

ASHFORD HOSPITALITY TRUST INC  
Form 10-Q  
May 09, 2013

---

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-31775

ASHFORD HOSPITALITY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or  
organization)

86-1062192

(IRS employer identification number)

14185 Dallas Parkway, Suite 1100

Dallas, Texas

(Address of principal executive offices)

75254

(Zip code)

(972) 490-9600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 10-Q

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

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

Common Stock, \$0.01 par value per share	68,300,605
(Class)	Outstanding at May 8, 2013

---

---

ASHFORD HOSPITALITY TRUST, INC  
FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 2013

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	
<u>ITEM 1. FINANCIAL STATEMENTS (Unaudited)</u>	<u>1</u>
<u>Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u>	<u>1</u>
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2013 and 2012</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2013 and 2012</u>	<u>3</u>
<u>Consolidated Statement of Changes in Equity for the Three Months Ended March 31, 2013</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>25</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>36</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>36</u>
PART II. OTHER INFORMATION	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>37</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>37</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>37</u>
<u>ITEM 6. EXHIBITS</u>	<u>38</u>
<u>SIGNATURES</u>	<u>39</u>

---

Table of ContentsPART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTSASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 31, 2013	December 31, 2012
Assets	(Unaudited)	
Cash and cash equivalents	\$209,982	\$185,935
Marketable securities	27,769	23,620
Total cash, cash equivalents and marketable securities	237,751	209,555
Investment in hotel properties, net	2,857,538	2,872,304
Restricted cash	78,896	84,786
Accounts receivable, net of allowance of \$290 and \$265, respectively	34,627	35,116
Inventories	2,141	2,111
Notes receivable, net of allowance of \$8,237 and \$8,333, respectively	11,367	11,331
Investment in unconsolidated joint ventures	151,806	158,694
Deferred costs, net	16,073	17,194
Prepaid expenses	11,884	10,145
Derivative assets, net	237	6,391
Other assets	7,118	4,594
Intangible asset, net	2,698	2,721
Due from affiliates	1,884	1,168
Due from third-party hotel managers	57,670	48,619
Total assets	\$3,471,690	\$3,464,729
Liabilities and Equity		
Liabilities:		
Indebtedness	\$2,390,725	\$2,339,410
Accounts payable and accrued expenses	81,573	84,293
Dividends payable	19,250	18,258
Unfavorable management contract liabilities	10,553	11,165
Due to related party, net	1,373	3,725
Due to third-party hotel managers	2,058	1,410
Liabilities associated with marketable securities	3,511	1,641
Other liabilities	6,408	6,348
Total liabilities	2,515,451	2,466,250
Redeemable noncontrolling interests in operating partnership	196,468	151,179
Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized:		
Series A Cumulative Preferred Stock, 1,657,206 shares issued and outstanding at March 31, 2013 and December 31, 2012	17	17
Series D Cumulative Preferred Stock, 9,468,706 shares issued and outstanding at March 31, 2013 and December 31, 2012	95	95
Series E Cumulative Preferred Stock, 4,630,000 shares issued and outstanding at March 31, 2013 and December 31, 2012	46	46

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 10-Q

Common stock, \$0.01 par value, 200,000,000 shares authorized, 124,896,765 shares issued, 68,332,627 and 68,150,617 shares outstanding at March 31, 2013 and December 31, 2012, respectively	1,249	1,249
Additional paid-in capital	1,759,037	1,766,168
Accumulated other comprehensive loss	(277 )	(282 )
Accumulated deficit	(837,169 )	(770,467 )
Treasury stock, at cost (56,564,138 shares and 56,746,148 shares at March 31, 2013 and December 31, 2012, respectively)	(164,389 )	(164,884 )
Total shareholders' equity of the Company	758,609	831,942
Noncontrolling interests in consolidated entities	1,162	15,358
Total equity	759,771	847,300
Total liabilities and equity	\$3,471,690	\$3,464,729
See Notes to Consolidated Financial Statements.		

1

---

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
REVENUE	(Unaudited)	
Rooms	\$183,469	\$169,459
Food and beverage	39,650	39,707
Other	8,716	7,814
Total hotel revenue	231,835	216,980
Other	107	75
Total Revenue	231,942	217,055
EXPENSES		
Hotel operating expenses:		
Rooms	42,156	38,601
Food and beverage	27,175	27,000
Other expenses	68,292	65,094
Management fees	9,893	8,990
Total hotel operating expenses	147,516	139,685
Property taxes, insurance, and other	12,248	11,709
Depreciation and amortization	32,480	33,656
Impairment charges	(96	) (92
Corporate, general, and administrative	14,516	10,247
Total Operating Expenses	206,664	195,205
OPERATING INCOME	25,278	21,850
Equity in loss of unconsolidated joint ventures	(6,888	) (10,304
Interest income	36	32
Other income	5,822	7,613
Interest expense and amortization of loan costs	(35,380	) (34,875
Write-off of loan costs and exit fees	(1,971	) —
Unrealized gain on marketable securities	2,701	1,785
Unrealized loss on derivatives	(7,149	) (9,941
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(17,551	) (23,840
Income tax expense	(604	) (879
LOSS FROM CONTINUING OPERATIONS	(18,155	) (24,719
Income from discontinued operations	—	166
NET LOSS	(18,155	) (24,553
Loss from consolidated entities attributable to noncontrolling interests	707	278
Net loss attributable to redeemable noncontrolling interests in operating partnership	2,762	3,057
NET LOSS ATTRIBUTABLE TO THE COMPANY	(14,686	) (21,218
Preferred dividends	(8,490	) (8,331
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$(23,176	) \$(29,549
INCOME (LOSS) PER SHARE - BASIC AND DILUTED:		
Basic:		
Loss from continuing operations attributable to common shareholders	\$(0.34	) \$(0.44
Income from discontinued operations attributable to common shareholders	—	—
Loss attributable to common shareholders	\$(0.34	) \$(0.44
Weighted average common shares outstanding – basic	67,682	67,152

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 10-Q

Diluted:

Loss from continuing operations attributable to common shareholders	\$(0.34	)	\$(0.44	)
Income from discontinued operations attributable to common shareholders	—		—	
Loss attributable to common shareholders	\$(0.34	)	\$(0.44	)
Weighted average common shares outstanding – diluted	67,682		67,152	

Dividends declared per common share	\$0.12		\$0.11	
-------------------------------------	--------	--	--------	--

Amounts attributable to common shareholders:

Loss from continuing operations	\$(14,686	)	\$(21,365	)
Income from discontinued operations	—		147	
Preferred dividends	(8,490	)	(8,331	)
Net loss attributable to common shareholders	\$(23,176	)	\$(29,549	)

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	
Net loss	\$(18,155)	\$(24,553)
Other comprehensive income, net of tax:		
Change in unrealized loss on derivatives	(2)	(9)
Reclassification to interest expense	8	12
Total other comprehensive income	6	3
Comprehensive loss	(18,149)	(24,550)
Less: Comprehensive loss attributable to noncontrolling interests in consolidated entities	707	278
Less: Comprehensive loss attributable to redeemable noncontrolling interests in operating partnership	2,761	3,057
Comprehensive loss attributable to the Company	\$(14,681)	\$(21,215)

See Notes to Consolidated Financial Statements.



Table of Contents

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

	Preferred Stock		Series D		Series E		Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amounts	Net Income Change Equity
	Series A	Series D	Series D	Series E	Series E	Common Stock	Common Stock	Common Stock						
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at January 1, 2013	1,657	\$17	9,469	\$95	4,630	\$46	124,897	\$1,249	\$1,766,168	\$(770,467)	\$(282)	(56,746)	\$(164,884)	\$
Equity-based compensation	—	—	—	—	—	—	—	—	444	—	—	—	—	—
Issuance of restricted shares/units	—	—	—	—	—	—	—	—	(495)	)	—	182	495	—
Issuances of preferred stock	—	—	—	—	—	—	—	—	244	—	—	—	—	—
Dividends declared- common stock	—	—	—	—	—	—	—	—	—	(8,200)	)	—	—	—
Dividends declared- Preferred Stock- Series A	—	—	—	—	—	—	—	—	—	(886)	)	—	—	—
Dividends declared- Preferred Stock- Series D	—	—	—	—	—	—	—	—	—	(5,000)	)	—	—	—
Dividends declared – Preferred Stock- Series E	—	—	—	—	—	—	—	—	—	(2,604)	)	—	—	—
Net unrealized loss on derivative instruments	—	—	—	—	—	—	—	—	—	—	(2)	)	—	—
Reclassification to interest expense	—	—	—	—	—	—	—	—	—	—	7	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(1)
Redemption value adjustment	—	—	—	—	—	—	—	—	—	(35,326)	)	—	—	—
Unvested operating	—	—	—	—	—	—	—	—	(7,324)	)	—	—	—	—

partnership  
units  
adjustment

Net loss	—	—	—	—	—	—	—	—	—	(14,686)	—	—	—	(7
Balance at March 31, 2013	1,657	\$17	9,469	\$95	4,630	\$46	124,897	\$1,249	\$1,759,037	\$(837,169)	\$(277)	(56,564)	\$(164,389)	\$

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities	(Unaudited)	
Net loss	\$(18,155 )	\$(24,553 )
Adjustments to reconcile net loss to net cash flow provided by operating activities:		
Depreciation and amortization	32,480	34,355
Impairment charges	(96 )	(92 )
Amortization of loan costs, write-off of loan costs, and exit fees	3,903	1,212
Equity in loss of unconsolidated joint ventures	6,888	10,304
Income from financing derivatives	(6,215 )	(7,969 )
Gain on disposition of hotel properties	(24 )	—
Realized and unrealized gains on marketable securities	(2,202 )	(1,407 )
Purchases of marketable securities	(10,605 )	(27,647 )
Sales of marketable securities	10,528	27,512
Net settlement of trading derivatives	(961 )	(2,069 )
Unrealized loss on derivatives	7,149	9,941
Equity-based compensation	8,342	5,146
Changes in operating assets and liabilities:		
Restricted cash	5,890	(12,170 )
Accounts receivable and inventories	(1,204 )	(11,442 )
Prepaid expenses and other assets	(4,255 )	179
Accounts payable and accrued expenses	(498 )	7,816
Due to/from affiliates	(716 )	960
Due to/from related parties	(2,352 )	(1,650 )
Due to/from third-party hotel managers	(8,403 )	4,367
Other liabilities	(505 )	(532 )
Net cash provided by operating activities	18,989	12,261
Cash Flows from Investing Activities		
Proceeds from payments of notes receivable	60	62
Net proceeds from sales of hotel properties	148	—
Improvements and additions to hotel properties	(20,017 )	(23,253 )
Net cash used in investing activities	(19,809 )	(23,191 )
Cash Flows from Financing Activities		
Borrowings on indebtedness	199,875	—
Repayments of indebtedness and capital leases	(148,560 )	(6,193 )
Payments of loan costs	(2,849 )	(210 )
Payments of dividends	(18,258 )	(16,941 )
Payments for derivatives	(36 )	—
Cash income from derivatives	7,878	7,963
Issuance of preferred stock	244	8,724
Contributions from noncontrolling interests in consolidated entities	—	300
Distributions to noncontrolling interests in consolidated entities	(13,489 )	—
Other	62	64

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 10-Q

Net cash provided by (used in) financing activities	24,867	(6,293 )
Net increase (decrease) in cash and cash equivalents	24,047	(17,223 )
Cash and cash equivalents at beginning of period	185,935	167,609
Cash and cash equivalents at end of period	\$209,982	\$150,386
Supplemental Cash Flow Information		
Interest paid	\$31,100	\$33,998
Income taxes paid (refunded)	\$99	\$(857 )
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Accrued interest added to principal of indebtedness	\$—	\$1,180

See Notes to Consolidated Financial Statements.

Table of Contents

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

---

1. Organization and Description of Business

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

As of March 31, 2013, we owned interests in the following hotel properties (all located in the United States) and notes receivable:

94 consolidated hotel properties (“legacy hotel properties”), including 90 directly owned and four owned through majority-owned investments in consolidated entities, which represent 20,034 total rooms (or 19,773 net rooms excluding those attributable to our partners),

28 hotel properties owned through a 71.74% common equity interest and a 50.0% preferred equity interest in an unconsolidated joint venture (“PIM Highland JV”), which represent 8,084 total rooms (or 5,800 net rooms excluding those attributable to our joint venture partner),

93 hotel condominium units at WorldQuest Resort in Orlando, Florida, and

a mezzanine loan with a carrying value of \$3.3 million and a note with the city of Philadelphia, Pennsylvania of \$8.1 million.

For federal income tax purposes, we have elected to be treated as a REIT, which imposes limitations related to operating hotels. As of March 31, 2013, our 94 legacy hotel properties were leased or owned by our wholly owned subsidiaries that are treated as taxable REIT subsidiaries for federal income tax purposes (collectively, these subsidiaries are referred to as “Ashford TRS”). Ashford TRS then engages third-party or affiliated hotel management companies to operate the hotels under management contracts. Hotel operating results related to these properties are included in the consolidated statements of operations. As of March 31, 2013, the 28 hotel properties owned by our unconsolidated joint venture, PIM Highland JV, are leased to its wholly owned subsidiary that is treated as a taxable REIT subsidiary for federal income tax purposes.

As of March 31, 2013, Remington Lodging & Hospitality, LLC, together with its affiliates (“Remington Lodging”), which is beneficially wholly owned by Mr. Monty J. Bennett, our Chairman and Chief Executive Officer and Mr. Archie Bennett, Jr., our Chairman Emeritus, managed 45 of our 94 legacy hotel properties, 21 of the 28 PIM Highland JV hotel properties, and WorldQuest Resort. Third-party management companies managed the remaining hotel properties.

2. Significant Accounting Policies

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

consolidated financial statements include the accounts of Ashford Hospitality Trust, Inc., its majority-owned subsidiaries, and its majority-owned entities in which it has a controlling interest. All significant intercompany accounts and transactions between consolidated entities have been eliminated in these consolidated financial statements. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in our 2012 Annual Report to Shareholders on Form 10-K and Form 10-K/A filed with the Securities and Exchange Commission ("SEC") on March 1, 2013 and March 12, 2013, respectively.

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

Historical seasonality patterns at some of our properties cause fluctuations in our overall operating results. Consequently, operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Table of Contents

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

Marriott International, Inc. (“Marriott”) manages 40 of our legacy hotel properties. For these Marriott-managed hotels, the 2012 fiscal year reflects twelve weeks of operations in each of the first three quarters of the year and 16 weeks for the fourth quarter of the year. Beginning in 2013, the fiscal quarters end on March 31, June 30, September 30 and December 31. Therefore, in any given quarterly period, period-over-period results will have different ending dates. For Marriott-managed hotels, the first quarters of 2013 and 2012 began on December 29, 2012 and December 31, 2011, respectively and ended on March 31, 2013 and March 23, 2012, respectively. As a result, the quarter ended March 31, 2013 contained 93 days while the quarter ended March 23, 2012 contained 84 days. Prior results have not been adjusted.

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

Investments in Hotel Properties, net – Hotel properties are generally stated at cost. However, four hotel properties contributed upon Ashford's formation in 2003 are stated at the predecessor's historical cost, net of impairment charges, if any, plus a partial step-up related to the acquisition of noncontrolling interests from third parties associated with certain of these properties. For hotel properties owned through our majority-owned entities, the carrying basis attributable to the 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 entities. All improvements and additions which extend the useful life of hotel properties are capitalized.

Impairment of Investment in Hotel Properties – Hotel properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of the hotel is measured by comparison of the carrying amount of the hotel to the estimated future undiscounted cash flows, which take into account current market conditions and our intent with respect to holding or disposing of the hotel. If our analysis indicates that the carrying value of the hotel is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the property's net book value exceeds its estimated fair value, or fair value, less cost to sell. In evaluating impairment of hotel properties, we make many assumptions and estimates, including projected cash flows, expected holding period, and expected useful life. Fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third-party appraisals, where considered necessary. If an asset is deemed to be impaired, we record an impairment charge for the amount that the property's net book value exceeds its estimated fair value, or fair value, less cost to sell. No impairment charges were recorded for investment in hotel properties included in continuing operations for the three months ended March 31, 2013 and 2012.

Notes Receivable – Mezzanine loan financing, classified as notes receivable, represents loans held for investment and intended to be held to maturity. Accordingly, these notes are recorded at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and allowance for losses when a loan is deemed to be impaired. Premiums, discounts, and net origination fees are amortized or accreted as an adjustment to interest income using the effective interest method over the life of the loan. We discontinue recording interest and amortizing discounts/premiums when the contractual payment of interest and/or principal is not received. Payments received on impaired nonaccrual loans are recorded as adjustments to impairment charges. No interest income was recorded for the three months ended March 31, 2013 and 2012.

Variable interest entities (“VIEs”), as defined by authoritative accounting guidance, must be consolidated by their controlling interest beneficiaries if the VIEs do not effectively disperse risks among the parties involved. Our remaining mezzanine note receivable at March 31, 2013 is secured by a hotel property and is subordinate to the controlling interest in the secured hotel property. Although the note receivable is considered to be a variable interest in the entity that owns the related hotel, we are not considered to be the primary beneficiary of the hotel property as a result of holding the loan. Therefore, we do not consolidate the hotel property for which we have provided financing. We will evaluate interests in entities acquired or created in the future to determine whether such entities should be consolidated. In evaluating VIEs, our analysis involves considerable management judgment and assumptions.

Impairment of Notes Receivable – We review notes receivable for impairment each reporting period. A loan is impaired when, based on current information and events, collection of all amounts recorded as assets on the balance sheet is no longer considered probable. We apply normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment.



Table of Contents

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

When a loan is impaired, we measure impairment based on the present value of expected cash flows discounted at the loan's effective interest rate against the value of the asset recorded on the balance sheet. We may also measure impairment based on a loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Loan impairments are recorded as a valuation allowance and a charge to earnings. Our assessment of impairment is based on considerable management judgment and assumptions. No impairment charges were recorded during the three months ended March 31, 2013 and 2012. Valuation adjustments of \$96,000 and \$92,000 on previously impaired notes were credited to impairment charges during the three months ended March 31, 2013 and 2012, respectively.

Investments in Unconsolidated Joint Ventures – Investments in unconsolidated joint ventures, in which we have ownership interests ranging from 14.4% to 71.74%, are accounted for under the equity method of accounting by recording the initial investment and our percentage of interest in the joint ventures' net income (loss). We review investments in our unconsolidated joint ventures for impairment in each reporting period. An investment is impaired when its estimated fair value is less than the carrying amount of our investment. Any impairment is recorded in equity earnings (loss) in unconsolidated joint ventures. No such impairments were recorded in the three months ended March 31, 2013 and 2012.

Our investments in unconsolidated joint ventures are considered to be variable interests in the underlying entities. VIEs, as defined by authoritative accounting guidance, must be consolidated by a reporting entity if the reporting entity is the primary beneficiary because it has (i) the power to direct the VIE's activities that most significantly impact the VIE's economic performance, (ii) an implicit financial responsibility to ensure that the VIE operates as designed, and (iii) an obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Because we do not have the power and financial responsibility to direct our unconsolidated joint ventures' activities and operations, we are not considered to be the primary beneficiary of these joint ventures. Although we have a 71.74% majority ownership in PIM Highland JV, all major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs and incurring obligations and expenditures, are subject to the approval of an executive committee, which is comprised of four persons with us and our joint venture partner each designating two of those persons. As a result, we utilize the equity accounting method with respect to PIM Highland JV, which had a carrying value of \$151.8 million at March 31, 2013 based on our share of the joint venture's equity. We will evaluate the interests in entities acquired or created in the future to determine whether such entities should be consolidated. In evaluating VIEs, our analysis involves considerable management judgment and assumptions.

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

During the three months ended March 31, 2012, discontinued operations included two hotel properties disposed of in 2012. The Doubletree Guest Suites hotel in Columbus, Ohio was sold in November 2012 and the Hilton El Conquistador hotel in Tucson, Arizona was disposed of in December 2012. For the three months ended March 31, 2013 and 2012, there were no impairment charges. There were no assets held for sale as of March 31, 2013 and

December 31, 2012.

Marketable Securities – Marketable securities and other investments, including U.S. treasury bills, public equity securities and equity put and call options of certain publicly traded companies, are recorded at fair value. Equity put and call options are considered derivatives. The fair value of these investments is based on the closing price as of the balance sheet date and is reported as “Marketable securities” or “Liabilities associated with marketable securities” in the consolidated balance sheets. On the consolidated statements of operations, net investment income, including interest income (expense), dividends, realized gains or losses and related costs incurred, is reported as a component of “Other income” while unrealized gains and losses on these investments are reported as “Unrealized gain on investments.”

Revenue Recognition – Hotel revenues, including room, food, beverage, and ancillary revenues such as long-distance telephone service, laundry, parking, and space rentals, are recognized when services have been rendered. Interest income is recognized when earned. We discontinue recording interest and amortizing discounts/premiums when the contractual payment of

8

---

Table of Contents

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

interest and/or principal is not received. Sales taxes collected from customers and submitted to taxing authorities are not recorded in revenue.

**Derivatives and Hedges** – We primarily use interest rate derivatives to hedge our risks and to capitalize on the historical correlation between changes in LIBOR (London Interbank Offered Rate) and RevPAR (Revenue per Available Room). Interest rate derivatives could include swaps, caps, floors and floorridors. We assess the effectiveness of each hedging relationship by comparing changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. We also use credit default swaps to hedge financial and capital market risk. All of these derivatives are subject to master-netting settlement arrangements and the credit default swaps are subject to credit support annexes. For credit default swaps, cash collateral is posted by us as well as our counterparty. We offset the fair value of the derivative and the obligation/right to return/reclaim cash collateral.

All derivatives are recorded at fair value in accordance with the applicable authoritative accounting guidance. Interest rate derivatives and credit default swaps are reported as “Derivative assets, net” or “Derivative liabilities” in the consolidated balance sheets. Accrued interest on non-hedge designated interest rate derivatives is included in “Accounts receivable, net” in the consolidated balance sheets. For interest rate derivatives designated as cash flow hedges:

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

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

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

**Recently Adopted Accounting Standards** – In December 2011, the Financial Accounting Standards Board issued accounting guidance to require disclosures about offsetting assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master-netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements that are either netted on the balance sheet or subject to an enforceable master-netting agreement or similar arrangement. The new accounting guidance is effective for fiscal

years, and interim periods within those years, beginning after January 1, 2013 and the disclosures should be reported retrospectively for all comparative periods presented. We adopted this accounting guidance on January 1, 2013. The adoption of this accounting guidance did not have any impact on our financial position or results of operations.

Reclassifications – Certain amounts in the consolidated financial statements for the three months ended March 31, 2012 have been reclassified for discontinued operations. Additionally, certain amounts due from affiliates have been reclassified in the 2012 consolidated statement of cashflows. These reclassifications had no effect on our cash flows, equity, or net income (loss) previously reported.

### 3. Summary of Significant Transactions

Refinanced our \$141.0 Million Mortgage Loan - On February 26, 2013, we refinanced our \$141.0 million loan due August 2013 with a \$199.9 million loan due February 2018. The new loan provides for an interest rate of LIBOR + 3.50%, with no LIBOR floor. The new loan continues to be secured by the Capital Hilton in Washington, DC and the Hilton La Jolla Torrey

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

Pines in La Jolla, CA. We have a 75% ownership interest in the properties, with Hilton holding the remaining 25%. The excess loan proceeds above closing costs and reserves were distributed to the partners on a pro rata basis. Our share of the excess loan proceeds was approximately \$40.5 million, which was added to our unrestricted cash balance.

## 4. Investments in Hotel Properties, net

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

	March 31, 2013	December 31, 2012
Land	\$483,242	\$483,242
Buildings and improvements	2,792,515	2,779,589
Furniture, fixtures, and equipment	232,535	224,907
Construction in progress	7,701	10,499
Condominium properties	12,556	12,690
Total cost	3,528,549	3,510,927
Accumulated depreciation	(671,011	) (638,623
Investments in hotel properties, net	\$2,857,538	\$2,872,304

## 5. Notes Receivable

As of March 31, 2013 and December 31, 2012, we owned a note receivable of \$8.1 million from the city of Philadelphia, Pennsylvania. The note bears interest at a rate of 12.85% and matures in 2018. The interest income recorded on the note receivable is offset against the interest expense recorded on the TIF loan of the same amount. See Note 8.

In addition, as of March 31, 2013 and December 31, 2012, we had one mezzanine loan receivable with a net carrying value of \$3.3 million and \$3.2 million, respectively, net of a valuation allowance of \$8.2 million and \$8.3 million, respectively. This note is secured by one hotel property, bears interest at a rate of 6.09%, and matures in 2017. All required payments on this loan are current. Ongoing payments are treated as reductions of carrying value with related valuation allowance adjustments recorded as credits to impairment charges.

## 6. Investment in Unconsolidated Joint Ventures

Effective March 10, 2011, PIM Highland JV, a 28 hotel portfolio, became an investment in unconsolidated joint venture when we acquired a 71.74% common equity interest and a \$25.0 million, or 50%, preferred equity interest earning an accrued but unpaid 15% annual return with priority over common equity distributions. Although we have majority ownership in PIM Highland JV, all major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs and incurring obligations and expenditures, are subject to the approval of an executive committee, which is comprised of four persons with us and our joint venture partner each designating two of those persons. As a result, we utilize the equity accounting method with respect to PIM Highland JV, which had a carrying value of \$151.8 million and \$158.7 million at March 31, 2013 and December 31, 2012, respectively.

Mortgage and mezzanine loans securing PIM Highland JV are non-recourse to the borrowers, except for customary exceptions or carve-outs that trigger recourse liability to the borrowers in certain limited instances. Recourse obligations typically include only the payment of costs and liabilities suffered by the lenders as a result of the

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

The following tables summarize the consolidated balance sheets as of March 31, 2013 and December 31, 2012 and the consolidated statements of operations for the three months ended March 31, 2013 and 2012 of the PIM Highland JV (in thousands):

10

---

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

## PIM Highland JV

## Condensed Consolidated Balance Sheets

	March 31, 2013	December 31, 2012
Total Assets	\$1,408,012	\$1,417,204
Total Liabilities	1,175,993	1,176,298
Members' equity	232,019	240,906
Total liabilities and members' equity	\$1,408,012	\$1,417,204
Our ownership interest in PIM Highland JV	\$151,806	\$158,694

## PIM Highland JV

## Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
	2013	2012
Total revenue	\$102,273	\$93,252
Total expenses	(94,760 )	(90,067 )
Operating income	7,513	3,185
Interest income and other	18	31
Interest expense, amortization and write-offs of deferred loan costs, discounts and premiums and exit fees	(15,702 )	(15,525 )
Other expenses	—	(54 )
Income tax expense	(716 )	(1,374 )
Net loss	\$(8,887 )	\$(13,737 )
Our equity in loss of PIM Highland JV	\$(6,888 )	\$(10,304 )

Additionally, as of March 31, 2013 and December 31, 2012, we had a 14.4% subordinated beneficial interest in a trust that holds the Four Seasons hotel property in Nevis, which had a zero carrying value.

## 7. Assets Held for Sale and Discontinued Operations

During the three months ended March 31, 2012, discontinued operations included two hotel properties disposed of in 2012. The Doubletree Guest Suites hotel in Columbus, Ohio was sold in November 2012 and the Hilton El Conquistador hotel in Tucson, Arizona was disposed of in December 2012. For the three months ended March 31, 2013 and 2012, there were no impairment charges. There were no assets held for sale as of March 31, 2013 and December 31, 2012.

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

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

	Three Months Ended March 31, 2012
Hotel revenues	\$8,832
Hotel operating expenses	(7,194 )
Operating income	1,638
Property taxes, insurance, and other	(444 )
Depreciation and amortization	(699 )
Interest expense and amortization of loan costs	(329 )
Income from discontinued operations before income tax expense	166
Income tax expense	—
Income from discontinued operations	166
Income from discontinued operations attributable to redeemable noncontrolling interest in operating partnership	(19 )
Income from discontinued operations attributable to the Company	\$147

## 8. Indebtedness

Indebtedness consisted of the following (in thousands):

Indebtedness	Collateral	Maturity	Interest Rate	March 31, 2013	December 31, 2012
Mortgage loan <sup>(5)</sup>	2 hotels	August 2013	LIBOR <sup>(1)</sup> + 2.75%	\$—	\$141,667
Mortgage loan <sup>(3)</sup>	5 hotels	March 2014	LIBOR <sup>(1)</sup> + 4.50%	172,416	173,180
Mortgage loan <sup>(2)</sup>	9 hotels	May 2014	LIBOR <sup>(1)</sup> + 6.50%	135,000	135,000
Mortgage loan	1 hotel	May 2014	8.32%	5,249	5,285
Senior credit facility <sup>(4)</sup>	Various	September 2014	LIBOR <sup>(1)</sup> + 2.75% to 3.50%	—	—
Mortgage loan <sup>(2)</sup>	5 hotels	November 2014	Greater of 6.40% or LIBOR <sup>(1)</sup> + 6.15%	211,000	211,000
Mortgage loan	8 hotels	December 2014	5.75%	104,089	104,680
Mortgage loan	10 hotels	July 2015	5.22%	151,899	152,513
Mortgage loan	8 hotels	December 2015	5.7%	96,397	96,907
Mortgage loan	5 hotels	February 2016	5.53%	109,743	110,169
Mortgage loan	5 hotels	February 2016	5.53%	91,010	91,364
Mortgage loan	5 hotels	February 2016	5.53%	78,834	79,140
Mortgage loan <sup>(6)</sup>	1 hotel	April 2017	5.91%	34,624	34,735
Mortgage loan	2 hotels	April 2017	5.95%	126,886	127,289
Mortgage loan	3 hotels	April 2017	5.95%	258,202	259,021
Mortgage loan	5 hotels	April 2017	5.95%	114,369	114,732
Mortgage loan	5 hotels	April 2017	5.95%	102,800	103,126
Mortgage loan	5 hotels	April 2017	5.95%	156,422	156,918
Mortgage loan	7 hotels	April 2017	5.95%	125,120	125,517
Mortgage loan <sup>(5)</sup>	2 hotels	February 2018	LIBOR <sup>(1)</sup> + 3.50%	199,875	—



Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 10-Q

TIF loan <sup>(6)</sup> <sup>(7)</sup>	1 hotel	June 2018	12.85%	8,098	8,098
Mortgage loan	1 hotel	November 2020	6.26%	102,224	102,562
Mortgage loan	1 hotel	April 2034	Greater of 6.00% or Prime + 1.00%	6,468	6,507
Total				\$2,390,725	\$2,339,410

<sup>(1)</sup> LIBOR rates were 0.204% and 0.209% at March 31, 2013 and December 31, 2012, respectively.

<sup>(2)</sup> These mortgage loans have three one-year extension options subject to satisfaction of certain conditions.

<sup>(3)</sup> This mortgage loan has a one-year extension option subject to satisfaction of certain conditions.

<sup>(4)</sup> Our borrowing capacity under our senior credit facility is \$165.0 million. We have an option, subject to lender approval, to further expand the facility to an aggregate size of \$225.0 million. We may use up to \$10.0 million for standby letters of credit.

<sup>(5)</sup> On February 26, 2013, we refinanced our \$141.0 million loan due August 2013 with a \$199.9 million loan due February 2018. The new loan provides for an interest rate of LIBOR + 3.50%, with no LIBOR floor.

<sup>(6)</sup> These loans are collateralized by the same property.

Table of Contents

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

<sup>(7)</sup> The interest expense from the TIF loan is offset against interest income recorded on the note receivable of the same amount. See Note 5.

On February 26, 2013, we refinanced our \$141.0 million loan due August 2013 with a \$199.9 million loan due February 2018. The new loan provides for an interest rate of LIBOR + 3.50%, with no LIBOR floor. The new loan continues to be secured by the Capital Hilton in Washington, DC and the Hilton La Jolla Torrey Pines in La Jolla, CA. We have a 75% ownership interest in the properties, with Hilton holding the remaining 25%. The excess loan proceeds above closing costs and reserves were distributed to the partners on a pro rata basis. Our share of the excess loan proceeds was approximately \$40.5 million, which was added to our unrestricted cash balance.

We are required to maintain certain financial ratios under various debt and derivative agreements. If we violate covenants in any debt or derivative agreement, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of certain debt covenants may result in us being unable to borrow unused amounts under a line of credit, even if repayment of some or all borrowings is not required. The assets of certain of our subsidiaries are pledged under non-recourse indebtedness and are not available to satisfy the debts and other obligations of Ashford or AHLP, our operating partnership, and the liabilities of such subsidiaries do not constitute the obligations of Ashford or AHLP. Presently, our existing financial covenants are non-recourse and primarily relate to maintaining minimum debt coverage ratios, maintaining an overall minimum net worth, maintaining a maximum loan-to-value ratio, and maintaining an overall minimum total assets. As of March 31, 2013, we were in compliance in all material respects with all covenants or other requirements set forth in our debt and related agreements as amended.

We have derivative agreements that incorporate the loan covenant provisions of our senior credit facility requiring us to maintain certain minimum financial covenant ratios with respect to our indebtedness. Failure to comply with these covenant provisions would result in us being in default on any derivative instrument obligations covered by the applicable agreement. At March 31, 2013, we were in compliance with all the covenants under the senior credit facility and the fair value of derivatives that incorporate our senior credit facility covenant provisions was an asset of \$10,000.

## 9. Income (Loss) Per Share

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

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Loss from continuing operations allocated to common shareholders:		
Loss from continuing operations attributable to the Company	\$(14,686 )	\$(21,365 )
Less: Dividends on preferred stocks	(8,490 )	(8,331 )
Less: Dividends on common stock	(8,139 )	(7,396 )
Less: Dividends on unvested restricted shares	(61 )	(104 )
Undistributed loss from continuing operations	(31,376 )	(37,196 )
Add back: Dividends on common stock	8,139	7,396
Distributed and undistributed loss from continuing operations - basic and diluted	\$(23,237 )	\$(29,800 )
Income from discontinued operations allocated to common shareholders:		
Income from discontinued operations - basic and diluted	\$—	\$147
Weighted average shares outstanding:		
Weighted average shares outstanding - basic and diluted	67,682	67,152
Basic loss per share:		
Loss from continuing operations allocated to common shareholders per share	\$(0.34 )	\$(0.44 )
Income from discontinued operations allocated to common shareholders per share	—	—
Net loss allocated to common shareholders per share	\$(0.34 )	\$(0.44 )
Diluted loss per share:		
Loss from continuing operations allocated to common shareholders per share	\$(0.34 )	\$(0.44 )
Income from discontinued operations allocated to common shareholders per share	—	—
Net loss allocated to common shareholders per share	\$(0.34 )	\$(0.44 )

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

	Three Months Ended March 31,	
	2013	2012
Loss from continuing operations allocated to common shareholders is not adjusted for:		
Income allocated to unvested restricted shares	\$61	\$104
Loss attributable to noncontrolling interest in operating partnership units	(2,762 )	(3,076 )
Total	\$(2,701 )	\$(2,972 )

Weighted average diluted shares are not adjusted for:		
Effect of unvested restricted shares	146	431
Effect of assumed conversion of operating partnership units	17,967	16,682
Total	18,113	17,113

## 10. Derivative Instruments and Hedging

Interest Rate Derivatives – We are exposed to risks arising from our business operations, economic conditions, and financial markets. To manage these risks, we primarily use interest rate derivatives to hedge our debt and potentially improve cash flows. We also use non-hedge derivatives to capitalize on the historical correlation between changes in LIBOR and RevPAR. Interest rate derivatives may include interest rate swaps, caps, floors and flooridors. All these derivatives are subject to master-

Table of Contents

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

netting settlement arrangements. The maturities on these instruments range from May 2014 to March 2015. To mitigate nonperformance risk, we routinely rely on a third party's analysis of the creditworthiness of the counterparties, which supports our belief that the counterparties' nonperformance risk is limited. All derivatives are recorded at fair value.

**Credit Default Swap Derivatives** – In August 2011, we entered into credit default swap transactions for a notional amount of \$100.0 million to hedge financial and capital market risk for an upfront cost of \$8.2 million that was subsequently returned to us as collateral by our counterparty. A credit default swap is a derivative contract that functions like an insurance policy against the credit risk of an entity or obligation. The seller of protection assumes the credit risk of the reference obligation from the buyer (us) of protection in exchange for annual premium payments. If a default or a loss, as defined in the credit default swap agreements, occurs on the underlying bonds, then the buyer of protection is protected against those losses. The only liability for us, the buyer, is the annual premium and any change in value of the underlying CMBX index (if the trade is terminated prior to maturity). For all CMBX trades completed to date, we were the buyer of protection. Credit default swaps are subject to master-netting settlement arrangements and credit support annexes. Assuming the underlying bonds pay off at par over their remaining average life, our total exposure for these trades is approximately \$8.5 million. Cash collateral is posted by us as well as our counterparty. We offset the fair value of the derivative and the obligation/right to return/reclaim cash collateral. The change in market value of credit default swaps is settled net through posting cash collateral or reclaiming cash collateral between us and our counterparty when the change in market value is over \$250,000. As of March 31, 2013 and December 31, 2012, credit default swaps had a net carrying value of an asset of \$227,000 and \$170,000, respectively, which is included in "Derivative assets, net" in the consolidated balance sheets. For the three months ended March 31, 2013 and 2012, we recognized unrealized losses of \$904,000 and \$2.2 million, respectively, that are included in "Unrealized loss on derivatives" in the consolidated statements of operations.

**Marketable Securities and Liabilities Associated with Marketable Securities** – We invest in public securities, including stocks and put and call options, which are considered derivatives. At March 31, 2013, we had investments in these derivatives totaling \$816,000 and liabilities of \$679,000. At December 31, 2012, we had investments in these derivatives totaling \$612,000 and liabilities of \$299,000.

## 11. Fair Value Measurements

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

• **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets.

• **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

• **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability.

Fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts/payments and the discounted expected variable cash payments/receipts. Fair values of

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

Fair values of credit default swaps are obtained from a third party who publishes various information including the index composition and price data (Level 2 inputs). The fair value of credit default swaps does not contain credit-risk-related adjustments as the change in fair value is settled net through posting cash collateral or reclaiming cash collateral between us and our counterparty.

Fair values of marketable securities and liabilities associated with marketable securities, including public equity securities, equity put and call options, and other investments, are based on their quoted market closing prices (Level 1 inputs).

Table of Contents

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

When a majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. However, when valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties, which we consider significant (10% or more) to the overall valuation of our derivatives, the derivative valuations in their entirety are classified in Level 3 of the fair value hierarchy. Transfers of inputs between levels are determined at the end of each reporting period. In determining the fair values of our derivatives at March 31, 2013, the LIBOR interest rate forward curve (Level 2 inputs) assumed an uptrend from 0.20% to 0.31% for the remaining term of our derivatives. Credit spreads (Level 3 inputs) used in determining the fair values of hedge and non-hedge designated derivatives assumed an uptrend in nonperformance risk for us and all of our counterparties through the maturity dates.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Table of Contents

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

	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Counterparty and Cash Collateral Netting (4)	Total	
March 31, 2013:					
Assets					
Derivative Assets:					
Interest rate derivatives - non-hedges	\$—	\$9	\$—	\$9	(1)
Interest rate derivatives - hedges	—	1	—	1	(1)
Credit default swaps	—	2,029	(1,802	) 227	(1)
Equity put and call options	816	—	—	816	(2)
Non-derivative Assets:					
Equity and US treasury securities	26,953	—	—	26,953	(2)
Total	27,769	2,039	(1,802	) 28,006	
Liabilities					
Derivative Liabilities:					
Short-equity call options	(679	) —	—	(679	) (3)
Non-derivative Liabilities:					
Margin account balance	(2,832	) —	—	(2,832	) (3)
Total	(3,511	) —	—	(3,511	)
Net	\$24,258	\$2,039	\$(1,802	) \$24,495	
December 31, 2012:					
Assets					
Derivative Assets:					
Interest rate derivatives - non-hedges	\$—	\$10,617	\$—	\$10,617	(1)
Interest rate derivatives - hedges	—	4	—	4	(1)
Credit default swaps	—	2,933	(2,763	) 170	(1)
Equity put and call options	612	—	—	612	(2)
Non-derivative Assets:					
Equity and US treasury securities	23,008	—	—	23,008	(2)
Total	23,620	13,554	(2,763	) 34,411	
Liabilities					
Derivative Liabilities:					
Interest rate derivatives - non-hedges	—	(4,400	) —	(4,400	) (1)
Short-equity put options	(7	) —	—	(7	) (3)
Short-equity call options	(292	) —	—	(292	) (3)
Non-derivative Liabilities:					
Margin account balance	(1,342	) —	—	(1,342	) (3)
Total	(1,641	) (4,400	) —	(6,041	)
Net	\$21,979	\$9,154	\$(2,763	) \$28,370	

(1) Reported net as “Derivative assets, net” in the consolidated balance sheets.

(2) Reported as “Marketable securities” in the consolidated balance sheets.

(3) Reported as “Liabilities associated with marketable securities” in the consolidated balance sheets.



<sup>(4)</sup> Represents cash collateral posted by our counterparty.

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

## Effect of Fair-Value-Measured Assets and Liabilities on Consolidated Statements of Operations

The following table summarizes the effect of fair-value-measured assets and liabilities on the consolidated statements of operations for the three months ended March 31, 2013 and 2012 (in thousands):

	Gain (Loss) Recognized In Income		Interest Savings (Cost) Recognized In Income		Reclassified from Accumulated OCI into Interest Expense	
	Three Months Ended March 31, 2013	2012	Three Months Ended March 31, 2013	2012	Three Months Ended March 31, 2013	2012
<b>Assets</b>						
<b>Derivative Assets:</b>						
Interest rate derivatives	\$(10,645 )	\$(9,399 )	\$10,639	\$13,353	\$8	\$12
Equity put and call options	204	(1,367 )	—	—	—	—
Credit default swaps	(925 )	—	—	—	—	—
<b>Non-derivative Assets:</b>						
Equity and US treasury securities	2,576	2,624	—	—	—	—
<b>Total</b>	<b>(8,790 )</b>	<b>(8,142 )</b>	<b>10,639</b>	<b>13,353</b>	<b>8</b>	<b>12</b>
<b>Liabilities</b>						
<b>Derivative Liabilities:</b>						
Interest rate derivatives	4,400	1,653	(4,424 )	(5,384 )	—	—
Credit default swaps	—	(2,195 )	—	—	—	—
Short-equity put options	7	513	—	—	—	—
Short-equity call options	(585 )	(363 )	—	—	—	—
<b>Total</b>	<b>3,822</b>	<b>(392 )</b>	<b>(4,424 )</b>	<b>(5,384 )</b>	<b>—</b>	<b>—</b>
<b>Net</b>	<b>\$(4,968 )</b>	<b>\$(8,534 )</b>	<b>\$6,215</b>	<b>\$7,969</b>	<b>\$8</b>	<b>\$12</b>
<b>Total combined</b>						
Interest rate derivatives	\$(6,245 )	\$(7,746 )	\$6,215	\$7,969	\$8	\$12
Credit default swaps	(904 )	(2,195 )	—	—	—	—
<b>Total derivatives</b>	<b>(7,149 )<sup>(1)</sup></b>	<b>(9,941 )<sup>(1)</sup></b>	<b>6,215</b>	<b>7,969</b>	<b>8</b>	<b>12</b>
Unrealized gain on marketable securities	2,701 <sup>(3)</sup>	1,785 <sup>(3)</sup>	—	—	—	—
Realized loss on marketable securities	(520 ) <sup>(2)</sup> <sup>(4)</sup>	(378 ) <sup>(2)</sup>	—	—	—	—
<b>Net</b>	<b>\$(4,968 )</b>	<b>\$(8,534 )</b>	<b>\$6,215</b>	<b>\$7,969</b>	<b>\$8</b>	<b>\$12</b>

(1) Reported as “Unrealized loss on derivatives” in the consolidated statements of operations.

(2) Included in “Other income” in the consolidated statements of operations.

(3) Reported as “Unrealized gain on marketable securities” in the consolidated statements of operations.

(4) Includes cost of \$21,000 for the three months ended March 31, 2013 associated with credit default swaps.

For the three months ended March 31, 2013 and 2012, the change in fair values of our interest rate derivatives that were recognized as change in other comprehensive income totaled \$(2,000) and \$(9,000), respectively. During the next twelve months, we expect \$165,000 of accumulated comprehensive loss will be reclassified to interest expense.



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

## 12. Summary of Fair Value of Financial Instruments

Determining estimated fair values of our financial instruments such as notes receivable and indebtedness requires considerable judgment to interpret market data. Market assumptions and/or estimation methodologies used may have a material effect on estimated fair value amounts. Accordingly, estimates presented are not necessarily indicative of amounts at which these instruments could be purchased, sold, or settled. Carrying amounts and estimated fair values of financial instruments, for periods indicated, were as follows (in thousands):

	March 31, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets and liabilities measured at fair value:				
Marketable securities	\$27,769	\$27,769	\$23,620	\$23,620
Derivative assets, net	\$237	\$237	\$6,391	\$6,391
Liabilities associated with marketable securities	\$3,511	\$3,511	\$1,641	\$1,641
Financial assets not measured at fair value:				
Cash and cash equivalents	\$209,982	\$209,982	\$185,935	\$185,935
Restricted cash	\$78,896	\$78,896	\$84,786	\$84,786
Accounts receivable	\$34,627	\$34,627	\$35,116	\$35,116
Notes receivable	\$11,367	\$14,325 to \$15,833	\$11,331	\$14,385 to \$15,899
Due from affiliates	\$1,884	\$1,884	\$1,168	\$1,168
Due from third-party hotel managers	\$57,670	\$57,670	\$48,619	\$48,619
Financial liabilities not measured at fair value:				
Indebtedness	\$2,390,725	\$2,350,728 to \$2,598,173	\$2,339,410	\$2,266,991 to \$2,505,622
Accounts payable and accrued expenses	\$81,573	\$81,573	\$84,293	\$84,293
Dividends payable	\$19,250	\$19,250	\$18,258	\$18,258
Due to related party, net	\$1,373	\$1,373	\$3,725	\$3,725
Due to third-party hotel managers	\$2,058	\$2,058	\$1,410	\$1,410

Cash, cash equivalents, 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. This is considered a Level 1 valuation technique.

Accounts receivable, accounts payable, accrued expenses, dividends payable, due to/from related party, due to/from affiliates and due to/from third-party hotel managers. The carrying values of these financial instruments approximate their fair values due to the short-term nature of these financial instruments. This is considered a Level 1 valuation technique.

Notes receivable. Fair values of notes receivable may be determined using similar loans with similar collateral. We relied on our internal analysis of what we believe a willing buyer would pay for these notes. We estimated the fair value of notes receivable to be approximately 26.0% to 39.3% higher than the carrying value of \$11.4 million at

March 31, 2013 and approximately 27.0% to 40.3% higher than the carrying value of \$11.3 million at December 31, 2012. This is considered a Level 2 valuation technique.

Marketable securities. Marketable securities consist of US treasury bills, public equity securities, and equity put and call options. The fair value of these investments is based on quoted market closing prices at the balance sheet dates. See Notes 2, 10 and 11 for a complete description of the methodology and assumptions utilized in determining fair values.

Indebtedness. Fair value of indebtedness 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. Current replacement rates are determined by using the U.S. Treasury yield curve or the index to which these financial instruments are tied and adjusted for credit spreads. Credit spreads take into consideration general market conditions, maturity, and collateral. We estimated the fair value of total indebtedness to be approximately 98.3% to 108.7% of the carrying value of \$2.4 billion at March 31,

Table of Contents

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

2013 and approximately 96.9% to 107.1% of the carrying value of \$2.3 billion at December 31, 2012. This is considered a Level 2 valuation technique.

Derivative assets and liabilities associated with marketable securities. Fair values of interest rate derivatives are determined using the net present value of expected cash flows of each derivative based on the market-based interest rate curve and adjusted for credit spreads of us and our counterparties. Fair values of credit default swap derivatives are obtained from a third party who publishes the CMBX index composition and price data. Liabilities associated with marketable securities consists of a margin account balance, short public equity securities and short equity put and call options. Fair value is determined based on quoted market closing prices at the balance sheet dates. See Notes 2, 10 and 11 for a complete description of the methodology and assumptions utilized in determining fair values.

### 13. Redeemable Noncontrolling Interests in Operating Partnership

Redeemable noncontrolling interests in the operating partnership represent the limited partners' proportionate share of equity in earnings/losses of the operating partnership, which is an allocation of net income/loss attributable to common unit holders based on the weighted average ownership percentage of these limited partners' common units and units issued under our Long-Term Incentive Plan (the "LTIP units") that are vested throughout the period plus distributions paid to the limited partners with regard to Class B units. Class B common units have a fixed dividend rate of 7.2% and priority in payment of cash dividends over common units but otherwise have no preference over 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, at our sole discretion, one share of our common stock. Class B common units are convertible at the option of us or the holder into an equivalent number of common units any time after July 13, 2016.

LTIP units, which are issued to certain executives and employees as compensation, have vesting periods ranging from three to five years. Upon reaching economic parity with common units, each vested LTIP unit can be converted by the holder into one common partnership unit of the operating partnership which can then be redeemed for cash or, at our election, settled in our common stock. As of March 31, 2013, we have issued 6.9 million LTIP units in total, of which all but 1.2 million units issued in March 2013 and 1.2 million units issued in May 2011 had reached full economic parity with the common units. All LTIP units issued had an aggregate value of \$67.3 million at the date of grant which is being amortized over their vesting periods. Compensation expense of \$7.9 million and \$3.6 million was recognized for the three months ended March 31, 2013 and 2012, respectively. The unamortized value of LTIP units was \$30.5 million at March 31, 2013, which will be amortized over periods from 1.0 to 2.9 years. During the three months ended March 31, 2013, no operating partnership units were presented for redemption or converted to shares of our common stock.

Redeemable noncontrolling interests, including vested LTIP units, in our operating partnership as of March 31, 2013 and December 31, 2012 were \$196.5 million and \$151.2 million, respectively, which represents ownership of our operating partnership of 13.11% and 12.92%, respectively. The carrying value of redeemable noncontrolling interests as of March 31, 2013 and December 31, 2012 included adjustments of \$145.3 million and \$110.0 million, respectively, to reflect the excess of the redemption value over the accumulated historical costs. Redeemable noncontrolling interests were allocated net loss of \$2.8 million and \$3.1 million for the three months ended March 31, 2013 and 2012, respectively. We declared cash distributions to operating partnership units of \$2.6 million and \$2.3 million for the three months ended March 31, 2013 and 2012, respectively. These distributions are recorded as a reduction of redeemable noncontrolling interests in the operating partnership.

14. Equity and Equity-Based Compensation

At-the-Market Preferred Stock Offering – On March 2, 2012, we commenced issuances of preferred stock under our at-the-market (“ATM”) program with an investment banking firm pursuant to which we may issue up to 700,000 shares of 8.55% Series A Cumulative Preferred Stock and up to 700,000 shares of 8.45% Series D Cumulative Preferred Stock at market prices up to \$30.0 million in total proceeds. There were no issuances during the first quarter of 2013. During the year ended December 31, 2012, we issued 169,306 shares of 8.55% Series A Cumulative Preferred Stock for gross proceeds of \$4.2 million and 501,909 shares of 8.45% Series D Cumulative Preferred Stock for gross proceeds of \$12.3 million. The aggregate proceeds, net of commissions and other expenses, were \$16.0 million for the year ended December 31, 2012.

Common Dividends – For 2013 and 2012, the Board of Directors declared quarterly dividends of \$0.12 and \$0.11 per outstanding common share, respectively, with an annualized target of \$0.48 per share for 2013.

Table of Contents

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

Equity-Based Compensation – We recognized compensation expense related to restricted shares of our common stock of \$444,000 and \$1.6 million for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, the unamortized amount of unvested shares of restricted stock was \$4.4 million, which is being amortized over periods from 1.0 to 2.9 years.

Preferred Dividends – During the three months ended March 31, 2013, the Board of Directors declared quarterly dividends of \$0.5344 per share for our 8.55% Series A preferred stock, \$0.5281 per share for our 8.45% Series D preferred stock, and \$0.5625 per share for our 9.00% Series E preferred stock. During the three months ended March 31, 2012, the Board of Directors declared quarterly dividends of \$0.5344 per share for our 8.55% Series A preferred stock, \$0.5281 per share for our 8.45% Series D preferred stock and \$0.5625 per share for our 9.00% Series E preferred stock.

Noncontrolling Interests in Consolidated Entities – Noncontrolling entity partners, which have ownership interests ranging from 15% to 25% in four hotel properties and a total carrying value of \$1.2 million and \$15.4 million at March 31, 2013 and December 31, 2012, respectively, are reported in equity in the consolidated balance sheets. Noncontrolling interests in consolidated entities were allocated loss of \$707,000 and \$278,000 for the three months ended March 31, 2013 and 2012, respectively.

#### 15. Commitments and Contingencies

Restricted Cash – Under certain management and debt agreements for our hotel properties existing at March 31, 2013, escrow payments are required for insurance, real estate taxes, and debt service. In addition, for certain properties based on the terms of the underlying debt and management agreements, we escrow 3% to 6% of gross revenues for capital improvements.

Franchise Fees – Under franchise agreements for our hotel properties existing at March 31, 2013, we pay franchisor royalty fees between 3% and 6% of gross room revenue and, in some cases, food and beverage revenues. Additionally, we pay fees for marketing, reservations, and other related activities aggregating between 1% and 4% of gross room revenue and, in some cases, food and beverage revenues. These franchise agreements expire on varying dates between 2015 and 2030. 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 shareholders. In addition, if we breach the franchise agreement and the franchisor terminates a franchise prior to its expiration date, we may be liable for up to three times the average annual fees incurred for that property.

Our continuing operations incurred franchise fees of \$7.1 million and \$7.2 million for the three months ended March 31, 2013 and 2012, respectively.

Management Fees – Under management agreements for our hotel properties existing at March 31, 2013, we pay a) monthly property management fees equal to the greater of \$10,000 (CPI adjusted since 2003) or 3% of gross revenues, or in some cases 2% to 7% 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 2014 through 2041, 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 and



liquidated damages or, in certain circumstances, we may substitute a new management agreement.

**Income Taxes** – We and our subsidiaries file income tax returns in the federal jurisdiction and various states. Tax years 2009 through 2012 remain subject to potential examination by certain federal and state taxing authorities.

In September 2010, the Internal Revenue Service ("IRS") completed an audit of one of our taxable REIT subsidiaries that leases two of our hotel properties for the tax year ended December 31, 2007. The IRS issued a notice of proposed adjustment based on Internal Revenue Code (IRC) Section 482 that reduced the amount of rent we charged the taxable REIT subsidiary ("TRS"). We own a 75% interest in the hotel properties and the TRS at issue. In connection with the TRS audit, the IRS selected our REIT for audit for the same tax year. In October 2011, the IRS issued an income tax adjustment to the REIT as an alternative to the TRS proposed adjustment. The REIT adjustment is based on the REIT 100% federal excise tax on our share of the amount by which the rent was held to be greater than the arm's length rate. We strongly disagree with the IRS' position. We filed written protests with the IRS and requested an IRS Appeals Office review of the TRS and REIT cases simultaneously. The IRS granted

Table of Contents

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

the Appeals Office review and our representatives attended Appeals Office conferences in August and October of 2012. An additional conference with the Appeals Office will be required to resolve our cases and we anticipate these will occur during 2013. In determining amounts payable by our TRS subsidiaries under our leases, we engaged a third party to prepare a transfer pricing study which concluded that the lease terms were consistent with arms' length terms as required by applicable Treasury regulations. However, if the IRS were to pursue the TRS case and prevail, the TRS would owe approximately \$1.1 million of additional U.S. federal income taxes plus possible additional state income taxes of \$199,000, net of federal benefit. Alternatively, if the IRS were to pursue the REIT case and prevail, our REIT would owe approximately \$4.6 million of U.S. federal excise taxes. The excise taxes assessed on the REIT would be in lieu of the TRS additional income taxes. We believe the IRS transfer pricing methodologies applied in the audits contain flaws and that the IRS adjustments to the rent charged are inconsistent with the U.S. federal tax laws related to REITs and true leases. U.S. federal income tax assessment statutes of limitations generally limit the time the IRS has to make assessments to within three years after a return is due or filed, whichever is later. As a result, the IRS has requested and we have agreed to extend the assessment statute of limitations three times for both the TRS and the REIT for the 2007 tax year. The most recent IRS request was made in January 2013, and extends the statute for the 2007 tax year to March 31, 2014.

In June 2012, the IRS completed audits of the same TRS and our REIT for the tax years ended December 31, 2008 and 2009. With respect to the 2009 tax year, the IRS has not proposed any adjustments to the TRS or the REIT. For the 2008 tax year, the IRS has issued notices of proposed adjustments for both the REIT and the TRS. The REIT adjustment is for \$3.3 million of U.S. federal excise taxes and represents the amount by which the IRS asserts that the rent charged to the TRS was greater than the arms' length rate pursuant to IRC Section 482. The TRS adjustment is for \$1.6 million of additional income which would equate to approximately \$467,000 of additional U.S. federal income taxes and potential state income taxes of \$83,000, net of federal benefit. The TRS adjustment represents the IRS' imputation of compensation to the TRS under IRC Section 482 for agreeing to be a party to the lessor entity's bank loan agreement. We own a 75% interest in the lessor entity. We strongly disagree with both of the IRS adjustments for the reasons noted under the 2007 audits, and in addition, we believe the IRS has misinterpreted certain terms of the lease, third party hotel management, and bank loan agreements. We have filed a written protest and requested an IRS Appeals Office review. The IRS has granted the Appeals Office review and has assigned the same Appeals team that is overseeing our 2007 cases to our 2008 cases. We anticipate that the initial Appeals conference for the 2008 cases will occur in 2013. In March 2012, the IRS requested and we consented to extend the statute of limitations for the TRS and REIT for the 2008 tax year to March 31, 2013. In January 2013, the IRS requested and we agreed to extend the statute of limitations to March 31, 2014.

With respect to both the 2007 and 2008 IRS audits, we believe we will substantially prevail in the eventual settlement of the audits and that the settlements will not have a material adverse effect on our financial condition and results of operations. We have concluded that the positions reported on the tax returns under audit by the IRS are, solely on their technical merits, more-likely-than-not to be sustained upon examination.

If, prior to August 2013, we dispose of the four remaining properties contributed in connection with our initial public offering in 2003 in exchange for units of the operating partnership, we may be obligated to indemnify the contributors, including our Chairman and Chief Executive Officer and our Chairman Emeritus, each of 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 through August 2013, which allows contributors of the Las Vegas hotel property to defer gain recognition in connection with their contribution. Additionally, if we sell or transfer the Marriott Crystal Gateway in Arlington, Virginia prior to July 2016, we would be required to indemnify the entity from which we acquired the property if, as a result of such transactions, such entity

would recognize a gain for federal tax purposes.

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.

Potential Pension Liabilities – Upon our 2006 acquisition of a hotel property, certain employees of such hotel were unionized and covered by a multi-employer defined benefit pension plan. At that time, no unfunded pension liabilities existed. Subsequent to our acquisition, a majority of employees, who are employees of the hotel manager, Remington Lodging, petitioned the employer to withdraw recognition of the union. As a result of the decertification petition, Remington Lodging withdrew recognition of the union. At the time of the withdrawal, the National Retirement Fund, the union's pension fund, indicated unfunded pension liabilities existed. The National Labor Relations Board ("NLRB") filed a complaint against Remington Lodging seeking, among other things, that Remington Lodging's withdrawal of recognition was unlawful. Pending the final determination of the NLRB complaint, including appeals, the pension fund entered into a settlement agreement with Remington Lodging on November 1, 2011, providing that (a) Remington Lodging continues to make monthly pension fund payments pursuant to the collective

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

bargaining agreement, which requires annual installments of \$84,000 until the 20<sup>th</sup> year following the settlement agreement, and (b) if the withdrawal of recognition is ultimately deemed lawful, Remington Lodging will have an unfunded pension liability equal to \$1.7 million minus the monthly pension payments made by Remington Lodging since the settlement agreement. To illustrate, if Remington Lodging - as of the date a final determination occurs - has made monthly pension payments equaling \$100,000, Remington Lodging's remaining withdrawal liability shall be the unfunded pension liability of \$1.7 million minus \$100,000 (or \$1.6 million). This remaining unfunded pension liability shall be paid to the pension fund in annual installments (but may be made monthly or quarterly, at Remington Lodging's election), which shall continue for the remainder of the twenty-(20)-year capped period, unless Remington Lodging elects to pay the unfunded pension liability amount earlier. We agreed to indemnify Remington Lodging for the payment of the unfunded pension liability as set forth in the settlement agreement.

Litigation – We are engaged in various legal proceedings which have arisen but have not been fully adjudicated. The likelihood of loss for these legal proceedings, based on definitions within contingency accounting literature, ranges from remote to reasonably possible and to probable. Based on estimates of the range of potential losses associated with these matters, management does not believe the ultimate resolution of these proceedings, either individually or in the aggregate, will have a material adverse effect on our consolidated financial position or results of operations. However, the final results of legal proceedings cannot be predicted with certainty and if we failed to prevail in one or more of these legal matters, and the associated realized losses were to exceed our current estimates of the range of potential losses, our consolidated financial position or results of operations could be materially adversely affected in future periods.

## 16. Segment Reporting

We operate in two business segments within the hotel lodging industry: direct hotel investments and hotel financing. Direct hotel investments refers 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 mortgages 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 and amortization of loan costs, and income tax expense/benefit. Financial information related to our reportable segments was as follows (in thousands):

	Direct Hotel Investments	Hotel Financing	Corporate	Consolidated
Three Months Ended March 31, 2013:				
Total revenue	\$231,942	\$—	\$—	\$231,942
Total hotel operating expenses	147,516	—	—	147,516
Property taxes, insurance, and other	12,248	—	—	12,248
Depreciation and amortization	32,480	—	—	32,480
Impairment charges	—	(96	) —	(96 )
Corporate, general, and administrative	—	—	14,516	14,516
Total expenses (income)	192,244	(96	) 14,516	206,664
Operating income (loss)	39,698	96	(14,516 )	25,278
Equity in loss of unconsolidated joint ventures	(6,888	) —	—	(6,888 )
Interest income	—	—	36	36
Other income	—	—	5,822	5,822

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 10-Q

Interest expense and amortization of loan costs	—	—	(35,380	) (35,380	)
Write-off of loan costs and exit fees	—	—	(1,971	) (1,971	)
Unrealized gain on marketable securities	—	—	2,701	2,701	
Unrealized loss on derivatives	—	—	(7,149	) (7,149	)
Income (loss) from continuing operations before income taxes	32,810	96	(50,457	) (17,551	)
Income tax expense			(604	) (604	)
Income (loss) from continuing operations	\$32,810	\$96	\$(51,061	) \$(18,155	)
As of March 31, 2013:					
Total assets	\$3,181,821	\$3,736	\$286,133	\$3,471,690	

Table of Contents

## ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

	Direct Hotel Investments	Hotel Financing	Corporate	Consolidated
Three Months Ended March 31, 2012:				
Total revenue	\$217,055	\$—	\$—	\$217,055
Total hotel operating expenses	139,685	—	—	139,685
Property taxes, insurance, and other	11,709	—	—	11,709
Depreciation and amortization	33,656	—	—	33,656
Impairment charges	—	(92	) —	(92 )
Corporate, general, and administrative	—	—	10,247	10,247
Total expenses (income)	185,050	(92	) 10,247	195,205
Operating income (loss)	32,005	92	(10,247	) 21,850
Equity in loss of unconsolidated joint ventures	(10,304	)		