that a hotel property will be sold before its previously estimated useful life expires, and when events or changes in circumstances indicate that a hotel property's net book value or our value of the related intangibles may not be recoverable. In evaluating the impairment of hotel properties and hotel related intangibles, we make many assumptions and estimates, including projected cash flows, holding period, expected useful life, future capital expenditures, and fair values, which considers capitalization rates, discount rates, and comparable selling prices. If an asset was deemed to be impaired, we would establish an allowance for losses with the corresponding to an impairment charge for the amount that the property's net book value exceeds its fair value. To date, no such impairment charges have been recorded.

**Investment in Unconsolidated Joint Venture** Investment in a joint venture in which we have a 25% ownership is accounted for under the equity method of accounting by recording the initial investment and our percentage of interest in the joint venture's net income. The equity accounting method is employed due to the fact that we do not control the joint venture pursuant to the guidance provided by Emerging Issue Task Force (EITF)



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

Abstract No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights.*

**Notes Receivable** We provide mezzanine and first-mortgage financing in the form of notes receivable, which are recorded at cost, adjusted for net origination fees and costs. These loans are held for investment and are intended to be held to maturity and accordingly, are recorded at cost, net of unamortized loan origination costs and fees, loan purchase discounts and net of the allowance for losses when such 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 accruing interest and amortizing discounts/premiums when the contractual payment of interest and/or principal is past due. Unpaid interest accrued and discounts amortized are reversed.

In accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 46, Consolidation of Variable Interest Entities, as revised ( FIN No. 46(R) ), variable interest entities, as defined, must be consolidated by their primary beneficiaries if the variable interest entities do not effectively disperse risks among parties involved. Our mezzanine and first-mortgage loans receivable are each secured by various hotel properties or partnership interests in hotel properties and are subordinate to primary loans related to the secured hotels. All such loans receivable are considered to be variable interests in the entities that own the related hotels, which are variable interest entities. However, we are not considered to be the primary beneficiary of these hotel properties as a result of holding these loans. Therefore, we do not consolidate such hotels for which it has provided financing. Interests in entities acquired or created in the future will be evaluated based on FIN No. 46(R) criteria, and such entities will be consolidated, if required. In evaluating FIN No. 46(R) criteria, our analysis involves considerable management judgment and assumptions.

**Impairment of Notes Receivable** We review notes receivables for impairment at each balance sheet date pursuant to Statement of Financial Accounting Standards ( SFAS ) No. 114, *Accounting by Creditors for Impairment of a Loan—an amendment of FASB Statements No. 5 and 15*. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts recorded as assets on the balance sheet according to the contractual terms of the loan agreement. We apply normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment. We stop recording interest when payments are not current.

When a loan is impaired, we measure impairment based on the present value of expected cash flows discounted at the loan's effective interest rate against the value of the asset recorded on the balance sheet. We may also measure impairment based on a loan's observable market price or the fair value of collateral if the loan is collateral dependent. If a loan is deemed to be impaired, we would record a reserve for loan losses through a charge to income for any shortfall. Our assessment of impairment is based on considerable judgment and estimates. Based on our assessment and judgment, no such impairment charges have been recorded for our notes receivable as of December 31, 2008. However, a loss reserve was established for a note receivable held by our unconsolidated joint venture in which we have a 25% ownership. See Note 6.

**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 the consummation of the sale is considered probable and expected within one year. 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.

**Deferred Costs, net** Deferred loan costs are recorded at cost and amortized over the terms of the related indebtedness using the effective interest method. Deferred franchise fees are amortized on a straight-line basis over the terms of the related franchise agreements.

**Due to/from Affiliates** Due to/from affiliates represents current receivables and payables resulting from transactions related to hotel management and project management with affiliated entities. Due from affiliates results

primarily from advances of shared costs incurred. Due to affiliates results primarily from hotel management and  
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**ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

project management fees incurred. Both due to and due from affiliates are generally settled within a period not to exceed one year.

**Due to/from Third-Party Hotel Managers** Due from third-party hotel managers primarily consists of amounts due from Marriott related to cash reserves held at the Marriott corporate level related to capital, insurance, real estate taxes, and other items.

**Unfavorable Management Contract Liabilities** Certain management agreements assumed in the acquisitions of a hotel in 2006 and the CNL acquisition in 2007 have terms that are more favorable to the respective managers than typical market management agreements at the acquisition dates. As a result, we recorded unfavorable contract liabilities related those management agreements totaling \$23.4 million based on the present value of expected cash outflows over the initial terms of the related agreements. The unfavorable contract liabilities are amortized as reductions to incentive management fees on a straight-line basis over the initial terms of the related agreements. In evaluating unfavorable contract liabilities, our analysis involves considerable management judgment and assumptions.

**Guarantees** Upon acquisition of the 51-hotel CNL portfolio on April 11, 2007, we assumed certain guarantees, which represent funds provided by third-party hotel managers to guarantee minimum returns for certain hotel properties. As we are obligated to repay such amounts through increased incentive management fees through cash reimbursements, such guarantees are recorded as other liabilities. As of December 31, 2008 and 2007, these liabilities totaled \$344,000 and \$568,000, respectively.

**Revenue Recognition** Hotel revenues, including room, food, beverage, and ancillary revenues such as long-distance telephone service, laundry, and space rentals, are recognized when services have been rendered. Rental income, representing income from leasing hotel properties to third-party tenants on triple-net operating leases, is recognized on a straight-line basis over the lease terms. Interest income, representing interest on the mezzanine and first mortgage loan portfolio (including accretion of discounts on certain loans using the effective interest method), is recognized when earned. Asset management fees, representing primarily asset management services performed on behalf of a related party (including services such as risk management and insurance procurement, tax assistance, franchise agreements and equipment leases negotiations, monitoring loan covenants compliance, capital and operating budgets preparation, and property litigation management), are recognized when services are rendered. Taxes collected from customers and submitted to taxing authorities are not recorded in revenue. For the hotel leased to a third party, we report deposits into our escrow accounts for capital expenditure reserves as income.

**Other Expenses** Other expenses include telephone charges, guest laundry, valet parking, and hotel-level general and administrative fees, sales and marketing expenses, repairs and maintenance, franchise fees and utility cost. They are expensed as incurred.

**Advertising Costs** Advertising costs are charged to expense as incurred. For the years ended December 31, 2008, 2007 and 2006, we incurred advertising costs of \$5.1 million, \$3.6 million and \$2.1 million, respectively. Advertising costs related to continuing operations are included in **Other expenses** in the accompanying consolidated statement of operations.

**Stock-based Compensation** Stock-based compensation is accounted for in accordance with SFAS 123(R), **Share-Based Payment** at the fair value based on the market price of the shares at the date of grant. The fair value is charged to compensation expense on a straight-line basis over the vesting period of the shares.

**Depreciation and Amortization** Owned hotel properties are depreciated over the estimated useful life of the assets and leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related assets. Presently, hotel properties are depreciated using the straight-line method over lives ranging from 15 to 39 years for buildings and improvements and three to five years for furniture, fixtures and equipment. While we believe our estimates are reasonable, a change in estimated lives could affect depreciation expense and net income (loss) as well as resulting gains or losses on potential hotel sales.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Income Taxes** As a REIT, we generally will not be subject to federal corporate income tax on the portion of our net income (loss) that does not relate to taxable REIT subsidiaries. However, Ashford TRS is treated as a taxable REIT subsidiary for federal income tax purposes. In accordance with SFAS No. 109, *Accounting for Income Taxes*, we account for income taxes related to Ashford TRS using the asset and liability method under which deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective bases. In addition, the analysis utilized by us in determining our deferred tax asset valuation allowance involves considerable management judgment and assumptions.

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement No. 109 ( FIN No. 48 ), effective January 1, 2007. FIN No. 48 prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken in a tax return. FIN No. 48 requires that a determination be made as to whether it is more likely than not that a tax position taken, based on its technical merits, will be sustained upon examination, including resolution of any appeals and litigation processes. If the more-likely-than-not threshold is met, the related tax position must be measured to determine the amount of provision or benefit, if any, to recognize in the financial statements. FIN No. 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, *Accounting for Income Taxes*, but does not apply to tax positions related to FASB Statement No. 5, *Accounting for Contingencies*. We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various states, and in Canada (2008 is final year for Canadian filings). Tax years 2005 through 2007 remain subject to potential examination by certain federal and state taxing authorities, respectively. No income tax examinations are currently in process. As we determined no material unrecognized tax benefits or liabilities exist, the adoption of FIN No. 48, effective January 1, 2007, did not impact our financial condition or results of operations. We classify interest and penalties related to underpayment of income taxes as income tax expense.

**Derivative Instruments and Hedging** We primarily use interest rate derivatives to hedge our asset cash flows. We also use non-hedge derivatives to capitalize on the historical correlation between changes in LIBOR (London Interbank Offered Rate) and RevPAR (Revenue per Available Room) and to enhance dividend coverage. Interest rate swaps involve the exchange of fixed-rate payments for variable-rate payments over the life of the derivative agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges provide us with interest rate protection above the strike rate on the cap and result in us receiving interest payments when actual rates exceed the cap strike. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings and included in Other income on the Consolidated Statements of Operations. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to interest expense when the hedged transaction affects earnings, while the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the 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. For derivatives not designated as hedges, changes in the fair value are recognized in earnings. We record all derivatives on the balance sheet at fair value.

**Income Per Share** Basic income per common share is calculated by dividing net income/(loss) available to common shareholders by the weighted average common shares outstanding during the period. Diluted income per 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.

**Reclassifications** Certain amounts in the consolidated financial statements for the years ended December 31, 2007 and 2006 have been reclassified to conform to the presentation format adopted in 2008. These reclassifications have no effect on the net income or financial position previously reported.



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

**Recently Adopted Accounting Standards** - In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 establishes a common definition of fair value, provides a framework for measuring fair value under accounting principles generally accepted in the United States and expands disclosure requirements about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 to delay the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This standard permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 must be applied prospectively, and the effect of the first remeasurement to fair value, if any, should be reported as a cumulative - effect adjustment to the opening balance of retained earnings.

We adopted these statements as of January 1, 2008 and the adoption did not have a material impact on our financial position and results of operations. Additional disclosures in accordance with SFAS 157 have been included in Note 12. We did not elect to measure additional items at fair value under SFAS 159.

In December 2008, the FASB issued FASB Staff Position No. 140-4 and FASB Interpretation No. 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*, effective for the first financial reporting period ending after December 15, 2008, to require public entities to provide additional disclosures about transfers of financial assets. It also requires public enterprises including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. The adoption of this statement did not have any impact on our financial position and results of operations.

**Recently Issued Accounting Standards** In December 2007, the FASB issued SFAS No. 141 (revised 2007) ( SFAS 141R ), *Business Combinations*. SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combinations. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. We expect SFAS 141R will affect our consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquisitions, if any, we consummate after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS 160 states that accounting and reporting for minority interests will be re-characterized as non-controlling interests and classified as a component of equity. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, and will impact the recording of minority interest. We do not expect the adoption of SFAS 160 will have an impact on our financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. There will be additional disclosure needed upon adoption of SFAS 161.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, effective 60 days following SEC approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. SFAS



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

162 identifies sources of accounting principles and a framework for selecting the principles to be used in preparation of financial statements that are prepared in conformity with generally accepted accounting principles in the United States (the GAAP Hierarchy). We do not expect this statement will result in changes to our current practice.

**3. Summary of Significant Transactions in 2008 and Recent Developments**

**Investing in Mezzanine Loans** On January 22, 2008, we formed a joint venture (the PREI JV ) with Prudential Real Estate Investors ( PREI ) to invest in structured debt and equity hotel investments in the United States. We and PREI have contributed the capital required for each mezzanine investment on a 25%/75% basis, respectively. We are entitled to annual management and sourcing fees, reimbursement of expenses, and a promoted yield equal to a current 1.3x the venture yield subject to maximum threshold limitations, but further enhanced by an additional promote based upon a total net return to PREI. PREI s equity is in a senior position on each investment. On February 6, 2008, PREI acquired a 75% interest in our \$21.5 million mezzanine loan receivable, which we originated December 5, 2007, and is secured by two hotels maturing January 2018. Simultaneously, we and PREI capitalized the joint venture by contributing this \$21.5 million mezzanine loan receivable to the joint venture. Subsequently in late 2008, as a result of this loan being in default, we and the joint venture partner determined to provide an allowance for losses for the entire balance of the note and related deferred loan costs. See Note 6.

In addition, we completed the following mezzanine loans transactions including the loan acquired through the PREI JV (\$ in thousands):

| Source                          | Interest Rate | Maturity | Collateral | Original Principal | Discounted Acquisition Price | Percentage of Ownership | Amount Recorded |
|---------------------------------|---------------|----------|------------|--------------------|------------------------------|-------------------------|-----------------|
| Company originated              | LIBOR + 9%    | 2011     | 1 hotel    | \$ 7,056           | \$                           | 100%                    | \$ 7,056        |
| Company acquired                | 9.66% LIBOR + | 2017     | 1 hotel    | \$ 38,000          | \$32,956                     | 100%                    | 32,956          |
| PREI JV acquired <sup>(1)</sup> | 2.75% LIBOR + | 2010     | 29 hotels  | \$ 84,032          | \$69,904                     | 25%                     | 17,476          |
| Company acquired                | LIBOR + 2.5%  | 2009     | 681 hotels | \$164,000          | \$98,400                     | 100%                    | 98,400          |

<sup>(1)</sup> Reported as Investment in unconsolidated joint venture in the accompanying financial statements.

**Sales of Properties** We completed the sale of nine hotel properties and an office building for an aggregate sales price of \$437.1 million. Net proceeds from the sales were \$428.5 million and a net gain of \$48.5 million was recognized. In connection with sales, we repaid a total of \$251.9 million of related outstanding mortgage debt. In connection with the repayments of debt, we wrote off unamortized loan costs of \$1.8 million and debt premiums of \$2.1 million.

**Debt Financing and Refinancing** We refinanced our debt of \$73.1 million maturing in 2008 secured by two hotel properties, with a new \$53.4 million interest only loan bearing an interest rate of LIBOR plus 2.0%, maturing in 2011.



With subsequent payoff upon the sale of one hotel property, the outstanding balance on this loan at December 31, 2008 was \$19.7 million. We also refinanced our debt of \$127.2 million maturing in 2009, a loan secured by interests in two hotel properties owned through a joint venture, with a new \$160.0 million loan bearing an interest rate of LIBOR plus 2.75%, maturing 2011 with two one-year extensions. In addition, we obtained a \$55.0 million loan on a hotel property, bearing an interest rate of LIBOR plus 3.75%, maturing in 2010 with two one-year extensions. In connection with these financings, we were required by the lenders to enter into three interest rate cap agreements with notional amounts totaling \$215.0 million to hedge the interest rate risk at a strike rate of 5.0% for two years. Additionally, we obtained a \$65.0 million loan on another hotel property, bearing interest rate of LIBOR plus 2.5%, maturing in 2011 with two one-year extensions. Along with this financing, we entered into an interest rate cap with a notional amount of \$52.0 million interest rate cap and a strike rate of 5.75% for three years. The \$65.0 million loan was subsequently repaid and the \$52.0 million interest rate cap was sold in connection with the sale of the hotel property securing this loan. Proceeds from these borrowings were used to pay for the acquisition of the \$98.4 million mezzanine loan (book value at December 31, 2008 was \$106.4 million) and for other general corporate purposes. See Note 5 and 10.

**Interest Rate Derivative Transactions** To hedge our asset cash flows, we enter into derivative transactions with major financial institutions. In March 2008, we executed a five-year interest rate swap on \$1.8 billion of fixed-rate debt at a weighted average interest rate of 5.84% for a floating interest rate of LIBOR plus 2.64%. In

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**ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES**  
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conjunction with the swap execution, we sold a five-year LIBOR floor notional amount of \$1.8 billion at 1.25% and purchased a LIBOR cap notional amount of \$1.0 billion at 3.75% for the first three years. On September 30, 2008, we entered into an additional LIBOR interest rate cap with \$800 million notional amount at 3.75% effective October 14, 2008 for one year. Subsequently in December 2008, we purchased a one-year \$1.8 billion notional amount interest floor to bring down the LIBOR floor to 0.75%. Under this floor, the counterparties will pay us the interest on the \$1.8 billion notional amount when the interest rates are below the original floor of 1.25% and above the new floor of 0.75%. The upfront cost of the swap, LIBOR cap, and floor transactions was \$8.8 million. The net fair value at December 31, 2008 was \$88.5 million. See Notes 11 and 12.

In connection with the debt financings of \$160.0 million and \$55.0 million mentioned above, we entered into three LIBOR interest rate caps with notional amounts totaling \$215.0 million at 5.0% maturing in 2010 and 2011 for \$1.1 million. These interest rate caps are designated as cash flow hedges and had a fair value of \$88,000 at December 31, 2008. In addition, with the \$65.0 million financing, we purchased a LIBOR interest rate cap with a notional amount of \$52.0 million at 5.75% maturing in 2011 for \$123,000. The \$65.0 million loan was subsequently repaid and the \$52.0 million interest rate cap was sold in connection with the sale of the hotel property securing this loan.

**Authorization of Repurchases of Common and Preferred Shares** On September 5, 2008, the Board of Directors authorized the repurchase of an additional \$75 million of our common stock that may be purchased under the share repurchase program. We had completed all of the repurchase of the \$50 million previously allocated under our existing share repurchase program. In November 2008, the Board of Directors modified the \$75 million authorization to include both common and preferred shares. For the year ended December 31, 2008, we have repurchased 34.0 million shares of our common stock for an aggregate purchase price of \$96.9 million, and 114,500 shares of our Series A preferred stock and 1.6 million shares of our Series D preferred stock for an aggregate purchase price of \$9.9 million.

#### **4. Investment in Hotel Properties**

In April 2007, we acquired a 51-property hotel portfolio ( CNL Portfolio ) from CNL Hotels and Resorts, Inc. ( CNL ). Pursuant to the purchase agreement, we acquired 100% of 33 properties and interests ranging from 70% to 89% in 18 properties through existing joint ventures. In conjunction with the CNL transaction, we acquired the 15% remaining joint venture interest in one hotel property not owned by CNL at the acquisition and acquired in May 2007 two other hotel properties previously owned by CNL (collectively, the CNL Acquisition ). In December 2007, we completed an asset swap with Hilton Hotels Corporation ( Hilton ), whereby we surrendered our majority ownership interest in two hotel properties in exchange for Hilton 's minority ownership interest in nine hotel properties. Net of subsequent sales and the asset swap, 43 of these hotels were included in our hotel property portfolio at December 31, 2008.

Investment in hotel properties consisted of the following at December 31, 2008 and 2007 (in thousands):

|                                     | <b>December 31,</b> |              |
|-------------------------------------|---------------------|--------------|
|                                     | <b>2008</b>         | <b>2007</b>  |
| Land                                | \$ 531,336          | \$ 567,438   |
| Buildings and improvements          | 3,065,744           | 3,226,708    |
| Furniture, fixtures and equipment   | 359,397             | 278,598      |
| Construction in progress            | 11,121              | 68,569       |
| Total cost                          | 3,967,598           | 4,141,313    |
| Accumulated depreciation            | (399,383)           | (255,576)    |
| Investment in hotel properties, net | \$ 3,568,215        | \$ 3,885,737 |

In 2008, an intangible asset of \$10.7 million relating to advance bookings preliminarily recorded in connection with the CNL Acquisition was reclassified to buildings as a result of a third-party valuation. We finalized the allocation of the CNL Acquisition purchase price in 2008 based on the final appraisals performed by a third-party appraiser (see Note 9).

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Of the total hotel properties at December 31, 2007, the carrying value of \$293.4 million related to seven hotel properties that were sold in 2008. For the years ended December 31, 2008, 2007 and 2006, we recognized depreciation expense, including depreciation of assets under capital leases, of \$173.6 million, \$167.9 million and \$52.4 million, respectively.

We performed impairment tests under the provisions prescribed by SFAS 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable. The impairment is measured based on the difference between the discounted cash flows of the long-lived assets and their carrying amounts. In performing these tests, we estimated the long-lived assets' holding periods and cash flows, which included estimated sales prices at the end of the holding periods. The capitalization rates used in our cash flow estimates were determined by using historical market information from brokers adjusted by management to reflect current trends. Based on these analyses, management determined that no impairment had occurred.

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

**5. Notes Receivable**

Notes receivable consisted of the following at December 31, 2008 and 2007 (in thousands):

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2008</b>         | <b>2007</b> |
| Mezzanine loan secured by various mortgage-backed securities sponsored by government agencies, matures September 2011, at an interest rate of 14% (12% pay rate with deferred interest through the first two years), with interest-only payments through maturity | \$ 11,000           | \$ 11,000   |
| Mezzanine loan secured by one hotel property, matures July 2010, at an interest rate of 14%, with interest-only payments through maturity   |                     | 4,000       |
| Mezzanine loan secured by one hotel property, matured September 2008, with a one-year extension option, at an interest rate of LIBOR plus 11.15%, with interest-only payments through maturity  |                     | 3,000       |
| First mortgage loan secured by one hotel property, matured October 2008, with two one-year extension options, at an interest rate of LIBOR plus 9%, with interest-only payments through maturity  | 18,200              | 18,200      |
| Mezzanine loan secured by 105 hotel properties, matures April 2009, with three one-year extension options at an interest rate of LIBOR plus 5%, with interest-only payments through maturity  | 25,694              | 25,694      |
| Mezzanine loan secured by one hotel property, matures September 2009, with two one-year extension options, at an interest rate of LIBOR plus 6.5%, with interest-only payments through maturity   | 7,000               | 7,000       |
| Mezzanine loan secured by one hotel property, matures July 2009, with two one-year extension options, at an interest rate of LIBOR plus 5.75%, with interest-only payments through maturity   | 4,000               | 4,000       |
| Mezzanine loan secured by two hotel properties, matures January 2018, with two one-year extension options, at an interest rate of 14%, with interest-only payments through maturity <sup>(1)</sup>  |                     | 21,500      |
| Mezzanine loan secured by one hotel property, matures January 2011, with two one-year extension options, at an interest rate of LIBOR plus 9%, with interest-only payments through maturity   | 7,056               |             |
| Mezzanine loan with principal balance of \$38.0 million secured by one hotel property, matures June 2017, at an interest rate of 9.66%, with interest-only payments through maturity  | 33,445              |             |
| Mezzanine loan with principal balance of \$164.0 million secured by 681 extended-stay hotel properties, matures June 2009, with three one-year extension options, at an interest rate of LIBOR plus 2.5%, with interest-only payments through maturity            | 106,376             |             |
| Gross notes receivable  | 212,771             | 94,394      |
| Deferred loan cost/(income), net  | 44                  | (169)       |
| Net notes receivable  | \$ 212,815          | \$ 94,225   |
| Weighted average effective interest rate  | 16.5%               | 12.4%       |

- (1) This note was contributed to the PREI JV at its formation. We own a 25% interest in the joint venture which is reported as Investment in unconsolidated joint venture at December 31, 2008. See Note 6.

In general, our notes receivable have extension options, prohibit prepayment through a certain period, and require decreasing prepayment penalties through maturities.

We review our mezzanine loans for impairment individually. In the fourth quarter of 2008, the \$18.2 million junior participation note receivable reached its initial maturity. The principal and accrued interest payments were not made. In accordance with our accounting policy, we discontinued accruing interest on this loan. The underlying

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hotel property in Nevis suffered significant damage by hurricane Omar. A recent appraisal for this asset by a third party indicates three sets of values: (i) an as is damaged condition, (ii) a prospective value after repairs completed (estimated in September 2009), and (iii) a prospective value when operations stabilize. Based on the recent third-party appraisal along with the anticipated insurance proceeds, we concluded there was no loss reserves were needed for this note receivable.

The \$98.4 million mezzanine loan acquired in July 2008 that is secured by 681 extended stay hotel properties was purchased at a significant discount. This discount is being amortized over the life of the loan including extension periods. As of December 31, 2008, the debt service requirements were met as a result of a significant drop in LIBOR rates. The determination to record the full amount of the discount was based on considerable judgment and estimates and it is our belief at this time that we will receive the full amount of \$164.0 million due under the loan. Any changes in estimates would have material impacts on our financial statements. Accordingly, we recognized discount amortization of \$8.0 million for the year ended December 31, 2008.

**6. Investment in Unconsolidated Joint Venture**

We have a 25% of ownership in the PREI JV which invests in mezzanine loans. At December 31, 2008, our investment in the PREI JV consisted of the following (in thousands):

|  |                  |
|--|------------------|
| 25% of a mezzanine loan acquired at a discounted price (principal balance of \$21,000), secured by 29 hotel properties, matures August 2010 with two one-year extension options, at an interest rate of LIBOR plus 2.75%, and with interest-only payments through maturity | \$ 18,759        |
| 25% of a mezzanine loan at par value secured by two hotel properties, matures January 2018, at an interest rate of 14%, with interest-only payments through maturity   | 5,461            |
| Allowance for loan losses  | (5,461)          |
| Other, net   | 160              |
| Distributions  | (1,800)          |
| Equity income before discounts amortization of \$1,251 and impairment charge of \$5,461  | 2,003            |
| <b>Total</b>   | <b>\$ 19,122</b> |

Beginning October 2008, the borrower of the mezzanine note receivable of \$21.5 million maturing 2018 defaulted on debt service payments on both the first mortgage and its mezzanine loan. After an impairment test, we and our joint venture partner determined to provide a loss reserve for the entire amount of the loan balance of \$21.5 million and related deferred loan costs. The allowance for losses of \$5.5 million above reflects our 25% share of the impairment charge taken by the PREI JV.

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**ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES**  
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**7. Assets Held for Sale and Discontinued Operations**

During the years ended December 31, 2008, 2007 and 2006, we completed the sale of 10, 21 and 10 properties, respectively. Operating results related to these properties during the periods we owned are included in income from discontinued operations. The following table summarizes the operating results of the assets held for sale and assets sold for the years ended December 31, 2008, 2007 and 2006 (\$ in thousands):

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| <b>Number of properties:</b>                                 |                                |             |             |
| Properties classified as held for sale at end of period      |                                | 10          | 22          |
| Properties sold during the period                            | 10                             | 23          | 10          |
| Total included in discontinued operations                    | 10                             | 33          | 32          |
| <b>Results of operations:</b>                                |                                |             |             |
| Operating revenues   | \$ 80,939                      | \$ 248,789  | \$ 127,295  |
| Operating expenses   | 65,247                         | 188,643     | 95,858      |
| Operating income   | 15,692                         | 60,146      | 31,437      |
| Depreciation and amortization                                | (6,635)                        | (30,432)    | (12,133)    |
| Loss from reclassification from discontinued to continuing   |                                |             | (863)       |
| Gain on sales of properties                                  | 48,514                         | 35,071      |             |
| Interest expense and amortization of loan costs              | (3,479)                        | (20,061)    | (5,737)     |
| Write-off of loan costs, premiums and exit fees              | 323                            | (4,814)     | (687)       |
| Income before income taxes and minority interest             | 54,415                         | 39,910      | 12,017      |
| Income tax (expense)/benefit                                 | (126)                          | (1,764)     | 64          |
| Minority interest in earnings of consolidated joint ventures |                                | (1,997)     |             |
| Minority interest in earnings of operating partnership       | (5,101)                        | (3,082)     | (1,509)     |
| Income from discontinued operations                          | \$ 49,188                      | \$ 33,067   | \$ 10,572   |

**8. Deferred Costs**

Deferred costs consist of the following at December 31, 2008 and 2007 (in thousands):

|                          | <b>December 31,</b> |             |
|--------------------------|---------------------|-------------|
|                          | <b>2008</b>         | <b>2007</b> |
| Deferred loan costs      | \$ 33,318           | \$ 32,552   |
| Deferred franchise fees  | 4,066               | 4,155       |
| Total costs              | 37,384              | 36,707      |
| Accumulated amortization | (13,173)            | (10,993)    |
| Deferred costs, net      | \$ 24,211           | \$ 25,714   |





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**ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES**  
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**9. Intangibles**

Intangibles consist of the following at December 31, 2008 and 2007 (in thousands):

|                          | <b>December 31,</b> |             |
|--------------------------|---------------------|-------------|
|                          | <b>2008</b>         | <b>2007</b> |
| Costs                    | \$ 3,166            | \$ 13,956   |
| Accumulated amortization | (89)                | (67)        |
| Intangibles, net         | \$ 3,077            | \$ 13,889   |

At December 31, 2008 and 2007, intangible of \$3.1 million and \$3.2 million, respectively, represented a favorable market-rate lease which relate to purchase price allocated to a hotel property in the CNL Portfolio and is being amortized over the remaining lease term that expires in 2043. At December 31, 2007, intangibles also included \$10.7 million related to advance booking preliminarily recorded in connection with the CNL Acquisition. In 2008, we finalized the allocation of the CNL Acquisition purchase price based on the final appraisal performed by a third-party appraiser and as a result, the \$10.7 million advance booking intangible was reclassified to buildings.

For the years ended December 31, 2008, 2007 and 2006, amortization expense related to intangibles was \$89,000, \$67,000 and \$211,000, respectively. Estimated future amortization expense is \$89,000 for each of the next five years.

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**ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES**  
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**10. Indebtedness**

Indebtedness and the carrying values of related collaterals were as follows (in thousands):

|   | <b>December 31, 2008</b> |   | <b>December 31, 2007</b> |   |
|---|--------------------------|---|--------------------------|---|
|   | <b>Debt<br/>Balance</b>  | <b>Book<br/>Value of<br/>Collateral</b> | <b>Debt<br/>Balance</b>  | <b>Book<br/>Value of<br/>Collateral</b> |
| Mortgage loan secured by 25 hotel properties, matures between July 1, 2015 and February 1, 2016, at an average fixed interest rate of 5.42%   | \$ 455,115               | \$ 539,397                              | \$ 455,115               | \$ 546,642                              |
| Mortgage loan secured by 16 hotel properties, matures between December 11, 2014 and December 11, 2015, at an average fixed interest rate of 5.73%   | 211,475                  | 178,330                                 | 211,475                  | 182,437                                 |
| Mortgage loan secured by 28 hotel properties, matures April 11, 2017, at an average fixed interest rate of 5.95%  | 928,465                  | 1,158,536                               | 928,465                  | 1,096,580                               |
| Loan secured by 10 hotel properties, matures May 2009, at an interest rate of LIBOR plus 1.65%, with three one-year extension options   | 167,202                  | 234,441                                 | 213,889                  | 262,833                                 |
| Credit facility secured by mezzanine notes receivable, matures April 9, 2010, at an interest of LIBOR plus a range of 2.75% to 3.5% depending on the indebtedness-to-value ratio, with two one-year extension options | 250,000                  | 212,815                                 | 65,000                   | 94,225                                  |
| Term loan secured by one hotel property, matured October 2008, at an interest rate of LIBOR plus 2.0%, with three one-year extension options  |                          |   | 47,450                   | 69,242                                  |
| Mortgage loan secured by one hotel property, matures December 1, 2017, at interest rate of 7.39% and 7.24% at December 31, 2008 and 2007 respectively, with a remaining premium of \$1.4 million                      | 48,790                   | 132,742                                 | 52,474                   | 128,652                                 |
| Mortgage loan secured by one hotel property, matures December 8, 2016, at an interest rate of 5.81%   | 101,000                  | 114,479                                 | 101,000                  | 119,051                                 |
| Mortgage loan secured by five hotel properties, matures December 11, 2009, at an interest rate of LIBOR plus 1.72%, with two one-year extension options   | 203,400                  | 248,249                                 | 184,000                  | 247,339                                 |
| Mortgage loan secured by one hotel property, matures August 1, 2010, at an interest rate of 8.08%   |                          |   | 45,630                   | 63,253                                  |
| Mortgage loan secured by one hotel property, matures June 1, 2011, at an interest rate of LIBOR plus 2%   | 19,740                   | 66,495                                  | 42,185                   | 65,259                                  |

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|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Mortgage loan secured by one hotel property, matured July 1, 2008, at an interest rate of 5.67%  |              |              | 31,792       | 69,457       |
| Mortgage loan secured by one hotel property, matures January 1, 2011, at an interest rate of 8.32%   | 5,966        | 8,613        | 6,102        | 8,308        |
| Mortgage loan secured by one hotel property, matures January 1, 2023, at an interest rate of 7.78%   | 6,612        | 19,330       | 8,187        | 16,798       |
| TIF loan secured by one hotel property, matures June 30, 2018, at an interest rate of 12.85%   | 7,783        | 102,902      | 7,783        | 102,049      |
| Mortgage loan secured by one hotel property, matures April 1, 2009, at an interest rate of 5.6%  | 29,396       | 41,227       | 30,118       | 48,864       |
| Mortgage loan secured by three hotel properties, matures April 5, 2011, at an interest rate of 5.47%   | 66,420       | 193,514      | 67,910       | 196,119      |
| Mortgage loan secured by four hotel properties, matures March 1, 2010, at an interest rate of 5.95%  | 75,000       | 219,146      | 75,000       | 209,634      |
| Mortgage loan secured by two hotel properties, matured January 1, 2009, at an interest rate of 5.5%  |              |              | 127,200      | 259,685      |
| Mortgage loan secured by two hotel properties, matures August 8, 2011 at an interest rate of LIBOR plus 2.75%, with two one-year extension options   | 159,000      | 264,673      |              |              |
| Mortgage loan secured by one hotel property, matures September 9, 2010, at an interest rate of LIBOR plus 3.75%, with two one-year extension options | 55,000       | 101,752      |              |              |
| Total  | 2,790,364    | 3,836,641    | 2,700,775    | 3,786,427    |
| Indebtedness related to assets held for sale   |              |              | (61,229)     | (72,803)     |
| Indebtedness related continuing operations   | \$ 2,790,364 | \$ 3,836,641 | \$ 2,639,546 | \$ 3,713,624 |

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**ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES**  
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During 2008, we refinanced our debt of \$73.1 million maturing in 2008 secured by two hotel properties, with a new \$53.4 million interest only loan bearing an interest rate of LIBOR plus 2.0%, maturing in 2011. With subsequent payoff upon the sale of one hotel property, the outstanding balance on this loan at December 31, 2008 was \$19.7 million. We also refinanced our debt of \$127.2 million maturing in 2009, a loan secured by interests in two hotel properties owned through a joint venture, with a new \$160.0 million loan bearing an interest rate of LIBOR plus 2.75%, maturing 2011 with two one-year extension options. This loan had a balance of \$159.0 million at December 31, 2008. In addition, we obtained a \$55.0 million loan on a hotel property, bearing an interest rate of LIBOR plus 3.75%, maturing in 2010 with two one-year extensions. In connection with these financings, we were required by the lenders to enter into two interest rate cap agreements with notional amounts totaling \$215.0 million to hedge the interest rate risk at a strike rate of 5.0% for two years. Additionally, we obtained a \$65.0 million loan on another hotel property, bearing interest rate of LIBOR plus 2.5%, maturing in 2011 with two one-year extensions. Along with this financing, we entered into an interest rate cap with a notional amount of \$52.0 million interest rate cap and a strike rate of 5.75% for three years. The \$65.0 million loan was subsequently repaid and the \$52.0 million interest rate cap was sold in connection with the sale of the hotel property securing this loan. Proceeds from these borrowings were used to pay for the acquisition of the \$98.4 million mezzanine loan and for other general corporate purposes.

In late December 2008, we negotiated an amendment to our \$300 million credit facility. The main provision changes to the facility, which expires in 2012 after extension, include (i) reducing the fixed charge coverage ratio, as defined, to 1.25x effective immediately until March 31, 2011, at which time the ratio steps up to 1.35x; (ii) reducing the revolver commitment level from \$300 million to \$250 million; (iii) reducing the maximum leverage ratio, as defined, from 75% to 65%; (iv) adjusting the previous interest spread of 1.65% to 2.75% upward to a spread of 2.75% to 3.50%; and (v) suspending the dividend to the minimum REIT requirements through 2009. LIBOR rates at December 31, 2008 and 2007 were 0.44% and 4.60%, respectively.

The \$55.0 million mortgage loan maturing September 9, 2010 is guaranteed by us. Under the loan agreement, there is a (i) full debt service guaranty and (ii) a 25% principal guaranty. The 25% principal guaranty is released upon the following conditions: (a) there is no default or event of default, as defined in the loan agreement (b) the property renovation is substantially complete, (c) the property achieves for six consecutive months an 11% debt yield using the original principal balance, and (d) a debt service coverage ratio for six consecutive months of not less than 1.15x, using an interest rate constant equal to the greater of the then current Bloomberg forward LIBOR curve and 8.5%.

Maturities of indebtedness as of December 31, 2008 are as follows (in thousands):

|                           | <b>Initial<br/>Maturity</b> | <b>Maturity<br/>Including<br/>Extensions</b> |
|---------------------------|-----------------------------|--|
| 2009                      | \$ 408,326                  | \$ 37,724                                    |
| 2010                      | 392,692                     | 392,692                                      |
| 2011                      | 260,628                     | 464,028                                      |
| 2012                      | 28,805                      | 196,007                                      |
| 2013                      | 33,527                      | 33,527                                       |
| Thereafter <sup>(1)</sup> | 1,665,007                   | 1,665,007                                    |
| Total <sup>(1)</sup>      | \$ 2,788,985                | \$ 2,788,985                                 |

(1) Do not reflect the premiums of \$1.4 million that

are being  
amortized as a  
reduction to  
interest expense.

If we violate covenants in any debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of certain debt covenants may result in us being unable to borrow unused amounts under a line of credit, even if repayment of some or all borrowings is not required. In any event, financial covenants under our current or future debt obligations could impair our planned business strategies by limiting our ability to borrow (i) beyond certain amounts or (ii) for certain purposes. Presently, our existing financial debt covenants primarily relate to maintaining minimum debt coverage ratios at certain properties, maintaining an overall minimum net worth, maintaining a maximum loan to value, and maintaining an overall minimum total assets.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Derivatives and Hedging Activities**

We primarily use interest rate derivatives to hedge our asset cash flows. We also use non-hedge derivatives to capitalize on the historical correlation between changes in LIBOR and RevPAR. In connection with this strategy, we executed a five-year interest rate swap on \$1.8 billion of fixed-rate debt at a weighted average interest rate of 5.84% for a floating interest rate of LIBOR plus 2.64%. In conjunction with the swap execution, we sold a five-year LIBOR floor notional amount of \$1.8 billion at 1.25% and purchased a LIBOR cap notional amount of \$1.0 billion at 3.75% for the first three years. On September 30, 2008, we entered into an additional LIBOR interest rate cap with \$800 million notional amount at 3.75% effective October 14, 2008 for one year. Subsequently in December 2008, we purchased a one-year \$1.8 billion interest floor to bring down the LIBOR floor to 0.75. Under this floor, the counterparties will pay us the interest on the \$1.8 billion notional amount when the interest rates are below the original floor of 1.25% and above the new floor of 0.75%. The upfront cost of the swap, LIBOR cap, and floor transactions was \$8.8 million. These derivatives are reported net in our consolidated balance sheets in accordance with FASB Interpretation No. 39 ( FIN 39 ), *Offsetting Amounts Related to Certain Contracts*. At December 31, 2008, the net fair value of these derivatives was \$88.5 million (net of liabilities of \$17.2 million related to our interest rate floor). Because these derivatives were not designated as hedges and did not qualify as hedges, the gains or losses from changes in fair value are recognized in other income. For the year ended December 31, 2008, unrealized gains of \$79.7 million were recorded for the fair value changes. See Notes 12 and 21.

During 2008, in connection with the debt financings of \$160.0 million and \$55.0 million, we entered into three LIBOR interest rate caps with notional amounts totaling \$215.0 million at 5.0% maturing between 2010 and 2011 for \$1.1 million. These interest rate caps are designated as cash flow hedges and had a fair value of \$88,000 at December 31, 2008, unrealized loss of \$30,000 related to the ineffective portion was recorded in earnings and \$952,000 related to the effective portion was recorded in other comprehensive income for fair value changes. During the next twelve months, we expect \$76,000 of accumulated comprehensive loss will be reclassified to interest expense.

In addition, with the \$65.0 million financing, we purchased a LIBOR interest rate cap with a notional amount of \$52.0 million at 5.75% maturing in 2011 for \$123,000. The \$65.0 million loan was subsequently repaid and the \$52.0 million interest rate cap was sold in connection with the sale of the hotel property securing this loan.

We have six other interest rate caps with notional amounts totaling \$622.0 million and interest rates ranging from 6.0% to 6.25% that we entered into during 2006 and 2007. Of these interest rate caps, \$212.0 million were designated as cash flow hedges and the remaining \$410.0 million did not meet the applicable hedge accounting criteria. At December 31, 2008, these derivatives had no fair value. For the years ended December 31, 2008, 2007 and 2006, unrealized losses of \$21,000, \$211,000 and \$16,000, respectively, were recorded in earnings for the fair value changes. During the next twelve months, we expect \$114,000 of accumulated other comprehensive loss will be reclassified to interest expense.

**12. Fair Value Measurements**

On January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).





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Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset and liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Currently, we use interest rate swaps, interest rate floors and interest rate caps (collectively, the interest rate derivatives) to hedge our asset cash flows. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, and implied volatilities. The fair values of interest rate derivatives 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 variable cash payments/receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair values of interest rate options 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 rate of the floors or rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the floor (cap) are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of SFAS 157, we incorporate credit valuation adjustments to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of non-performance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

We have determined that when a majority of the inputs used to value our derivatives fall within Level 2 of their 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 counter-parties, which are 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. For the non-hedge interest rate floor valuation and the hedge designated interest rate cap valuation, the Level 3 input relating to the credit spreads represented 23.4% and 11.0%, respectively, of the fair value at December 31, 2008, which we consider to be significant to the overall valuation of the respective derivatives; therefore, the fair values of these derivatives are reported as Level 3 valuation in their entirety.

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The following table presents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2008, aggregated by the level in the fair value hierarchy within which measurements fall (in thousands):

|                           | <b>Fair Value Measurements at Reporting Date</b>                    |  |  | <b>December 31, 2008</b> |
|---------------------------|---|--|--|--------------------------|
|                           | <b>Quoted Price In Active Market for Identical Assets (Level 1)</b> | <b>Using Significant Other Observable Inputs (Level 2)</b> | <b>Using Significant Unobservable Inputs (Level 3)</b> |                          |
| <b>Assets</b>             |   |  |  |                          |
| Non-hedge derivatives:    |   |  |  |                          |
| Interest rate swap        | \$  | \$ 99,206  | \$   | \$ 99,206                |
| Interest rate floor/ridor |   | 5,718  |  | 5,718                    |
| Interest rate cap         |   | 759  |  | 759                      |
|                           | \$  | \$ 105,683   | \$   | \$ 105,683               |
| <b>Liabilities</b>        |   |  |  |                          |
| Non-hedge derivatives:    |   |  |  |                          |
| Interest rate floor       | \$  | \$   | \$ (17,168)  | \$ (17,168)              |
| Hedge derivatives:        |   |  |  |                          |
| Interest rate cap         |   |  | 88   | 88                       |
|                           | \$  | \$   | \$ (17,080)  | \$ (17,080)              |

The reconciliation of the beginning and ending balances of the derivatives that were measured using significant unobservable inputs is as follows (in thousands):

|  | <b>Fair Value Measurements using Significant Unobservable Inputs</b> |
|--|--|
| Balance at beginning of period                           | \$ 15  |
| Purchases  | 1,069  |
| Sold   | (8,120)  |
| Unrealized losses included in earnings                   | (9,092)  |
| Unrealized losses included in other comprehensive income | (952)  |
| Balance at end of period                                 | \$ (17,080)  |

### 13. Minority Interests

**Minority Interest in Consolidated Joint Ventures** In connection with the CNL Acquisition and subsequent assets swap completed in 2007, minority joint venture partners have ownership ranging from 11% to 25% in six hotel properties with total carrying value of \$19.4 and \$19.0 million at December 31, 2008 and 2007, respectively.

**Minority Interest in Operating Partnership** Minority interest in operating partnership represents the limited partners' proportionate share of the equity in the operating partnership. In July 2006, we issued 3.8 million Class B units of the operating partnership in connection with a hotel property acquisition. Class B common units have a fixed dividend rate of 6.82% in years one to three and 7.2% thereafter, and have priority in payment of cash dividends over common units but otherwise have no preference over common units. Aside from the Class B units, all other outstanding units represent common units. Beginning one year after issuance, each common unit of limited partnership interest (including each Class B common unit) may be redeemed for either cash or one share of Ashford's common stock at Ashford's discretion, subject to contractual lock-up agreements that prevent holders of Class B common units from redeeming two-thirds of such units before 18 months and one-third of such units before two years from the issuance date of such units. Beginning ten years after issuance, each Class B unit may be converted into a common unit at either party's discretion.

During 2008, we issued 1,056,000 operating partnership units in the form of long term incentive partnership units ( LTIP units ) for \$0.05 per unit to our executives. These LTIP units vest at specified rates between 2008 and 2012. Upon vesting, each LTIP unit can be converted by the holder into one common partnership unit of the operating partnership which then can be redeemed for cash or, at Ashford's election, settled in Ashford's common

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stock. These LTIP units had an aggregate value of \$6.6 million at the date of grant which is being amortized over the vesting period. Compensation expense of \$982,000 was recognized for 2008 related to the LTIP units granted. The unamortized value of the LTIP units was \$5.6 million at December 31, 2008 that will be amortized over a period of 3.7 years. During 2008, we declared cash distributions of \$665,000, or \$0.21 per unit per quarter for the first three quarters, related to the LTIP units. These distributions were recorded as a reduction of the minority interest in operating partnership.

At December 31, 2008 and 2007, operating partnership unit holders represented minority ownership of 14.3% and 9.98% in the operating partnership, respectively. A summary of the activity of the operating partnership units for each of the three years ended December 31, 2008 is as follow (in thousands):

|  | Year Ended December 31, |        |         |
|--|-------------------------|--------|---------|
|  | 2008                    | 2007   | 2006    |
| Units outstanding at beginning of year | 13,347                  | 13,512 | 11,092  |
| Units issued                           | 1,056                   |        | 3,814   |
| Units converted to common shares       | (10)                    | (165)  | (1,394) |
| Units outstanding at end of year       | 14,393                  | 13,347 | 13,512  |

**14. Commitments and Contingencies**

**Restricted Cash** Under certain management and debt agreements existing at December 31, 2008, we escrow payments required for insurance, real estate taxes, and debt service. In addition, for certain properties based on the terms of the underlying debt agreement, we escrow 4% to 6% of gross revenue for capital improvements.

**Franchise Fees** Under franchise agreements existing at December 31, 2008, we pay franchisors royalty fees between 2.5% and 6% of gross room revenue as well as fees for marketing, reservations, and other related activities aggregating between 1% and 3.75% of gross room revenue. These franchise agreements expire from 2011 through 2027. When a franchise term expires, the franchisor has no obligation to renew the franchise. A franchise termination could have a material adverse effect on the operations or the underlying value of the affected hotel due to loss of associated name recognition, marketing support, and centralized reservation systems provided by the franchisor. A franchise termination could also have a material adverse effect on cash available for distribution to stockholders. In addition, if we terminate a franchise prior to its expiration date, we may be liable for up to three times the average annual franchise fees incurred for that property.

For the years ended December 31, 2008, 2007, and 2006, we incurred franchise fees of \$28.7 million, \$27.9 million, and \$18.0 million, respectively, which are included in indirect hotel operating expenses in the accompanying consolidated statements of operations.

**Management Fees** Under management agreements existing at December 31, 2008, we pay a) monthly property management fees equal to the greater of \$10,000 (CPI adjusted) or 3% of gross revenues, or in some cases 3% to 8.5% of gross revenues, as well as annual incentive management fees, if applicable, b) market service fees on approved capital improvements, including project management fees of up to 4% of project costs, for certain hotels, and c) other general fees at current market rates as approved by our independent directors, if required. These management agreements expire from 2011 through 2029, with renewal options. If we terminate a management agreement prior to its expiration, we may be liable for estimated management fees through the remaining term, liquidated damages or, in certain circumstances, we may substitute a new management agreement.

**Leases** We lease land and facilities under non-cancelable operating leases, which expire between 2040 and 2084, including six ground leases and one air lease related to its hotel properties. Several of these leases are subject to base rent plus contingent rent based on the related property's financial results and escalation clauses. For the years ended December 2008, 2007 and 2006, our continuing operations recognized rent expense of \$8.2 million, \$7.0 million and \$3.1 million, respectively, which included contingent rent of \$2.1 million, \$886,000 and \$897,000, respectively. Rent

expense related to continuing operations is included in other expenses in the accompanying consolidated statements of operations. We also own equipment acquired under capital leases which is included in

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Investment in hotel properties in the accompanying consolidated balance sheet. These capital leases expire between 2009 and 2011, and have interest rates ranging between 4.4% and 10.5%.

Future minimum rentals due under non-cancelable leases are as follows for each of the years ending December 31, (in thousands):

|              | <b>Operating<br/>Leases</b> | <b>Capital<br/>Leases</b>   |
|--------------|-----------------------------|-----------------------------|
| 2009         | \$ 5,099                    | \$ 126                      |
| 2010         | 4,379                       | 58                          |
| 2011         | 4,077                       | 38                          |
| 2012         | 3,694                       |                             |
| 2013         | 3,557                       |                             |
| Thereafter   | 186,314                     |                             |
| <b>Total</b> | <b>\$ 207,120</b>           | <b>\$ 222<sup>(1)</sup></b> |

(1) Includes related interest of \$16,000.

At December 31, 2008, we had capital commitments of \$33.6 million relating to general capital improvements that are expected to be paid in the next 12 months.

**Employment Agreements** Our employment agreements with certain executive officers provide for minimum annual base salaries, other fringe benefits, and non-compete clauses as determined by the Board of Directors. The employment agreements terminate on December 31, 2009, with automatic one-year renewals, unless terminated by either party upon six months notice, subject to severance provisions.

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

**Taxes** If we dispose of the four remaining properties contributed in connection with our initial public offering in 2003 in exchange for units of operating partnership, we may be obligated to indemnify the contributors, including our Chairman and Chief Executive Officer whom have substantial ownership interests, against the tax consequences of the sale. In addition, we agreed to use commercially reasonable efforts to maintain non-recourse mortgage indebtedness of at least \$16.0 million, which allows contributors of the Las Vegas hotel property to defer gain recognition in connection with their contribution.

Additionally, for certain periods of time, we are prohibited from selling or transferring the Marriott Crystal Gateway in Arlington, Virginia, if as a result, the entity from which we acquired the property would recognize gain for federal tax purposes.

Further, in connection with our acquisition of certain properties on March 16, 2005 that were contributed in exchange for units of operating partnership, we agreed to certain tax indemnities with respect to 11 of these properties. If we dispose of these properties or reduce debt on these properties in a transaction that results in a taxable gain to the contributors, we may be obligated to indemnify the contributors or their specified assignees against the tax consequences of the transaction.

In general, tax indemnities equal the federal, state, and local income tax liabilities the contributor or their specified assignee incurs with respect to the gain allocated to the contributor. The contribution agreements terms generally require us to gross up tax indemnity payments for the amount of income taxes due as a result of such tax indemnities.



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**15. Stockholders Equity**

**Common Stock** In follow-on public offerings, we issued common stock totaling 48.9 million and 27.1 million shares for net proceeds of \$548.2 million and \$290.1 million in 2007 and 2006, respectively. The proceeds were used to pay down and pay off our then existing credit facility, to retire certain mortgage loans and to acquire certain hotel properties.

**Stock Repurchases** In November 2007, our Board of Directors authorized management to purchase up to a total of \$50 million of our common shares from time to time on the open market. We completed substantially all of the \$50 million repurchase in early September 2008. On September 5, 2008, the Board of Directors authorized the repurchase of an additional \$75 million of our common stock that may be purchased under the share repurchase program. The \$75 million authorization was subsequently revised to include repurchases of both common and preferred stock. We completed the additional \$75 million repurchase in December 2008. Total shares repurchased are summarized as follows (in thousands, except per share amounts):

|                    | Year Ended December 31, |                   |                    |                 |                   |                    |
|--------------------|-------------------------|-------------------|--------------------|-----------------|-------------------|--------------------|
|                    | Total                   | 2008<br>Aggregate | Average            | Total<br>Number | 2007<br>Aggregate | Average            |
|                    | Number of<br>Shares     | Purchase<br>Price | Price Per<br>Share | of<br>Shares    | Purchase<br>Price | Price Per<br>Share |
| Common stock       | 34,023                  | \$96,920          | \$2.85             | 2,366           | \$18,191          | \$7.69             |
| Series A Preferred | 115                     | \$ 700            | \$6.12             |                 |                   |                    |
| Series D Preferred | 1,606                   | \$ 9,189          | \$5.72             |                 |                   |                    |

In addition, we acquired 5,687 shares of our common stock as partial tax payments for shares issued under our stock-based compensation plan.

**Preferred Stock** In accordance with Ashford's charter, we are authorized to issue 50 million shares of preferred stock, which currently includes Series A cumulative preferred stock, Series B-1 cumulative convertible redeemable preferred stock, and Series D cumulative preferred stock.

**Series A Preferred Stock.** At December 31, 2008 and 2007, we had 2.2 million and 2.3 million outstanding shares of 8.55% Series A cumulative preferred stock, respectively. Series A preferred stock has no maturity date, and we are not required to redeem these shares at any time. Prior to September 22, 2009, Series A preferred stock is not redeemable, except in certain limited circumstances relating to the ownership limitation necessary to preserve our qualification as a REIT. However, on and after September 22, 2009, Series A preferred stock will be redeemable at our option for cash, in whole or from time to time in part, at a redemption price of \$25 per share plus accrued and unpaid dividends, if any, at the redemption date. Series A preferred stock dividends are payable quarterly, when and as declared, at the rate of 8.55% per annum of the \$25 liquidation preference (equivalent to an annual dividend rate of \$2.1375 per share). In general, Series A preferred stock holders have no voting rights.

**Series B-1 Preferred Stock.** At December 31, 2008 and 2007, we had 7.4 million outstanding shares of Series B-1 cumulative convertible redeemable preferred stock. Series B-1 preferred stock is convertible at any time, at the option of the holder, into our common stock by dividing the preferred stock carrying value by the conversion price then in effect, which is \$10.07, subject to certain adjustments, as defined. Series B-1 preferred stock is redeemable for cash at our option at the liquidation preference, which is set at \$10.07, after three years from June 17, 2005 (or two years if our weighted average common stock price for a period of 30 days is above \$11.83 with over 7.5 million shares traded during that period). Series B-1 preferred stock is redeemable for cash at the option of the holder at a specified redemption price, as defined, if certain events occur. Series B-1 preferred stock holders are entitled to vote, on an as-converted basis voting as a single class together with common stock holders, on all matters to be voted on by our stockholders. Series B-1 preferred stock quarterly dividends are set at the greater of \$0.14 per share or the prevailing common stock dividend rate.



*Series C Preferred Stock.* In April 2007, we issued 8.0 million shares of Series C cumulative redeemable preferred stock at \$25 per share for net proceeds of \$193.7 million. In July 2007, with proceeds received from the issuance of Series D preferred stock discussed below, we redeemed the Series C preferred stock. Series C preferred

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stock quarterly dividends were set at a rate of three-month LIBOR plus 2.5% through the first 18 months and three-month LIBOR plus a range of 4.25% to 8.0% depending on the net debt to total assets ratio thereafter.

*Series D Preferred Stock.* In July 2007, we issued 8.0 million shares of 8.45% Series D cumulative preferred stock at \$25 per share for net proceeds of \$193.7 million. At December 31, 2008 and 2007, we had 6.4 million and 8.0 million outstanding shares of Series D preferred stock, respectively. Series D preferred stock has no maturity date, and we are not required to redeem the shares at any time. Prior to July 18, 2012, Series D preferred stock is not redeemable, except in certain limited circumstances such as to preserve the status of our qualification as a REIT. Or in the event the Series D stock ceases to be listed on an exchange and we cease to be subject to the reporting requirements of the Securities Exchange Act, at our option, as described in Ashford's charter. However, on and after July 18, 2012, Series D preferred stock is redeemable at our option for cash, in whole or from time to time in part, at a redemption price of \$25 per share plus accrued and unpaid dividends, if any, at the redemption date. Series D preferred stock quarterly dividends are set at the rate of 8.45% per annum of the \$25 liquidation preference (equivalent to an annual dividend rate of \$2.11 per share). The dividend rate increases to 9.45% per annum if these shares are no longer traded on a major stock exchange. In general Series D preferred stock holders have no voting rights.

**Dividends** A summary of dividends declared for each of the three years ended December 31, is as follows (in thousands):

|                            | <b>Year Ended December 31,</b> |             |             |
|----------------------------|--------------------------------|-------------|-------------|
|                            | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| Common stock related:      |                                |             |             |
| Common shares              | \$ 73,670                      | \$ 92,260   | \$ 51,859   |
| Common units               | 6,109                          | 8,141       | 8,269       |
| LTIP units                 | 665                            |             |             |
| Class B units              | 2,788                          | 2,883       | 1,362       |
| Preferred stocks:          |                                |             |             |
| Series A preferred stock   | 4,855                          | 4,916       | 4,916       |
| Series B-1 preferred stock | 5,735                          | 6,256       | 5,958       |
| Series C preferred stock   |                                | 5,166       |             |
| Series D preferred stock   | 16,052                         | 7,652       |             |
| Total dividends declared   | \$ 109,874                     | \$ 127,274  | \$ 72,364   |

**16. Stock-Based Compensation**

Under the Amended and Restated 2003 Stock Incentive Plan (the "Plan"), we are authorized to grant 6,600,000 restricted shares of our common stock as incentive stock awards. In June 2008, additional shares of 3,750,000 were approved for grant under the Plan at our annual shareholders meeting. At December 31, 2008, 4,943,639 shares were available for future issuance under the Plan.

A summary of our restricted stock activity is as follows (shares in thousands):

|  | <b>Year Ended December 31,</b> |  |                          |  |                          |  |
|--|--------------------------------|--|--------------------------|--|--------------------------|--|
|  | <b>2008</b>                    |  | <b>2007</b>              |  | <b>2006</b>              |  |
|  | <b>Restricted Shares</b>       | <b>Weighted Average Price at Grant</b> | <b>Restricted Shares</b> | <b>Weighted Average Price at Grant</b> | <b>Restricted Shares</b> | <b>Weighted Average Price at Grant</b> |
|  | 1,369                          | \$ 12.19                               | 940                      | \$ 11.74                               | 686                      | \$ 9.77                                |

|                                  |       |          |       |          |       |          |
|----------------------------------|-------|----------|-------|----------|-------|----------|
| Outstanding at beginning of year |       |          |       |          |       |          |
| Restricted shares granted        | 214   | 4.83     | 854   | 12.38    | 662   | 12.44    |
| Restricted shares vested         | (575) | 11.60    | (390) | 11.51    | (406) | 9.56     |
| Restricted shares forfeited      | (17)  | 11.55    | (35)  | 12.19    | (2)   | 12.22    |
| Outstanding at end of year       | 991   | \$ 10.96 | 1,369 | \$ 12.19 | 940   | \$ 11.74 |

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At December 31, 2008, the outstanding restricted stock had vesting schedules between March 2009 and August 2011. Stock-based compensation expense of \$6.8 million, \$6.2 million and \$5.2 million was recognized for the years ended December 31, 2008, 2007 and 2006, respectively. At December 31, 2008, the unamortized value of the unvested shares of restricted stock was \$6.7 million that will be amortized over a period of 2.6 years.

**17. Employee Benefit Plans**

**Employee Savings and Incentive Plan (ESIP)** Our ESIP, a nonqualified compensation plan that covers employees who work at least 25 hours per week, allows eligible employees to contribute up to 100% of their compensation to various investment funds. We match 25% of the first 10% each employee contributes. Employee contributions vest immediately whereas company contributions vest 25% annually. For the years ended December 31, 2008, 2007 and 2006, we incurred matching expenses of \$47,000, \$7,000 and \$34,000, respectively.

**401(k) Plan** Effective January 1, 2006, we established our 401(k) Plan, a qualified defined contribution retirement plan that covers employees 21 years of age or older who have completed one year of service and work a minimum of 1,000 hours annually. The 401(k) Plan allows eligible employees to contribute up to 100% of their compensation, subject to IRS imposed limitations, to various investment funds. We make matching cash contributions of 50% of each participant's contributions, based on participant contributions of up to 6% of compensation. However, company matching only occurs in either the 401(k) Plan or the ESIP, as directed by the participant. Participant contributions vest immediately whereas company match vest 25% annually. For the years ended December 31, 2008, 2007 and 2006, we incurred matching expense of \$127,000, \$91,000 and \$73,000, respectively.

In December 2008, management made a decision to suspend, effective January 1, 2009, the company match for all the benefit plans, unvested past matches will continue to vest in accordance with the terms of the plans.

**Deferred Compensation Plan** Effective January 1, 2008, we established a nonqualified deferred compensation plan for certain executive officers. The plan allows participants to defer 100% of their base salary, bonus and stock awards and select an investment fund for measurement of the deferred compensation liability. In 2008, we recorded a loss of \$199,000 for the decrease in cash surrender value of the life insurance policy where deferred funds were invested, and a reduction of \$220,000 in compensation expense for the decrease in market value of the investment fund.

**18. Income Taxes**

For federal income tax purposes, we elected to be treated as a REIT under the Internal Revenue Code. To qualify as a REIT, we must meet certain organizational and operational stipulations, including a requirement that we distribute at least 90% of our REIT taxable income, excluding net capital gains, to our stockholders. We currently intend to adhere to these requirements and maintain our REIT status. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not qualify as a REIT for four subsequent taxable years. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes as well as to federal income and excise taxes on our undistributed taxable income.

At December 31, 2008, 102 of our 103 hotel properties were leased or owned by Ashford TRS (our taxable REIT subsidiaries) while the remaining hotel was leased on a triple-net lease basis to a third-party tenant. Ashford TRS recognized a net book loss of \$36.3 million for the year ended December 31, 2008 and a net book loss of \$8.5 million and \$5.5 million for the years ended December 31, 2007 and 2006, respectively.

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

The following table reconciles the income tax (expense)/benefit at statutory rates to the actual income tax (expense)/benefit recorded (in thousands):

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| Income tax benefit at federal statutory income tax rate of 35%       | \$ 12,699                      | \$ 8,633    | \$ 3,105    |
| State income tax benefit, net of federal income tax benefit          | 1,844                          | 1,140       | 400         |
| Permanent differences  | (183)                          |             |             |
| State and local income taxes on pass-through entity subsidiaries     | (436)                          | (165)       |             |
| Gross receipts and margin taxes                                      | (982)                          | (549)       |             |
| Other  | (354)                          | (361)       | 629         |
| Valuation allowance  | (13,555)                       | (12,533)    | (1,479)     |
| Income tax (expense)/benefit for income from continuing operations   | (967)                          | (3,835)     | 2,655       |
| Income tax (expense)/benefit for income from discontinued operations | (126)                          | (1,764)     | 64          |
| Total income tax (expense)/benefit                                   | \$ (1,093)                     | \$ (5,599)  | \$ 2,719    |

The components of income tax (expense)/benefit from continuing operations are as follows (in thousands):

|                                    | <b>Year Ended December 31,</b> |             |             |
|------------------------------------|--------------------------------|-------------|-------------|
|                                    | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| Current:                           |                                |             |             |
| Federal                            | \$ 742                         | \$ 289      | \$ 1,400    |
| State                              | (1,829)                        | (838)       | 180         |
| Total current                      | (1,087)                        | (549)       | 1,580       |
| Deferred:                          |                                |             |             |
| Federal                            | (219)                          | (2,913)     | 953         |
| State                              | 339                            | (373)       | 122         |
| Total deferred                     | 120                            | (3,286)     | 1,075       |
| Total income tax (expense) benefit | \$ (967)                       | \$ (3,835)  | \$ 2,655    |

For the year ended December 31, 2008 and 2007, income tax (expense)/benefit includes interest and penalties paid to taxing authorities of \$80,000 and \$215,000, respectively. At December 31, 2008, we determined that there were no amounts to accrue for interest and penalties due to taxing authorities.

In May 2006, the State of Texas adopted House Bill 3, which modified the state's franchise tax structure, replacing the previous tax based on capital or earned surplus with a margin tax (the Texas Margin Tax) effective with franchise tax reports filed on or after January 1, 2008. The Texas Margin Tax is computed by applying the applicable tax rate (1% for our business) to the profit margin, which is generally determined by total revenue less either the cost of goods sold or compensation as applicable. Although House Bill 3 states that the Texas Margin Tax is not an income tax, we believe that SFAS No. 109, *Accounting for Income Taxes*, applies to the Texas Margin Tax. We were required to record an income tax provision for the Texas Margin Tax of \$710,000 for the year ended December 31, 2008.

In July 2007, the State of Michigan adopted Senate Bill 94, which modified the state's business tax structure, replacing the previous tax which was a modified value added tax with a new tax (the Michigan Business Tax) that has two components, income and modified gross receipts. The income tax component is computed by applying the applicable tax rate (4.95%) to taxable income after the REIT dividends paid deduction. The modified gross receipts tax component is computed by applying the applicable tax rate (0.8%) to modified gross receipts, which is generally determined by total revenue less purchases from other businesses. The total Michigan Business Tax is calculated as the sum of the two components plus a surcharge of 21.99% on the total tax liability. For the year ended December 31, 2008, we were liable for the modified gross receipts component (plus the surcharge) and recorded an income tax provision for the Michigan Business Tax of \$370,000.

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

At December 31, 2008 and 2007, our deferred tax asset (liability) and related valuation allowance consisted of the following (in thousands):

|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2008</b>         | <b>2007</b> |
| Allowance for doubtful accounts            | \$ 240              | \$ 609      |
| Unearned income                            | 1,345               | 1,405       |
| Unfavorable management contract liability  | 8,359               | 9,242       |
| Federal and state net operating losses     | 50,527              | 43,472      |
| Accrued expenses                           | 2,732               | 3,579       |
| Prepaid expenses                           |                     | (7,047)     |
| Interest expense carryforwards             | 4,850               | 3,009       |
| Tax property basis greater than book basis | 8,977               | 9,290       |
| Other                                      | 130                 | 858         |
| Gross deferred tax asset                   | 77,160              | 64,417      |
| Valuation allowance                        | (77,160)            | (64,137)    |
| Subtotal                                   |                     | 280         |
| Tax property basis less than book basis    | (894)               |             |
| Net deferred tax (liability) asset         | \$ (894)            | \$ 280      |

At December 31, 2008 and 2007, we increased the valuation allowance to \$77.2 million and \$64.1 million to fully offset our net deferred tax asset. As a result of Ashford TRS losses in 2008, 2007 and 2006, and the limitation imposed by the Internal Revenue Code on the utilization of net operating losses of acquired subsidiaries, we believe that it is more likely than not our net deferred tax asset will not be realized, and therefore, have provided a valuation allowance to fully reserve against these amounts. At December 31, 2008, we also recorded a deferred tax liability for the difference in the final purchase price allocation for financial reporting purposes and tax basis for a real estate asset owned in one of our consolidated joint ventures. In addition, at December 31, 2008, Ashford TRS had net operating loss carryforwards for federal income tax purposes of \$127.0 million, which are available to offset future taxable income, if any, through 2027. Approximately \$51.8 million of the \$127.0 million of net operating loss carryforwards is attributable to acquired subsidiaries and subject to substantial limitation on its use.

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

**19. Income Per Share**

The following table reconciles the amounts used in calculating basic and diluted earnings/(loss) per share for the years ended December 31, 2008, 2007 and 2006 (in thousands, except per share amounts):

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| Income/(loss) from continuing operations  | \$ 80,006                      | \$ (2,907)  | \$ 27,224   |
| Less: Preferred dividends   | (26,642)                       | (23,990)    | (10,875)    |
| Basic income/(loss) from continuing operations available to common shareholders | 53,364                         | (26,897)    | 16,349      |
| Income from discontinued operations   | 49,188                         | 33,067      | 10,572      |
| Basic net income available to common shareholders                               | \$ 102,552                     | \$ 6,170    | \$ 26,921   |
| Basic Income/(loss) from continuing operations available to common shareholders | \$ 53,364                      | \$ (26,897) | \$ 16,349   |
| Minority interest in earnings of operating partnership                          |                                |             |             |
| Diluted income/(loss) from continuing operations                                | 53,364                         | (26,897)    | 16,349      |
| Income from discontinued operations   | 49,188                         | 33,067      | 10,572      |
| Diluted net income available to common shareholders                             | \$ 102,552                     | \$ 6,170    | \$ 26,921   |
| Total weighted average basic shares   | 111,295                        | 105,787     | 61,713      |
| Effect of dilutive unvested restricted stock awards                             | 11                             |             | 415         |
| Total weighted average diluted shares   | 111,306                        | 105,787     | 62,128      |
| Income per share:   |                                |             |             |
| Basic -   |                                |             |             |
| Income/(loss) from continuing operations available to common shareholders       | \$ 0.48                        | \$ (0.25)   | \$ 0.27     |
| Income from discontinued operations   | 0.44                           | 0.31        | 0.17        |
| Net income available to common shareholders                                     | \$ 0.92                        | \$ 0.06     | \$ 0.44     |
| Diluted -   |                                |             |             |
| Income/(loss) from continuing operations  | \$ 0.48                        | \$ (0.25)   | \$ 0.26     |
| Income from discontinued operations   | 0.44                           | 0.31        | 0.17        |
| Net income  | \$ 0.92                        | \$ 0.06     | \$ 0.43     |

Due to their anti-dilutive effect, the computation of diluted income per share does not reflect the adjustments for the following items for the years ended December 31, 2008, 2007 and 2006 (in thousands):

**Year Ended December 31,**



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|  | <b>2008</b>      | <b>2007</b>     | <b>2006</b>      |
|--|------------------|-----------------|------------------|
| Diluted Income/(loss) from continuing operations available to common shareholders: |                  |                 |                  |
| Dividends to convertible Series B-1 Preferred Stock                                | \$ 5,735         | \$ 6,256        | \$ 5,958         |
| Minority interests in earnings of operating partnership                            | 9,932            | 1,684           | 4,274            |
| <b>Total</b>   | <b>\$ 15,667</b> | <b>\$ 7,940</b> | <b>\$ 10,232</b> |
| Diluted shares:  |                  |                 |                  |
| Effect of assumed conversion of Series B-1 Preferred Stock                         | 7,448            | 7,448           | 7,448            |
| Effect of assumed conversion of operating partnership units                        | 13,924           | 13,347          | 13,512           |
| Effect of dilutive unvested restricted stock awards                                |                  | 476             |                  |
| <b>Total</b>   | <b>21,372</b>    | <b>21,271</b>   | <b>20,960</b>    |

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

**20. Segment Reporting**

We operate in two business segments within the hotel lodging industry: direct hotel investments and hotel financing. Direct hotel investments refer to owning hotels through either acquisition or new development. We report operating results of direct hotel investments on an aggregate basis as substantially all of our hotel investments have similar economic characteristics and exhibit similar long-term financial performance. Hotel financing refers to owning subordinate hotel-related mortgage through acquisition or origination. We do not allocate corporate-level accounts to our operating segments, including corporate general and administrative expenses, non-operating interest income, interest expense, income tax expense/benefit, and minority interest.

For the years ended December 31, 2008, 2007 and 2006, financial information related to our reportable segments was as follows (in thousands):

|  | <b>Direct<br/>Hotel<br/>Investments</b> | <b>Hotel<br/>Financing</b> | <b>Corporate</b> | <b>Consolidated</b> |
|--|---|----------------------------|------------------|---------------------|
| <b>Year Ended December 31, 2008:</b>                                       |   |                            |                  |                     |
| Total revenues   | \$ 1,148,806                            | \$ 24,050                  | \$               | \$ 1,172,856        |
| Total hotel expenses   | 753,587                                 |                            |                  | 753,587             |
| Property taxes, insurance and other  | 62,509                                  |                            |                  | 62,509              |
| Depreciation and amortization  | 167,730                                 |                            |                  | 167,730             |
| Corporate general and administrative                                       |   |                            | 28,702           | 28,702              |
| Total expenses   | 983,826                                 |                            | 28,702           | 1,012,528           |
| Operating income/(loss)  | 164,980                                 | 24,050                     | (28,702)         | 160,328             |
| Equity loss in unconsolidated joint venture                                |   | (2,205)                    |                  | (2,205)             |
| Interest income  |   |                            | 2,062            | 2,062               |
| Other income   |   |                            | 10,153           | 10,153              |
| Interest expense and amortization of loan costs                            |   |                            | (156,383)        | (156,383)           |
| Write-off of loan costs and exit fees                                      |   |                            | (1,226)          | (1,226)             |
| Unrealized gains on derivatives  |   |                            | 79,620           | 79,620              |
| Income before income taxes, minority interests and discontinued operations | 164,980                                 | 21,845                     | (94,476)         | 92,349              |
| Income tax expense   |   |                            | (967)            | (967)               |
| Minority interests in earnings of consolidated joint ventures              |   |                            | (1,444)          | (1,444)             |
| Minority interests in earnings of operating partnership                    |   |                            | (9,932)          | (9,932)             |
| Income/(loss) from continuing operations                                   | \$ 164,980                              | \$ 21,845                  | \$ (106,819)     | \$ 80,006           |
| <b>As of December 31, 2008:</b>  |   |                            |                  |                     |
| Total assets   | \$ 3,789,390                            | \$ 239,158                 | \$ 311,134       | \$ 4,339,682        |



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

|   | <b>Direct<br/>Hotel<br/>Investments</b> | <b>Hotel<br/>Financing</b> | <b>Corporate</b> | <b>Consolidated</b> |
|---|---|----------------------------|------------------|---------------------|
| <b>Year Ended December 31, 2007:</b>  |   |                            |                  |                     |
| Total revenues  | \$ 996,796                              | \$ 11,005                  | \$               | \$ 1,007,801        |
| Total hotel expenses  | 651,434                                 |                            |                  | 651,434             |
| Property taxes, insurance and other   | 52,409                                  |                            |                  | 52,409              |
| Depreciation and amortization   | 138,154                                 |                            |                  | 138,154             |
| Corporate general and administrative  |   |                            | 26,953           | 26,953              |
| Total expenses  | 841,997                                 |                            | 26,953           | 868,950             |
| Operating income/(loss)   | 154,799                                 | 11,005                     | (26,953)         | 138,851             |
| Interest income   |   |                            | 3,178            | 3,178               |
| Interest expense and amortization of loan costs                                   |   |                            | (135,841)        | (135,841)           |
| Write-off of loan costs and exit fees   |   |                            | (3,850)          | (3,850)             |
| Unrealized losses on derivatives  |   |                            | (211)            | (211)               |
| Income/(loss) before income taxes, minority interests and discontinued operations | 154,799                                 | 11,005                     | (163,677)        | 2,127               |
| Income tax benefit  |   |                            | (3,835)          | (3,835)             |
| Minority interests in earnings of consolidated joint ventures                     |   |                            | (323)            | (323)               |
| Minority interests in earnings of operating partnership                           |   |                            | (876)            | (876)               |
| Income/(loss) from continuing operations  | \$ 154,799                              | \$ 11,005                  | \$ (168,711)     | \$ (2,907)          |
| <b>As of December 31, 2007:</b>   |   |                            |                  |                     |
| Total assets  | \$ 4,199,948                            | \$ 99,214                  | \$ 81,249        | \$ 4,380,411        |
| <b>Year Ended December 31, 2006:</b>  |   |                            |                  |                     |
| Total revenues  | \$ 386,364                              | \$ 14,858                  | \$               | \$ 401,222          |
| Total hotel expenses  | 249,122                                 |                            |                  | 249,122             |
| Property taxes, insurance and other   | 22,754                                  |                            |                  | 22,754              |
| Depreciation and amortization   | 40,730                                  |                            |                  | 40,730              |
| Corporate general and administrative  |   |                            | 20,359           | 20,359              |
| Total expenses  | 312,606                                 |                            | 20,359           | 332,965             |
| Operating income/(loss)   | 73,758                                  | 14,858                     | (20,359)         | 68,257              |
| Interest income   |   |                            | 2,917            | 2,917               |

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|   |           |           |             |    |          |
|---|-----------|-----------|-------------|----|----------|
| Interest expense and amortization of loan costs                                   |           |           | (42,720)    |    | (42,720) |
| Write-off of loan costs and exit fees   |           |           | (101)       |    | (101)    |
| Unrealized losses on derivatives  |           |           | (16)        |    | (16)     |
| Income/(loss) before income taxes, minority interests and discontinued operations | 73,758    | 14,858    | (60,279)    |    | 28,337   |
| Income tax benefit  |           |           | 2,655       |    | 2,655    |
| Minority interests in losses of operating partnership                             |           |           | (3,768)     |    | (3,768)  |
| Income/(loss) from continuing operations  | \$ 73,758 | \$ 14,858 | \$ (61,392) | \$ | 27,224   |

**As of December 31, 2006:**

|              |              |            |           |    |           |
|--------------|--------------|------------|-----------|----|-----------|
| Total assets | \$ 1,851,093 | \$ 106,188 | \$ 54,631 | \$ | 2,011,912 |
|--------------|--------------|------------|-----------|----|-----------|

As of December 31, 2008, 2007 and 2006, all of our hotel properties were domestically located and all hotel properties securing our notes receivable were domestically located with the exception of one hotel property securing the \$18.2 million loan receivable, which is located in Nevis, West Indies.

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

**21. Fair Value of Financial Instruments**

SFAS 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosures about the fair value of all financial instruments. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented are not necessarily indicative of the amounts at which these instruments could be purchased, sold, or settled. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The carrying amounts and estimated fair values of financial instruments at December 31, 2008 and 2007 were as follows (in thousands):

|   | December 31,      |                         |                   |                         |
|---|-------------------|-------------------------|-------------------|-------------------------|
|   | 2008              |                         |                   | 2007                    |
|   | Carrying<br>Value | Estimated<br>Fair Value | Carrying<br>Value | Estimated<br>Fair Value |
| Financial assets:                                 |                   |                         |                   |                         |
| Cash and cash equivalents                         | \$ 241,597        | \$ 241,597              | \$ 92,271         | \$ 92,271               |
| Restricted cash                                   | \$ 69,806         | \$ 69,806               | \$ 52,872         | \$ 52,872               |
| Accounts receivable                               | \$ 41,110         | \$ 41,110               | \$ 51,314         | \$ 51,314               |
| Notes receivable                                  | \$ 212,815        | \$ 200,293              | \$ 94,394         | \$ 97,776               |
| Interest rate derivatives cash flow<br>hedges     | \$ 88             | \$ 88                   | \$ 6              | \$ 6                    |
| Interest rate derivatives non-cash flow<br>hedges | \$ 88,515         | \$ 88,515               | \$ 15             | \$ 15                   |
| Due from third-party hotel managers               | \$ 48,116         | \$ 48,116               | \$ 58,300         | \$ 58,300               |
| Financial liabilities:                            |                   |                         |                   |                         |
| Indebtedness                                      | \$2,790,364       | \$2,788,503             | \$2,700,775       | \$2,705,218             |
| Accounts payable and accrued expenses             | \$ 93,476         | \$ 93,476               | \$ 124,696        | \$ 124,696              |
| Due to affiliates                                 | \$ 2,378          | \$ 2,378                | \$ 2,732          | \$ 2,732                |
| Due to third-party hotel managers                 | \$ 3,855          | \$ 3,855                | \$ 4,699          | \$ 4,699                |

*Cash, cash equivalent and restricted cash.* These financial assets bear interest at market rates and have maturities of less than 90 days. The carrying value approximates fair value due to the short-term nature.

*Accounts receivable, due to/from affiliates or third-party hotel managers, accounts payable and accrued expense.* The carrying values of these financial instruments approximate their fair values due to the short-term nature of these financial instruments.

*Notes receivable and Indebtedness.* The fair value of these financial instruments is determined using future cash flows discounted at current replacement rates for these instruments. For variable rate instruments, cash flows are determined using a forward interest rate yield curve. The current replacement rates are determined by using U.S. Treasury yield curve or the index to which these financial instruments are tied to, and adjusted for the credit spreads. Credit spreads take into consideration general market conditions, maturity, collateral and credit risk of the counterparty.

*Interest rate derivatives.* The fair values of interest rate derivatives are determined using net discounted cash flow of the expected cash flows of each derivative based on observable market-based interest rate curves and then adjusted for credit spreads of Ashford and the counterparties. See Note 12 for a full description of the methodology employed.

**22. Related Party Transactions**

We have management agreements with parties owned by our Chairman and our Chief Executive Officer. Under the agreements we pay the related parties a) a monthly property management fees equal to the greater of \$10,000 (CPI adjusted) or 3% of gross revenues as well as annual incentive management fees, if certain operational criteria are met, b) project management fees of up to 4% of project costs, c) market service fees including purchasing, design and

construction management not to exceed 16.5% of project budget

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

cumulatively, including project management fees, and d) other general and administrative expense reimbursements, approved by our independent directors, including rent, payroll, office supplies, travel, and accounting. These related parties allocate such charges to us based on various methodologies, including headcount and actual amounts incurred. At December 31, 2008, these related parties managed 40 of our 103 hotels.

For the years ended December 31, 2008, 2007 and 2006, we incurred the following fees related to the management agreements with related parties (in thousands):

|  | <b>Year Ended December 31,</b> |                  |                  |
|--|--------------------------------|------------------|------------------|
|  | <b>2008</b>                    | <b>2007</b>      | <b>2006</b>      |
| Property management fees, including incentive property management fees | \$ 12,553                      | \$ 13,065        | \$ 9,134         |
| Market service fees  | 9,186                          | 9,046            | 5,129            |
| Corporate general and administrative expense reimbursements            | 4,927                          | 4,573            | 3,599            |
| <b>Total</b>   | <b>\$ 26,666</b>               | <b>\$ 26,684</b> | <b>\$ 17,862</b> |

Management agreements with related parties include exclusivity clauses that require us to engage such related parties, unless our independent directors either (i) unanimously vote to hire a different manager or developer or (ii) by a majority vote elect not to engage such related party because special circumstances exist or, based on the related party's prior performance, it is believed that another manager or developer could materially improve the performance of such management duties.

Upon formation, we also agreed to indemnify certain related parties, including our Chairman and Chief Executive Officer, who contributed hotel properties in connection with our initial public offering in exchange for operating partnership units, against the income tax such related parties may incur if we dispose of one of those contributed properties.

In addition, we received asset management consulting fees from the related parties of \$901,000, \$1.3 million and \$1.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

### **23. Concentration of Risk**

Our investments are all concentrated within the hotel industry. Our investment strategy is to acquire or develop upscale to upper-upscale hotels, acquire first mortgages on hotel properties, and invest in other mortgage-related instruments such as mezzanine loans to hotel owners and operators. At present, all of our hotels are located domestically. In addition, all hotels securing our loan receivable are located domestically except for one that is located in Nevis, West Indies, which secures a note receivable with a carrying amount of \$18.2 million at December 31, 2008. Presently, all our notes receivable are collateralized by either the properties securing the loans or interest in the first lien on such properties. Accordingly, adverse conditions in the hotel industry will have a material adverse effect on our operating and investment revenues and cash available for distribution to stockholders.

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



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

**24. Selected Quarterly Financial Data (Unaudited)**

The following is a summary of the quarterly results of operations for the years ended December 31, 2008 and 2007 (in thousands, except per share data):

|  | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
| <b>2008</b>  |                          |                           |                          |                           |
| Total revenue  | \$286,014                | \$306,510                 | \$285,281                | \$295,051                 |
| Total operating expenses   | \$249,443                | \$253,347                 | \$252,410                | \$257,328                 |
| Operating income   | \$ 36,572                | \$ 53,162                 | \$ 32,871                | \$ 37,723                 |
| Income/(loss) from continuing operations                             | \$ 2,318                 | \$ (36,077)               | \$ 7,579                 | \$106,186                 |
| Net income/(loss)  | \$ 6,185                 | \$ (26,504)               | \$ 8,799                 | \$140,714                 |
| Net income/(loss) available to common stockholders                   | \$ (833)                 | \$ (33,522)               | \$ 1,781                 | \$135,126                 |
| Diluted net income/(loss) available to common stockholders per share | \$ (0.01)                | \$ (0.28)                 | \$ 0.02                  | \$ 1.47                   |
| Weighted average diluted common shares                               | 118,855                  | 118,911                   | 115,852                  | 112,802                   |
| <b>2007</b>  |                          |                           |                          |                           |
| Total revenue  | \$134,934                | \$283,015                 | \$279,466                | \$310,386                 |
| Total operating expenses   | \$112,479                | \$246,635                 | \$241,132                | \$268,704                 |
| Operating income   | \$ 22,453                | \$ 36,382                 | \$ 38,334                | \$ 41,682                 |
| Income/(loss) from continuing operations                             | \$ 6,480                 | \$ (3,031)                | \$ (3,524)               | \$ (2,832)                |
| Net income/(loss)  | \$ 11,491                | \$ 21,084                 | \$ 508                   | \$ (2,923)                |
| Net income/(loss) available to common stockholders                   | \$ 8,698                 | \$ 14,051                 | \$ (6,638)               | \$ (9,941)                |
| Diluted net income/(loss) available to common stockholders per share | \$ 0.12                  | \$ 0.13                   | \$ (0.05)                | \$ (0.08)                 |
| Weighted average diluted common shares                               | 72,449                   | 108,138                   | 121,235                  | 120,871                   |

Note: Quarterly amounts are different from those reported on the previous Form 10-Q due to reclassification of additional hotel properties that were sold and reclassified as discontinued operations subsequent to each quarter end.

**25. Subsequent Events (Unaudited)**

In January 2009, the Board of Directors authorized an additional \$200 million repurchase plan authorization (excluding fees, commissions and all other ancillary expenses) for: (i) the repurchase of shares of our common stock, Series A preferred stock, Series B-1 preferred stock and Series D preferred stock and/or (ii) the prepayment of our outstanding debt obligations, including debt secured by our hotel assets and debt senior to our mezzanine or loan investments. As of February 25, 2009, we have repurchased 7.3 million shares of our common stock, 697,600 shares of Series A preferred stock and 502,600 shares of Series D preferred stock for a total price of \$19.5 million.

In addition, we refinanced the \$47.4 million loan (excluding premium of \$1.4 million) secured by a hotel property in Arlington, VA, with a \$60.8 million loan at an interest rate of LIBOR plus 4% for three years with two one-year extensions.

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**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A. *Controls and Procedures***

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Under the supervision and with the participation of the our Chief Executive Officer and Chief Financial Officer, our management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2008 ( Evaluation Date ). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective (i) to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

**MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of our internal control over financial reporting. The internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and our expenditures are being made only in accordance with authorizations of management and our directors (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making the assessment of the effectiveness of our internal control over financial reporting, management has utilized the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on management s assessment, we concluded that, as of December 31, 2008, our internal control over financial reporting is effective based on those criteria. The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which appears in this Form 10-K.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have been no changes in our internal controls over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
Ashford Hospitality Trust, Inc.

We have audited Ashford Hospitality Trust, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Ashford Hospitality Trust, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Ashford Hospitality Trust, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2008 financial statements and financial statement schedules of Ashford Hospitality Trust, Inc. and subsidiaries and our report dated February 26, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas

February 26, 2009

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**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers, and Corporate Governance**

The required information is incorporated by reference from the Proxy Statement pertaining to our 2009 Annual Meeting of Stockholders.

**Item 11. Executive Compensation**

The required information is incorporated by reference from the Proxy Statement pertaining to our 2009 Annual Meeting of Stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matter**

The required information is incorporated by reference from the Proxy Statement pertaining to our 2009 Annual Meeting of Stockholders.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The required information is incorporated by reference from the Proxy Statement pertaining to our 2009 Annual Meeting of Stockholders.

**Item 14. Principal Accountant Fees and Services**

The required information is incorporated by reference from the Proxy Statement pertaining to our 2009 Annual Meeting of Stockholders.

**PART IV**

**Item 15. Financial Statement Schedules and Exhibits**

**(a) Financial Statements and Schedules**

See Item 8, Financial Statements and Supplementary Data, on pages 50 through 86 hereof, for a list of our consolidated financial statements and report of independent registered public accounting firm.

The following financial statement schedules are included herein on pages 91 through 94.

Schedule III Real Estate and Accumulated Depreciation

Schedule IV Mortgage Loans and Interest Earned on Real Estate

All other financial statement schedules have been omitted because such schedules are not required under the related instructions, such schedules are not significant, or the required information has been disclosed elsewhere in the consolidated financial statements and related notes thereto.

**(b) Exhibits**

Exhibits required by Item 601 of Regulation S-K: The exhibits filed in response to this item are listed in the Exhibit Index on pages 95 through 100.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 26, 2009.

ASHFORD HOSPITALITY TRUST, INC.

By: /s/ MONTGOMERY J. BENNETT  
Montgomery J. Bennett  
Chief Executive Officer

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below on behalf of the Registrant in the capacities and on the dates indicated.

| <b>Signature</b>                                   | <b>Title</b>   | <b>Date</b>       |
|--|--|-------------------|
| /s/ ARCHIE BENNETT, JR.<br>Archie Bennett, Jr.     | Chairman of the Board of Director                                      | February 26, 2009 |
| /s/ MONTGOMERY J. BENNETT<br>Montgomery J. Bennett | Chief Executive Officer, and Director<br>(Principal Executive Officer) | February 26, 2009 |
| /s/ DAVID J. KIMICHIK<br>David J. Kimichik         | Chief Financial Officer  | February 26, 2009 |
| /s/ MARK L. NUNNELEY<br>Mark L. Nunneley           | Chief Accounting Officer   | February 26, 2009 |
| /s/ MARTIN L. EDELMAN<br>Martin L. Edelman         | Director   | February 26, 2009 |
| /s/ W.D. Minami<br>W. D. Minami                    | Director   | February 26, 2009 |
| /s/ MICHAEL MURPHY<br>Michael Murphy               | Director   | February 26, 2009 |
| /s/ PHILLIP S. PAYNE<br>Philip S. Payne            | Director   | February 26, 2009 |
| /s/ CHARLES P. TOPPINO                             | Director   | February 26, 2009 |

Charles P. Toppino

/s/ THOMAS E. CALLAHAN

Director

February 26, 2009

Thomas E. Callahan

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**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**December 31, 2008**

| Column A            | Column B     | Column C   | Column D   | Column E  | Column F           | Column G          |           |           |          |         |
|---------------------|--------------|--|--|---|--------------------|-------------------|-----------|-----------|----------|---------|
| Location            | Encumbrances | Initial Cost<br>FF&E,<br>Buildings<br>and<br>Land improvements | Costs<br>Capitalized<br>Since<br>Acquisition<br>FF&E,<br>Buildings<br>and<br>Land improvements<br>(in thousands) | Gross Carrying Amount<br>At Close of Period<br>FF&E,<br>Buildings<br>and<br>Land improvements | Total Depreciation | Construction Date |           |           |          |         |
| Austin, TX          | \$ 14,296    | \$ 1,200   | \$ 11,531  | \$ 201  | \$ 3,962           | \$ 1,401          | \$ 15,493 | \$ 16,894 | \$ 5,811 | 08/1998 |
| Dallas, TX          | 8,449        | 1,871  | 10,960   | 244   | 3,955              | 2,115             | 14,915    | 17,030    | 6,008    | 12/1998 |
| Herndon, VA         | 26,000       | 1,298  | 11,775   | 282   | 4,716              | 1,580             | 16,491    | 18,071    | 5,903    | 12/1998 |
| Las Vegas, NV       | 32,176       | 3,300  | 20,055   | 404   | 8,200              | 3,704             | 28,255    | 31,959    | 9,958    | 05/1999 |
| Syracuse, NY        | 12,877       | 2,839  | 10,959   |   | 5,585              | 2,839             | 16,544    | 19,383    | 4,949    |         |
| Flagstaff, AZ       | 11,407       | 1,267  | 4,873  |   | 2,131              | 1,267             | 7,004     | 8,271     | 1,934    |         |
| Houston, TX         | 13,050       | 1,800  | 10,547   |   | 2,126              | 1,800             | 12,673    | 14,473    | 1,729    |         |
| West Palm Beach, FL | 18,525       | 3,277  | 14,126   |   | 6,503              | 3,277             | 20,629    | 23,906    | 2,953    |         |
| Philadelphia, PA    | 38,608       | 5,791  | 35,740   |   | 9,903              | 5,791             | 45,643    | 51,434    | 4,313    |         |
| Walnut Creek, CA    | 30,413       | 7,452  | 26,828   |   | 6,563              | 7,452             | 33,391    | 40,843    | 3,724    |         |
| Arlington, VA       | 20,046       | 36,065   | 45,202   |   | 2,281              | 36,065            | 47,483    | 83,548    | 5,315    |         |
| Portland, OR        | 21,043       | 11,110   | 63,067   |   | 1,490              | 11,110            | 64,557    | 75,667    | 5,458    |         |
| Santa Clara, CA     | 20,198       | 8,948  | 48,878   |   | 6,753              | 8,948             | 55,631    | 64,579    | 4,787    |         |
| Orlando, FL         | 5,488        | 5,674  | 22,988   |   | 1,323              | 5,674             | 24,311    | 29,985    | 1,741    |         |
| Columbus, OH        | 7,896        |  | 9,663  |   | 2,494              |                   | 12,157    | 12,157    | 3,333    |         |
| Jacksonville, FL    | 11,098       | 1,751  | 9,920  |   | 1,940              | 1,751             | 11,860    | 13,611    | 2,679    |         |
| Ft. Worth, TX       | 24,050       | 4,539  | 15,203   |   | 13,181             | 4,539             | 28,384    | 32,923    | 6,400    |         |
| Houston, TX         | 15,825       | 2,200  | 13,742   |   | 5,213              | 2,200             | 18,955    | 21,155    | 2,939    |         |
| St. Peterburg, FL   | 19,565       | 2,991  | 14,715   |   | 8,049              | 2,991             | 22,764    | 25,755    | 4,266    |         |
| Santa Fe, NM        | 16,658       | 7,004  | 11,632   |   | 4,524              | 7,004             | 16,156    | 23,160    | 2,842    |         |
| Bloomington, MN     | 54,416       | 5,685  | 61,479   |   | 4,731              | 5,685             | 66,210    | 71,895    | 5,481    |         |
| Washington DC       | 89,437       | 45,720   | 114,372  |   | 2,000              | 45,720            | 116,372   | 162,092   | 13,070   |         |
| Lo Jolla, CA        | 69,563       |  | 128,210  |   | 2,635              |                   | 130,845   | 130,845   | 15,194   |         |
| Costa Mesa, CA      | 35,159       | 12,917   | 100,614  |   | 3,476              | 12,917            | 104,090   | 117,007   | 10,900   |         |
| Tucson, AZ          | 19,740       | 12,035   | 57,160   |   | 6,688              | 12,035            | 63,848    | 75,883    | 9,388    |         |
| Rye Town, NY        | 29,268       | 10,252   | 39,358   |   | 7,306              | 10,252            | 46,664    | 56,916    | 4,040    |         |
| Auburn Hills, MI    | 10,218       | 3,971  | 13,914   |   | 305                | 3,971             | 14,219    | 18,190    | 993      |         |
| Mobile, AL          | 8,470        | 1,334  | 7,559  |   | 1,468              | 1,334             | 9,027     | 10,361    | 1,832    |         |
| Lawrenceville, GA   | 5,084        | 697  | 3,951  |   | 926                | 697               | 4,877     | 5,574     | 922      |         |
| Evansville, IN      | 7,155        | 1,301  | 5,599  |   | 2,696              | 1,301             | 8,295     | 9,596     | 2,399    |         |
| Terre Haute, IN     | 9,466        | 700  | 7,745  |   | 1,727              | 700               | 9,472     | 10,172    | 1,765    |         |
| Buford, GA          | 7,970        | 1,168  | 5,502  |   | 752                | 1,168             | 6,254     | 7,422     | 1,142    |         |
| Houston, TX         | 6,612        | 2,779  | 15,712   |   | 2,879              | 2,779             | 18,591    | 21,370    | 2,040    |         |



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|                           |         |        |         |        |        |         |         |        |
|---------------------------|---------|--------|---------|--------|--------|---------|---------|--------|
| Jacksonville, FL          |         | 1,701  | 15,328  | 1,555  | 1,701  | 16,883  | 18,584  | 810    |
| Durham, NC                | 25,983  | 1,794  | 26,370  | 6,363  | 1,794  | 32,733  | 34,527  | 4,216  |
| Arlington, VA             | 48,790  | 20,637 | 103,103 | 20,062 | 20,637 | 123,165 | 143,802 | 11,060 |
| Seattle, WA               | 135,710 | 31,888 | 121,685 | 1,159  | 31,888 | 122,844 | 154,732 | 10,776 |
| Bridgewater, NJ           | 75,391  | 5,058  | 94,816  | 387    | 5,058  | 95,203  | 100,261 | 8,539  |
| Plano, TX                 | 79,575  | 2,724  | 97,213  | 1,909  | 2,724  | 99,122  | 101,846 | 8,489  |
| Dallas, TX                | 26,942  | 2,701  | 33,278  | 663    | 2,701  | 33,941  | 36,642  | 3,581  |
| San Francisco, CA         | 55,000  |        | 96,423  | 19,890 |        | 116,313 | 116,313 | 14,561 |
| Marriott Jacksonville, FL | 8,168   | 1,348  | 7,636   | 1,262  | 1,348  | 8,898   | 10,246  | 1,958  |
| Marriott Baltimore, MD    | 15,372  | 2,502  | 13,666  | 1,178  | 2,502  | 14,844  | 17,346  | 2,395  |
| Marriott Kennesaw, GA     | 7,187   | 1,122  | 5,279   | 958    | 1,122  | 6,237   | 7,359   | 1,155  |
| Marriott Buford, GA       | 8,193   | 1,132  | 6,480   | 349    | 1,132  | 6,829   | 7,961   | 1,147  |
| Marriott Gaithersburg, MD | 15,680  | 2,200  | 19,827  | 1,541  | 2,200  | 21,368  | 23,568  | 2,353  |
| Marriott Centerville, VA  | 9,150   | 1,806  | 11,780  | 1,397  | 1,806  | 13,177  | 14,983  | 1,588  |

(Continued on Next Page)

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| Column A           | Column B                 | Column C     | Column D          | Column E          | Column F          | Column G           | Column H                 | Column I     | Column J    | Column K | Column L  |
|--------------------|--------------------------|--------------|-------------------|-------------------|-------------------|--------------------|--------------------------|--------------|-------------|----------|-----------|
| Property           | Location                 | Encumbrances | Land improvements | Land improvements | Land improvements | Total Depreciation | Accumulated depreciation | Construction | Acquisition | Date     | Statement |
| (in thousands)     |                          |              |                   |                   |                   |                    |                          |              |             |          |           |
| gHill<br>by<br>ott | Charlotte,<br>NC         | \$ 6,300     | \$ 1,235          | \$ 7,090          | \$ \$ 429         | \$ 1,235           | \$ 7,519                 | \$ 8,754     | \$ 997      | 06/2005  | (1),(2)   |
| gHill<br>by<br>ott | Durham, NC               | 5,400        | 1,090             | 4,051             | 301               | 1,090              | 4,352                    | 5,442        | 505         | 06/2005  | (1),(2)   |
| gHill<br>by<br>ott | Orlando, FL              | 30,213       | 8,620             | 28,899            | 743               | 8,620              | 29,642                   | 38,262       | 2,440       | 04/2007  | (1),(2)   |
| gHill<br>by<br>ott | Manhattan<br>Beach, CA   | 21,920       | 5,726             | 21,318            | 88                | 5,726              | 21,406                   | 27,132       | 1,097       | 04/2007  | (1),(2)   |
| gHill<br>by<br>ott | Plymouth<br>Meting, PA   | 20,000       | 3,210             | 25,374            | 205               | 3,210              | 25,579                   | 28,789       | 1,584       | 04/2007  | (1),(2)   |
| gHill<br>by<br>ott | Glen Allen,<br>VA        | 15,286       | 2,045             | 16,006            | 107               | 2,045              | 16,113                   | 18,158       | 923         | 04/2007  | (1),(2)   |
| eld Inn by<br>ott  | Kennesaw,<br>GA          | 7,045        | 840               | 4,489             | 228               | 840                | 4,717                    | 5,557        | 690         | 07/2004  | (1),(2)   |
| eld Inn by<br>ott  | Orlando, FL              | 15,930       | 6,507             | 10,710            | 1,699             | 6,507              | 12,409                   | 18,916       | 1,502       | 04/2007  | (1),(2)   |
| yard by<br>ott     | Bloomington,<br>IN       | 12,323       | 900               | 11,034            | 1,788             | 900                | 12,822                   | 13,722       | 2,374       | 09/2004  | (1),(2)   |
| yard by<br>ott     | Columbus,<br>IN          | 6,318        | 673               | 5,165             | 1,172             | 673                | 6,337                    | 7,010        | 1,302       | 09/2004  | (1),(2)   |
| yard by<br>ott     | Louisville,<br>KY        | 15,010       | 1,352             | 13,467            | 428               | 1,352              | 13,895                   | 15,247       | 2,555       | 09/2004  | (1),(2)   |
| yard by<br>ott     | Crystal City,<br>VA      | 34,505       | 5,411             | 38,746            | 4,634             | 5,411              | 43,380                   | 48,791       | 4,981       | 06/2005  | (1),(2)   |
| yard by<br>ott     | Ft.<br>Lauderdale,<br>FL | 15,000       | 2,244             | 19,216            | 1,329             | 2,244              | 20,545                   | 22,789       | 2,512       | 06/2005  | (1),(2)   |
| yard by<br>ott     | Overland<br>Park, KS     | 12,620       | 1,868             | 14,114            | 1,990             | 1,868              | 16,104                   | 17,972       | 1,811       | 06/2005  | (1),(2)   |

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|                 |                         |        |        |         |       |        |         |         |       |         |         |
|-----------------|-------------------------|--------|--------|---------|-------|--------|---------|---------|-------|---------|---------|
| yard by<br>ott  | Palm Desert,<br>CA      | 11,350 | 2,722  | 12,071  | 1,543 | 2,722  | 13,614  | 16,336  | 1,703 | 06/2005 | (1),(2) |
| yard by<br>ott  | Foothill<br>Ranch, CA   | 14,000 | 2,447  | 17,123  | 364   | 2,447  | 17,487  | 19,934  | 2,469 | 06/2005 | (1),(2) |
| yard by<br>ott  | Alpharetta,<br>GA       | 10,800 | 2,244  | 12,422  | 1,768 | 2,244  | 14,190  | 16,434  | 1,800 | 06/2005 | (1),(2) |
| yard by<br>ott  | Philadelphia,<br>PA     | 42,783 | 9,812  | 100,412 | 1,200 | 9,812  | 101,612 | 111,424 | 8,522 | 04/2007 | (1),(2) |
| yard by<br>ott  | Seattle, WA             | 59,868 | 17,351 | 51,200  | 342   | 17,351 | 51,542  | 68,893  | 4,104 | 04/2007 | (1),(2) |
| yard by<br>ott  | San<br>Francisco,<br>CA | 68,540 | 22,653 | 75,096  | 4,273 | 22,653 | 79,369  | 102,022 | 6,471 | 04/2007 | (1),(2) |
| yard by<br>ott  | Orlando, FL             | 29,190 | 7,389  | 28,408  | 3,120 | 7,389  | 31,528  | 38,917  | 3,225 | 04/2007 | (1),(2) |
| yard by<br>ott  | Oakland, CA             | 24,002 | 5,112  | 20,209  | 134   | 5,112  | 20,343  | 25,455  | 1,573 | 04/2007 | (1),(2) |
| yard by<br>ott  | Scottsdale,<br>AS       | 23,043 | 3,700  | 22,998  | 382   | 3,700  | 23,380  | 27,080  | 1,801 | 04/2007 | (1),(2) |
| yard by<br>ott  | Plano, TX               | 19,688 | 2,115  | 22,482  | 272   | 2,115  | 22,754  | 24,869  | 1,167 | 04/2007 | (1),(2) |
| yard by<br>ott  | Edison, NJ              | 12,640 | 2,147  | 12,332  | 65    | 2,147  | 12,397  | 14,544  | 1,011 | 04/2007 | (1),(2) |
| yard by<br>ott  | Newark, CA              | 6,227  | 2,863  | 11,262  | 96    | 2,863  | 11,358  | 14,221  | 1,035 | 04/2007 | (1),(2) |
| yard by<br>ott  | Manchester,<br>CT       | 5,966  | 1,300  | 7,915   | 248   | 1,300  | 8,163   | 9,463   | 850   | 04/2007 | (1),(2) |
| yard by<br>ott  | Basking<br>Ridge, NJ    | 42,640 | 5,419  | 46,304  | 2,447 | 5,419  | 48,751  | 54,170  | 3,531 | 04/2007 | (1),(2) |
| ence Inn<br>ott | Lake Buena<br>Vista, FL | 25,065 | 2,555  | 22,887  | 3,352 | 2,555  | 26,239  | 28,794  | 5,852 | 03/2004 | (1),(2) |
| ence Inn<br>ott | Evansville,<br>IN       | 6,911  | 960    | 6,285   | 1,130 | 960    | 7,415   | 8,375   | 1,361 | 09/2004 | (1),(2) |
| ence Inn<br>ott | Orlando, FL             | 36,470 | 6,554  | 41,939  | 1,779 | 6,554  | 43,718  | 50,272  | 5,285 | 06/2005 | (1),(2) |
| ence Inn<br>ott | Falls Church,<br>VA     | 23,850 | 2,752  | 35,058  | 2,161 | 2,752  | 37,219  | 39,971  | 4,028 | 06/2005 | (1),(2) |
| ence Inn<br>ott | San Diego,<br>CA        | 21,375 | 3,156  | 29,589  | 2,293 | 3,156  | 31,882  | 35,038  | 3,672 | 06/2005 | (1),(2) |
| ence Inn<br>ott | Salt Lake<br>City, UT   | 14,700 | 1,897  | 16,429  | 556   | 1,897  | 16,985  | 18,882  | 1,643 | 06/2005 | (1),(2) |
| ence Inn<br>ott | Palm Desert,<br>CA      | 11,750 | 3,280  | 10,528  | 1,250 | 3,280  | 11,778  | 15,058  | 1,442 | 06/2005 | (1),(2) |
| ence Inn<br>ott | Las Vegas,<br>NV        | 46,266 | 18,177 | 42,024  | 311   | 18,177 | 42,335  | 60,512  | 3,935 | 04/2007 | (1),(2) |
| ence Inn<br>ott | Phoenix, AZ             | 23,150 | 4,100  | 24,087  | 275   | 4,100  | 24,362  | 28,462  | 1,879 | 04/2007 | (1),(2) |
| ence Inn<br>ott | Plano, TX               | 14,760 | 2,045  | 16,907  | 312   | 2,045  | 17,219  | 19,264  | 866   | 04/2007 | (1),(2) |
| ence Inn<br>ott | Newark, CA              | 11,120 | 3,272  | 12,205  | 89    | 3,272  | 12,294  | 15,566  | 1,035 | 04/2007 | (1),(2) |

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|                     |                        |        |       |        |        |       |        |        |       |         |         |
|---------------------|------------------------|--------|-------|--------|--------|-------|--------|--------|-------|---------|---------|
| ott<br>ence Inn     | Manchester,<br>CT      |        | 1,462 | 8,906  | 539    | 1,462 | 9,445  | 10,907 | 963   | 04/2007 | (1),(2) |
| ott<br>ence Inn     | Atlanta, GA            | 15,933 | 1,901 | 16,794 | 487    | 1,901 | 17,281 | 19,182 | 824   | 04/2007 | (1),(2) |
| ott<br>ence Inn     | Jacksonville,<br>FL    |        | 1,997 | 16,681 | 798    | 1,997 | 17,479 | 19,476 | 932   | 05/2007 | (1),(2) |
| ePlace<br>by<br>ott | Manhattan<br>Beach, CA | 20,230 | 4,805 | 17,652 | 1,508  | 4,805 | 19,160 | 23,965 | 1,139 | 04/2007 | (1),(2) |
| Ocean               | Atlantic<br>Beach, FL  | 19,365 | 5,815 | 17,440 | 34,919 | 5,815 | 52,359 | 58,174 | 8,262 | 04/2004 | (1),(2) |
| ton Hotel           | Langhorne,<br>PA       | 18,382 | 2,037 | 12,624 | 7,235  | 2,037 | 19,859 | 21,896 | 4,898 | 07/2004 | (1),(2) |
| ton Hotel           | Minneapolis,<br>MN     | 19,575 | 2,953 | 14,753 | 3,501  | 2,953 | 18,254 | 21,207 | 2,695 | 03/2005 | (1),(2) |
| ton Hotel           | Indianapolis,<br>IN    | 27,225 | 3,100 | 22,481 | 11,162 | 3,100 | 33,643 | 36,743 | 5,389 | 03/2005 | (1),(2) |
| ton Hotel           | Anchorage,<br>AK       | 43,019 | 4,023 | 40,207 | 12,614 | 4,023 | 52,821 | 56,844 | 4,340 | 12/2006 | (1),(2) |
| ton Hotel           | San Diego,<br>CA       | 36,944 | 7,294 | 37,162 | 3,895  | 7,294 | 41,057 | 48,351 | 3,261 | 12/2006 | (1),(2) |
| Regency             | Detroit, MI            | 29,396 | 3,150 | 43,362 | 1,215  | 3,150 | 44,577 | 47,727 | 6,501 | 04/2007 | (1),(2) |
| Regency             | Coral Gables,<br>FL    | 33,859 | 4,805 | 51,183 | 6,651  | 4,805 | 57,834 | 62,639 | 3,032 | 04/2007 | (1),(2) |
| ne Plaza            | Beverly<br>Hills, CA   | 32,025 | 6,510 | 22,458 | 3,968  | 6,510 | 26,426 | 32,936 | 3,440 | 03/2005 | (1),(2) |

(Continued on Next Page)

**Table of Contents**

| Column A      | Column B     | Column C     | Column D                            | Column E                                 | Column F            | Column G                 | Column H     | Column I         | Column J   |
|---------------|--------------|--------------|-------------------------------------|--|---------------------|--------------------------|--------------|------------------|------------|
| Location      | Encumbrances | Land         | Costs Capitalized Since Acquisition | Gross Carrying Amount At Close of Period | Total               | Accumulated Depreciation | Useful Life  | Acquisition Date |            |
|               |              | improvements | Since Acquisition                   | improvements                             | improvements        |                          | in years     | Date             |            |
|               |              | and          | FF&E, Buildings and                 | FF&E, Buildings and                      | FF&E, Buildings and |                          |              |                  |            |
|               |              |              | (in thousands)                      |  |                     |                          |              |                  |            |
| Key West, FL  | \$ 29,475    | \$ 27,746    | \$ 4,807                            | \$ 32,553                                | \$ 32,553           | \$ 3,956                 | 39           | 03/2003          |            |
| Annapolis, MD | 12,850       | 3,028        | 7,962                               | 5,949                                    | 3,028               | 13,911                   | 16,939       | 2,858            | 03/2003    |
| Rosemont, IL  | 101,000      | 14,033       | 111,198                             | 3,317                                    | 14,033              | 114,515                  | 128,548      | 14,069           | 11/2000    |
| Tampa, FL     | 45,695       | 75,780       | 566                                 | 76,346                                   | 76,346              | 7,115                    |              | 04/2007          |            |
|               | \$ 2,540,364 | \$ 530,205   | \$ 3,088,703                        | \$ 1,131                                 | \$ 345,188          | \$ 531,336               | \$ 3,433,891 | \$ 3,965,227     | \$ 398,043 |

(1) Estimated useful life for buildings is 39 years.

(2) Estimated useful life for building improvements is 15 years.

(3) Estimated useful life for furniture and fixtures is 3 to 5 years.

|                            | Year Ended December 31, |              |              |
|----------------------------|-------------------------|--------------|--------------|
|                            | 2008                    | 2007         | 2006         |
| Investment in Real Estate: |                         |              |              |
| Beginning balance          | \$ 4,217,670            | \$ 1,863,741 | \$ 1,284,368 |
| Additions                  | 161,289                 | 2,834,970    | 690,507      |
| Reclassification           | 7,461                   |              |              |
| Write-offs                 | (834)                   |              |              |
| Disposals                  | (420,359)               | (481,041)    | (111,134)    |
| Ending balance             | 3,965,227               | 4,217,670    | 1,863,741    |

|                                |              |              |              |
|--------------------------------|--------------|--------------|--------------|
| Accumulated Depreciation:      |              |              |              |
| Beginning balance              | 258,143      | 113,980      | 61,105       |
| Depreciation expense           | 173,167      | 167,506      | 52,075       |
| Reclassification               | 8,319        |              | 863          |
| Write-offs                     | (465)        |              |              |
| Disposals                      | (41,121)     | (23,343)     | (63)         |
| Ending balance                 | 398,043      | 258,143      | 113,980      |
| Investment in Real Estate, net | \$ 3,567,184 | \$ 3,959,527 | \$ 1,749,761 |

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**SCHEDULE IV MORTGAGE LOANS AND INTEREST EARNED ON REAL ESTATE  
December 31, 2008**

| Column A                           | Column B           | Column C                     | Column D                               | Column E                              | Column F                              | Column G  |
|------------------------------------|--------------------|------------------------------|--|---------------------------------------|---------------------------------------|---|
| Description                        | Prior Liens        | Balance at December 31, 2008 | Delinquent Principal December 31, 2008 | Being Foreclosed at December 31, 2008 | Accrued Interest at December 31, 2008 | Interest Income During the Year Ended December 31, 2008 |
| Westin Hotels                      | Various securities | \$ 11,000                    |  |                                       | \$ 133                                | \$ 1,566  |
| Four Seasons Resort                | Nevis, West Indies | 18,200                       | 18,200                                 |                                       |                                       | 1,580   |
| Portfolio: 105 Hotels              | Various            | 25,694                       |  |                                       | 102                                   | 2,035   |
| Hilton Suites Galleria             | Dallas, TX         | 7,000                        |  |                                       | 34                                    | 663   |
| Wyndham Dallas North               | Dallas, TX         | 4,000                        |  |                                       | 16                                    | 349   |
| Hotel La Jolla                     | La Jolla, CA       | 7,056                        |  |                                       |                                       | 968   |
| Ritz Carlton                       | Key Biscayne, FL   | 33,445                       |  |                                       | 316                                   | 3,365   |
| Extended-stay hotels               | Various            | 106,376                      |  |                                       | 322                                   | 3,962   |
| <b>Total</b>                       |                    | \$ 212,771                   | \$ 18,200                              |                                       | \$ 923                                | 14,488  |
| Related to paid-off mortgage notes |                    |                              |  |                                       |                                       | 968   |
| Discount amortization              |                    |                              |  |                                       |                                       | 8,465   |
| Deferred income                    |                    |                              |  |                                       |                                       | 129   |
| <b>Grand total</b>                 |                    |                              |  |                                       |                                       | \$ 24,050   |
|                                    |                    |                              |  | <b>Year Ended December 31,</b>        |                                       |   |
|                                    |                    |                              |  | <b>2008</b>                           | <b>2007</b>                           | <b>2006</b>   |
| Investment in Mortgage Loans:      |                    |                              |  |                                       |                                       |   |
| Balance at January 1, 2008         |                    |                              |  | \$ 94,394                             | \$ 102,977                            | \$ 108,305  |
| New mortgage loans                 |                    |                              |  | 138,412                               | 21,500                                | 37,307  |

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|                                |            |           |            |
|--------------------------------|------------|-----------|------------|
| Principal payments             | (7,000)    | (30,083)  | (42,777)   |
| Contributed to a joint venture | (21,500)   |           |            |
| Accrued interest               |            |           | 142        |
| Amortization of discounts      | 8,465      |           |            |
| Balance at December 31, 2008   | \$ 212,771 | \$ 94,394 | \$ 102,977 |



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**EXHIBIT INDEX**

| <b>Exhibit</b> | <b>Description</b>  |
|----------------|---|
| 3.1            | Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.1 of Form S-11/A, filed on July 31, 2003)   |
| 3.2.1          | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of Form S-11/A, filed on July 31, 2003)   |
| 3.2.2          | Amendment No. 1 to Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2.2 to the Registrant's Form 10-K for the year ended December 31, 2003)  |
| 4.1            | Form of Certificate for Common Stock (incorporated by reference to Exhibit 4.1 of Form S-11/A, filed on August 20, 2003)  |
| 4.1.1          | Articles Supplementary for Series A Cumulative Preferred Stock, dated September 15, 2004 (incorporated by reference to Exhibit 4.4 to the Registrant's Form 8-K, dated September 21, 2004, for the event dated September 15, 2004)                          |
| 4.1.2          | Form of Certificate of Series A Cumulative Preferred Stock (incorporated by reference to Exhibit 4.4.1 to the Registrant's Form 8-K, dated September 21, 2004, for the event dated September 15, 2004)  |
| 4.2            | Articles Supplementary for Series B-1 Cumulative Convertible Redeemable Preferred Stock, dated December 28, 2004 (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K, dated January 4, 2005, for the event dated December 28, 2004)      |
| 4.3            | Articles Supplementary for Series D Cumulative Preferred Stock, dated July 17, 2007 (incorporated by reference to Exhibit 3.5 to the Registrant's Form 8-A, filed July 17, 2007)  |
| 4.4            | Form of Certificate of Series D Cumulative Preferred Stock (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-A, filed July 17, 2007)   |
| 10.1.1         | Third Amended and Restated Agreement of Limited Partnership of Ashford Hospitality Limited Partnership (incorporated by reference to Exhibit 10.1.4 to the Registrant's Form 10-Q, filed on May 9, 2007)  |
| 10.1.2         | Amended No. 1 to Third Amended and Restated Agreement of Limited Partnership of Ashford Hospitality Limited Partnership (incorporated by reference to Exhibit 10.1.5 of Form 8-K, dated July 24, 2007, for the event dated July 18, 2007)                   |
| 10.1.3         | Amend No. 2 to Third Amended Restated Agreement of Limited Partnership of Ashford Hospitality Limited Partnership (incorporated by reference to Exhibit 10.1.3 to the Registrant's Form 10-K for year ended December 31, 2007, filed on February 29, 2008)) |
| 10.1.4         | Amendment No. 3 to Third Amended and Restated Agreement of Limited Partnership of Ashford Hospitality Limited Partnership (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, filed on March 27, 2008)                                 |
| 10.2           |   |

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Registration Rights Agreement among Ashford Hospitality Trust, Inc. and the persons named therein (incorporated by reference to Exhibit 10.2 of Form S-11/A, filed on July 31, 2003)

- 10.3.1 Amended and Restated 2003 Stock Incentive Plan of Ashford Hospitality Trust, Inc. (incorporated by reference to Exhibit 10.3.1 to the Registrant's Form 8-K, dated May 9, 2005, for the event dated May 3, 2005)
- 10.3.1.1\* Amendment No. 1 to the Amended and Restated 2003 Incentive Stock Plan of Ashford Hospitality Trust, Inc., dated June 10, 2008.
- 10.3.2 Amended and Restated Ashford Hospitality Trust, Inc. Nonqualified Deferred Compensation Plan, dated April 4, 2008 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, filed on April 8, 2008, for the event dated April 4, 2008)
- 10.3.2.1 First Amendment to the Ashford Hospitality Trust, Inc. Nonqualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, filed on January 7, 2009, for the event dated December 31, 2008)
- 10.4 Non-Compete/Services Agreement, dated as of March 21, 2008, between Ashford Hospitality Trust, Inc. and Archie Bennett, Jr. (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K, dated March 27, 2008, for the event dated March 21, 2008)
- 10.5.1 Employment Agreement, dated as of March 21, 2008, between Ashford Hospitality Trust, Inc. and Montgomery J. Bennett (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K, dated March 27, 2008, for the event dated March 21, 2008)
- 10.5.2\* Amendment No. 1 to Employment Agreement, dated as of January 23, 2009, between Ashford Hospitality Trust, Inc. and Montgomery J. Bennett.
- 10.5.3 Employment Agreement, dated as of March 21, 2008, between Ashford Hospitality Trust, Inc. and Douglas A. Kessler (incorporated by reference to Exhibit 10.4 to the Registrant's Form 8-K, dated March 27, 2008, for the event dated March 21, 2008)
- 10.5.4\* Amendment No. 1 to Employment Agreement, dated as of January 23, 2009, between Ashford Hospitality Trust, Inc. and Douglas Kessler.

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| <b>Exhibit</b> | <b>Description</b>   |
|----------------|--|
| 10.5.5         | Employment Agreement, dated as of March 21, 2008, between Ashford Hospitality Trust, Inc. and David A. Brooks (incorporated by reference to Exhibit 10.5 to the Registrant's Form 8-K, dated March 27, 2008, for the event dated March 21, 2008)   |
| 10.5.6*        | Amendment No. 1 to Employment Agreement, dated as of January 23, 2009, between Ashford Hospitality Trust, Inc. and David A. Brooks.  |
| 10.5.7         | Employment Agreement, dated as of March 21, 2008, between Ashford Hospitality Trust, Inc. and David J. Kimichik (incorporated by reference to Exhibit 10.6 to the Registrant's Form 8-K, dated March 27, 2008, for the event dated March 21, 2008)   |
| 10.5.8         | Employment Agreement, dated as of March 21, 2008, between Ashford Hospitality Trust, Inc. and Mark L. Nunneley (incorporated by reference to Exhibit 10.7 to the Registrant's Form 8-K, dated March 27, 2008, for the event dated March 21, 2008)  |
| 10.6           | Form of Management Agreement between Remington Lodging and Ashford TRS Corporation (incorporated by reference to Exhibit 10.10 of Form S-11/A, filed on July 31, 2003)   |
| 10.6.1         | Hotel Management Agreement between Remington Management, L.P. and Ashford TRS Corporation (incorporated by reference to Exhibit 10.6.1 of Form 10-K, filed on March 9, 2007)   |
| 10.7           | Form of Lease Agreement between Ashford Hospitality Limited Partnership and Ashford TRS Corporation (incorporated by reference to Exhibit 10.11 of Form S-11/A, filed on July 31, 2003)  |
| 10.8.1         | Assignment and Assumption of Contract and Contract Rights between Ashford Hospitality Limited Partnership and Ashford Financial Corporation, dated October 7, 2003 (incorporated by reference to Exhibit 10.4 of Form 10-Q, filed on November 14, 2003)  |
| 10.8.2         | Assignment and Assumption of Contract and Contract Rights between Ashford Hospitality Limited Partnership and Ashford Financial Corporation, dated January 4, 2004 Bylaws (incorporated by reference to Exhibit 10.10.2 to the Registrant's Form 10-K for the year ended December 31, 2003)  |
| 10.9           | Guaranty by Ashford Financial Corporation in favor of Ashford Hospitality Trust Limited Partnership (incorporated by reference to Exhibit 10.26 of Form S-11/A, filed on July 31, 2003)  |
| 10.10          | Mutual Exclusivity Agreement by and between Ashford Hospitality Limited Partnership, Ashford Hospitality Trust, Inc., Remington Hotel Corporation and Remington Lodging and Hospitality, L.P. (incorporated by reference to Exhibit 10.22 of Form S-11/A, filed on July 31, 2003)  |
| 10.11          | Tax Indemnification Agreement between Ashford Hospitality Trust, Inc. and the persons named therein (incorporated by reference to Exhibit 10.25 of Form S-11/A, filed on July 31, 2003)  |
| 10.12          | Secured Revolving Credit Facility Agreement, dated February 5, 2004, among the Registrant and Credit Lyonnais New York Branch, as Administrative Agent and Sole Lead Arranger and Book Manager, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services, Inc., as Syndication Agent (incorporated by reference to Exhibit 10.15 to the Registrant's Form 10-Q for the quarter ended March 31, 2004) |

- 10.12.1 First Amendment to Credit Agreement, dated August 17, 2004, among the Registrant, Calyon New York Branch, and Merrill Lynch Capital (incorporated by reference to Exhibit 10.15.1 of the Registrant's Form 10-Q for the quarter ended September 30, 2004)
- 10.12.2 Third Amendment to Credit Agreement, dated August 24, 2005, among the Registrant, Calyon New York Branch, and Merrill Lynch Capital (incorporated by reference to Exhibit 10.15.2 of the Registrant's Form 8-K, dated August 26, 2005, for the event dated August 24, 2005)
- 10.12.3 Fourth Amendment to Credit Agreement, dated September 8, 2006, among the Registrant, Calyon New York Branch, Merrill Lynch Capital, and Wachovia Bank (incorporated by reference to Exhibit 10.15.3 of the Registrant's Form 8-K, dated September 12, 2006, for the event dated September 8, 2006)
- 10.13 Contribution and Purchase and Sale Agreement, dated December 27, 2004, between the Registrant and FGSB Master Corp. (incorporated by reference to Exhibit 10.20 to the Registrant's Form 8-K, dated December 28, 2004, for the event dated December 27, 2004)
- 10.14 Purchase Agreement, dated December 27, 2004, between the Registrant and Security Capital Preferred Growth Incorporated (incorporated by reference to Exhibit 10.21 to the Registrant's Form 8-K, dated December 28, 2004, for the event dated December 27, 2004)
- 10.14.1 Form of Registration Rights Agreement, dated December 27, 2004, between the Registrant and Security Capital Preferred Growth Incorporated (incorporated by reference to Exhibit 10.21.1 to the Registrant's Form 8-K, dated December 28, 2004, for the event dated December 27, 2004)
- 10.14.2 Amendment No. 1 to Purchase Agreement, dated February 8, 2005, between the Registrant and Security Capital Preferred Growth Incorporated (incorporated by reference to Exhibit 10.21.2 to the Registrant's Form 8-K, dated February 10, 2005, for the event dated February 8, 2005)
- 10.15 Loan Agreement, dated October 28, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.23.2 to the Registrant's Form 8-K, dated November 1, 2005, for the event dated October 28, 2005)

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| <b>Exhibit</b> | <b>Description</b>   |
|----------------|--|
| 10.15.1        | Amendment No. 2 to Loan Agreement, dated October 28, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.23.2.1 to the Registrant's Form 8-K, dated July 27, 2006, for the event dated July 26, 2006)   |
| 10.15.2        | \$45 Million Rate Protection Agreement, dated October 27, 2005, between the Registrant and SMBC Derivative Products Limited Branch (incorporated by reference to Exhibit 10.23.3 to the Registrant's Form 8-K, dated November 1, 2005, for the event dated October 28, 2005)                                 |
| 10.16          | Commitment Letter, dated October 5, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.8 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005)  |
| 10.16.1        | Early Rate Lock Agreement, dated October 5, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.9 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005)  |
| 10.16.2        | Amended and Restated Loan Agreement, dated as of October 13, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.10 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005)                                |
| 10.16.2.1      | Amended and Restated Cross-Collateralization and Cooperation Agreement, dated October 13, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.10.1 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005) |
| 10.16.2.2      | Loan Agreement, dated as of October 13, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.11 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005)   |
| 10.16.2.2.1    | Cross-Collateralization and Cooperation Agreement, dated October 13, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.11.1 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005)                      |
| 10.16.3        | Amended and Restated Loan Agreement, dated as of October 13, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.12 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005)                                |
| 10.16.3.1      | Amended and Restated Cross-Collateralization and Cooperation Agreement, dated October 13, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.12.1 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005) |
| 10.16.4        | Amended and Restated Loan Agreement, dated as of October 13, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.13 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005)                                |
| 10.16.4.1      |  |

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Amended and Restated Cross-Collateralization and Cooperation Agreement, dated October 13, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.13.1 to the Registrant's Form 8-K, dated October 19, 2005, for the event dated October 13, 2005)

- 10.16.5 Amended and Restated Loan Agreement, dated as of December 20, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.14 to the Registrant's Form 8-K, dated December 22, 2005, for the event dated December 20, 2005)
- 10.16.5.1 Amended and Restated Cross-Collateralization and Cooperation Agreement, dated December 20, 2005, between the Registrant and Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to Exhibit 10.24.14.1 to the Registrant's Form 8-K, dated December 22, 2005, for the event dated December 20, 2005)
- 10.17 Mortgage Loan Agreement (Pool 1), dated November 14, 2005, between the Registrant and UBS Real Estate Investments, Inc. (incorporated by reference to Exhibit 10.25 to the Registrant's Form 8-K, dated November 18, 2005, for the event dated November 14, 2005)
- 10.17.1 Mortgage Loan Agreement (Pool 2), dated November 14, 2005, between the Registrant and UBS Real Estate Investments, Inc. (incorporated by reference to Exhibit 10.25.1 to the Registrant's Form 8-K, dated November 18, 2005, for the event dated November 14, 2005)
- 10.17.2 Guarantee of Recourse Obligations, dated November 14, 2005, by the Registrant for the benefit of UBS Real Estate Investments, Inc. with respect to Pool 1 (incorporated by reference to Exhibit 10.25.2 to the Registrant's Form 8-K, dated November 18, 2005, for the event dated November 14, 2005)
- 10.17.3 Guarantee of Recourse Obligations, dated November 14, 2005, by the Registrant for the benefit of UBS Real Estate Investments, Inc. with respect to Pool 1 (incorporated by reference to Exhibit 10.25.3 to the Registrant's Form 8-K, dated November 18, 2005, for the event dated November 14, 2005)
- 10.17.4 Guarantee of Recourse Obligations, dated November 14, 2005, by the Registrant for the benefit of UBS Real Estate Investments, Inc. with respect to Pool 2 (incorporated by reference to Exhibit 10.25.4 to the Registrant's Form 8-K, dated November 18, 2005, for the event dated November 14, 2005)

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| <b>Exhibit</b> | <b>Description</b>   |
|----------------|--|
| 10.17.5        | Guarantee of Recourse Obligations, dated November 14, 2005, by the Registrant for the benefit of UBS Real Estate Investments, Inc. with respect to Pool 2 (incorporated by reference to Exhibit 10.25.5 to the Registrant's Form 8-K, dated November 18, 2005, for the event dated November 14, 2005)                                  |
| 10.17.6        | Interest Rate Lock Agreement (Pool 1), dated October 24, 2005, between the Registrant and UBS Real Estate Investments, Inc. (incorporated by reference to Exhibit 10.25.6 to the Registrant's Form 8-K, dated November 18, 2005, for the event dated November 14, 2005)  |
| 10.17.7        | Interest Rate Lock Agreement (Pool 2), dated October 24, 2005, between the Registrant and UBS Real Estate Investments, Inc. (incorporated by reference to Exhibit 10.25.7 to the Registrant's Form 8-K, dated November 18, 2005, for the event dated November 14, 2005)  |
| 10.18          | Purchase and Sale Agreement, dated October 12, 2005, between the Registrant and Schuylkill, LLC (incorporated by reference to Exhibit 10.26 to the Registrant's Form 8-K, dated November 28, 2005, for the event dated November 18, 2005)  |
| 10.18.1        | Amendment No. 1 to Purchase and Sale Agreement, dated November 11, 2005, between the Registrant and Schuylkill, LLC (incorporated by reference to Exhibit 10.26.1 to the Registrant's Form 8-K, dated November 28, 2005, for the event dated November 18, 2005)  |
| 10.18.2        | Amendment No. 2 to Purchase and Sale Agreement, dated November 18, 2005, between the Registrant and Schuylkill, LLC (incorporated by reference to Exhibit 10.26.2 to the Registrant's Form 8-K, dated November 28, 2005, for the event dated November 18, 2005)  |
| 10.19          | Revolving Credit Loan and Security Agreement, dated December 23, 2005, between the Registrant and UBS Real Estate Investments, Inc. (incorporated by reference to Exhibit 10.27 to the Registrant's Form 8-K, dated December 28, 2005, for the event dated December 23, 2005)  |
| 10.20          | Purchase and Sale Agreement, dated February 16, 2006, between the Registrant and W2001 Pac Realty, LLC. (incorporated by reference to Exhibit 10.28 to the Registrant's Form 8-K, dated February 23, 2006, for the event dated February 16, 2006)  |
| 10.21          | Purchase and Sale Agreement, dated May 18, 2006, between the Registrant and EADS Associates Limited Partnership (incorporated by reference to Exhibit 10.29 to the Registrant's Form 8-K, dated May 23, 2006, for the event dated May 18, 2006)  |
| 10.22          | Purchase and Sale Agreement, dated September 6, 2006, between the Registrant and JER O Hare Hotel, LLC (incorporated by reference to Exhibit 10.30 to the Registrant's Form 8-K, dated September 8, 2006, for the event dated September 6, 2006)   |
| 10.23          | Purchase and Sale Agreement, dated September 15, 2006, between the Registrant and a partnership between Oak Hill Capital Partners, The Blackstone Group, and Interstate Hotels and Resorts (incorporated by reference to Exhibit 10.31 to the Registrant's Form 8-K, dated September 19, 2006, for the event dated September 15, 2006) |
| 10.23.1        | Loan Agreement, dated December 7, 2006, between the Registrant and Countrywide Commercial Real Estate Finance, Inc. (incorporated by reference to Exhibit 10.31.1 to the Registrant's Form 8-K, dated  |

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December 11, 2006, for the event dated December 7, 2006)

- 10.23.2 \$212 Million Rate Protection Agreement, dated December 6, 2006, between the Registrant and SMBC Derivative Products Limited Branch (incorporated by reference to Exhibit 10.31.2 to the Registrant's Form 8-K, dated December 11, 2006, for the event dated December 7, 2006)
- 10.23.3 \$35 Million Rate Protection Agreement, dated December 6, 2006, between the Registrant and SMBC Derivative Products Limited Branch (incorporated by reference to Exhibit 10.31.3 to the Registrant's Form 8-K, dated December 11, 2006, for the event dated December 7, 2006)
- 10.24 Loan Agreement, dated November 16, 2006, between the Registrant and Morgan Stanley Mortgage Capital, Inc. (incorporated by reference to Exhibit 10.32 to the Registrant's Form 8-K, dated November 20, 2006, for the event dated November 16, 2006)
- 10.25 Purchase and Sale Agreement, dated January 18, 2007, between the Registrant and CNL Hotels and Resorts, Inc. (incorporated by reference to Exhibit 10.33 of Form 10-K, filed on March 9, 2007)
- 10.25.1 Agreement and Plan of Merger, dated January 18, 2007, between the Registrant, MS Resort Holdings LLC, MS Resort Acquisition LLC, MS Resort Purchase LLC, and CNL Hotels & Resorts, Inc. (incorporated by reference to Exhibit 10.33.1 of Form 10-K, filed on March 9, 2007)
- 10.25.1.1 Amendment #1 to Agreement and Plan of Merger, dated February 21, 2007, between the Registrant, MS Resort Holdings LLC, MS Resort Acquisition LLC, MS Resort Purchase LLC, and CNL Hotels & Resorts, Inc. (incorporated by reference to Exhibit 10.33.1.1 of Form 10-Q, filed on May 9, 2007)
- 10.25.1.2 Amendment #2 to Agreement and Plan of Merger, dated April 4, 2007, between the Registrant, MS Resort Holdings LLC, MS Resort Acquisition LLC, MS Resort Purchase LLC, and CNL Hotels & Resorts, Inc. (incorporated by reference to Exhibit 10.33.1.2 of Form 10-Q, filed on May 9, 2007)
- 10.25.2 Guaranty Agreement, dated January 18, 2007, between the Registrant and Morgan Stanley Real Estate Fund V U.S., L.P. in favor of CNL Hotels and Resorts, Inc. (incorporated by reference to Exhibit 10.33.2 of Form 10-K, filed on March 9, 2007)

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| <b>Exhibit</b> | <b>Description</b>  |
|----------------|---|
| 10.25.3        | Contribution and Rights Agreement, dated January 18, 2007, between the Registrant and Morgan Stanley Real Estate Fund V U.S., L.P. (incorporated by reference to Exhibit 10.33.3 of Form 10-K, filed on March 9, 2007)  |
| 10.25.4        | Loan and Security Agreement, dated as of April 11, 2007, between Ashford Sapphire Junior Holder I LLC, Ashford Sapphire Junior Holder II LLC, and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.33.4 to the Registrant's Form 8-K, dated April 13, 2007, for the event dated April 11, 2007)   |
| 10.25.4.1      | Loan and Security Agreement, dated as of April 11, 2007, between Ashford Sapphire Junior Mezz I LLC, Ashford Sapphire Junior Mezz II LLC and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.33.4.1 to the Registrant's Form 8-K, dated April 13, 2007, for the event dated April 11, 2007)  |
| 10.25.4.2      | Loan and Security Agreement, dated as of April 11, 2007, between Ashford Sapphire Senior Mezz I LLC, Ashford Senior Mezz II LLC and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.33.4.2 to the Registrant's Form 8-K, dated April 13, 2007, for the event dated April 11, 2007)   |
| 10.25.4.3      | Form of Mortgage, Security Agreement, Assignment of Rents and Fixture Filing (Floating Rate Pool) (incorporated by reference to Exhibit 10.33.4.3 to the Registrant's Form 8-K, dated April 13, 2007, for the event dated April 11, 2007)   |
| 10.25.4.4      | Form of Mortgage, Security Agreement, Assignment of Rents and Fixture Filing (Fixed Rate Pool) (incorporated by reference to Exhibit 10.33.4.4 to the Registrant's Form 8-K, dated April 13, 2007, for the event dated April 11, 2007)  |
| 10.25.4.5      | Credit Agreement, dated as of April 10, 2007, by and among Ashford Hospitality Limited Partnership, as Borrower, Ashford Hospitality Trust, Inc., as Parent, Wachovia Capital Markets, LLC, as Arranger, Wachovia Bank, National Association, as Administrative Agent, Morgan Stanley Senior Funding, Inc. and Merrill Lynch Bank USA, as Co-Syndication Agents, each of Bank America, N.A. and Caylon New York Branch, as Co-Documentation Agents and the financial institutions initially signatory thereto and their assignees, as Lenders (incorporated by reference to Exhibit 10.33.4.5 to the Registrant's Form 8-K, dated April 13, 2007, for the event dated April 10, 2007) |
| 10.25.4.5.1    | First Amendment to Credit Agreement between the Registrant and Wachovia Bank, National Association, dated May 22, 2007 (incorporated by reference to Exhibit 10.33.4.5.1 of Form 8-K, dated May 24, 2007, for the event dated May 22, 2007)   |
| 10.25.4.5.2    | Second Amendment to Credit Agreement and First Amendment to Security Agreement dated as of June 23, 2008 by and among Ashford Hospitality Limited Partnership, as the Borrower, Ashford Hospitality Trust, Inc., as the Parent and Grantor, each of the Lenders party thereto, and Wachovia Bank, National Association, as Secured Party (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, dated June 26, 2008, for the event dated June 23, 2008)   |
| 10.25.4.5.3    | Third Amendment to Credit Agreement, dated as of December 24, 2008, by and among Ashford Hospitality Trust Limited Partnership, Ashford Hospitality Trust, Inc., the Grantors party thereto, the  |

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Lenders party thereto, and Wachovia National Bank, National Association (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, dated December 29, 2008, for the event dated December 24, 2008)

- 10.25.4.5.4 Guarantor Acknowledgement of the Registrant in favor of Wachovia Bank, National Association, dated May 22, 2007 (incorporated by reference to Exhibit 10.33.4.5.2 of Form 8-K, dated May 24, 2007, for the event dated May 22, 2007)
- 10.25.4.5.5 Revolving Note Agreements between the Registrant and Wachovia Bank, National Association, dated May 22, 2007 (incorporated by reference to Exhibit 10.33.4.5.3 of Form 8-K, dated May 24, 2007, for the event dated May 22, 2007)
- 10.25.4.6 Form of Guaranty for Fixed-Rate Pool between the Registrant and Wachovia Bank, National Association, dated April 11, 2007 (incorporated by reference to Exhibit 10.33.4.6 of Form 10-Q, filed on May 9, 2007)
- 10.25.4.7 Guaranty Agreement for Floating-Rate Pool between Registrant and Wachovia Bank, National Association, dated April 11, 2007 (incorporated by reference to Exhibit 10.33.4.7 of Form 10-Q, filed on May 9, 2007)
- 10.25.4.8 Guaranty Agreement for Junior Mezzanine Loan between Registrant and Wachovia Bank, National Association, dated April 11, 2007 (incorporated by reference to Exhibit 10.33.4.8 of Form 10-Q, filed on May 9, 2007)
- 10.25.4.9 Guaranty Agreement for Intermediate Mezzanine Loan between Registrant and Wachovia Bank, National Association, dated April 11, 2007 (incorporated by reference to Exhibit 10.33.4.9 of Form 10-Q, filed on May 9, 2007)
- 10.25.4.10 Guaranty Agreement for Senior Mezzanine Loan between Registrant and Wachovia Bank, National Association, dated April 11, 2007 (incorporated by reference to Exhibit 10.33.4.10 of Form 10-Q, filed on May 9, 2007)
- 10.25.5 Stock Purchase Agreement, dated April 11, 2007, between the registrant and Wachovia Investment Holdings, LLC (incorporated by reference to Exhibit 10.33.5 to the Registrant's Form 8-K, dated April 12, 2007, for the event dated April 11, 2007)
- 10.25.5.1 Investor Rights Agreement, dated April 11, 2007, between the registrant and Wachovia Investment Holdings, LLC (incorporated by reference to Exhibit 10.33.5.1 to the Registrant's Form 8-K, dated April 12, 2007, for the event dated April 11, 2007)

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| <b>Exhibit</b> | <b>Description</b>  |
|----------------|---|
| 10.25.5.2      | Letter Agreement, dated April 10, 2007, between the registrant and Security Capital Preferred Growth Incorporated (incorporated by reference to Exhibit 10.33.5.2 to the Registrant's Form 8-K, dated April 12, 2007, for the event dated April 11, 2007)   |
| 10.26          | Investor Program Agreement, dated January 22, 2008, between the registrant and Prudential Investment Management, Inc. (incorporated by reference to Exhibit 10.26 to the Registrant's Form 10-K for the year ended December 31, 2007, filed on February 29, 2008)   |
| 10.26.1        | Form of Joint Venture Agreement to the Investor Program Agreement, dated January 22, 2008, between the registrant and Prudential Investment Management, Inc. (incorporated by reference to Exhibit 10.26.1 to the Registrant's Form 10-K for the year ended December 31, 2007, filed on February 29, 2008)  |
| 10.26.2        | Form of Loan Servicing Agreement to the Investor Program Agreement, dated January 22, 2008, between the registrant and Prudential Investment Management, Inc. (incorporated by reference to Exhibit 10.26.2 to the Registrant's Form 10-K for the year ended December 31, 2007, filed on February 29, 2008) |
| 10.26.3        | Limited Liability Company Agreement of PIM Ashford Venture I, LLC, dated February 6, 2008, between the registrant and Prudential Investment Management, Inc. (incorporated by reference to Exhibit 10.26.3 to the Registrant's Form 10-K for the year ended December 31, 2007, filed on February 29, 2008)  |
| 10.27          | ISDA Master Agreement between Ashford Hospitality Limited Partnership and Wachovia Bank, National Association, dated March 12, 2008 (incorporated by reference to Exhibit 10.27.1 to the Registrant's Form 8-K/A, dated March 18, 2008, for the event dated March 13, 2008)                                 |
| 10.27.1        | Schedule to the Master Agreement between Ashford Hospitality Limited Partnership and Wachovia Bank, National Association, dated March 12, 2008 (incorporated by reference to Exhibit 10.27.1.1 to the Registrant's Form 8-K/A, dated March 18, 2008, for the event dated March 13, 2008)                    |
| 10.27.2        | Letter Agreement between Ashford Hospitality Limited Partnership and Wachovia Bank, National Association, dated March 12, 2008 (incorporated by reference to Exhibit 10.27.1.2 to the Registrant's Form 8-K/A, dated March 18, 2008, for the event dated March 13, 2008)                                    |
| 10.28          | Employment Agreement, dated as of March 21, 2008, between Ashford Hospitality Trust, Inc. and Alan L. Tallis (incorporated by reference to Exhibit 10.8 to the Registrant's Form 8-K, dated March 27, 2008, for the event dated March 21, 2008)   |
| 10.29          | Form of LTIP Unit Award Agreement (incorporated by reference to Exhibit 10.15 to the Registrant's Form 8-K, dated March 27, 2008, for the event dated March 21, 2008)   |
| 10.30.1*       | Confirmation of Trade, dated December 8, 2008, related to the purchase of 1-year Flooridors by Ashford Hospitality Limited Partnership from Bank of America, N.A. as effected on December 2, 2008.  |
| 10.30.2*       | Confirmation of Trade, dated December 8, 2008, related to the purchase of 1-year Flooridors by Ashford Hospitality Limited Partnership from Credit Suisse International as effected on December 2, 2008.  |
| 21.1*          | Registrant's Subsidiaries Listing as of December 31, 2008   |

- 23.1\* Consent of Ernst & Young LLP
- 31.1\* Certification of the Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
- 31.2\* Certification of the Chief Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
- 31.3\* Certification of the Chief Accounting Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
- 32.1\* Certification of the Chief Executive Officer required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (In accordance with Sec Release 33-8212, this exhibit is being furnished, and is not being filed as part of this report or as a separate disclosure document, and is not being incorporated by reference into any Securities Act of 1933 registration statement.)
- 32.2\* Certification of the Chief Financial Officer required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (In accordance with Sec Release 33-8212, this exhibit is being furnished, and is not being filed as part of this report or as a separate disclosure document, and is not being incorporated by reference into any Securities Act of 1933 registration statement.)
- 32.3\* Certification of the Chief Accounting Officer required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (In accordance with Sec Release 33-8212, this exhibit is being furnished, and is not being filed as part of this report or as a separate disclosure document, and is not being incorporated by reference into any Securities Act of 1933 registration statement.)

\* Filed herewith.