ASHFORD HOSPITALITY TRUST INC
Form 10-Q
May 10, 2011

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2011

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _______________ to _______________

Commission file number: 001-31775
ASHFORD HOSPITALITY TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland	86-1062192
(State or other jurisdiction of incorporation or organization)	*(IRS employer identification number)*
14185 Dallas Parkway, Suite 1100 Dallas, Texas	75254
(Address of principal executive offices)	*(Zip code)*

(972) 490-9600
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o 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). o Yes o 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 o	Accelerated filer þ	Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest

practicable date.

Common Stock, $0.01 par value per share	60,957,147
(Class)	*Outstanding at May 10, 2011*

ASHFORD HOSPITALITY TRUST, INC
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2011
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)	3
Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010	3
Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010	4
Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2011 and 2010	5
Consolidated Statement of Changes in Equity for the Three Months Ended March 31, 2011	6
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010	7
Notes to Consolidated Financial Statements	8
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	29
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	38
ITEM 4. CONTROLS AND PROCEDURES	38
PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	39
ITEM 1A. RISK FACTORS	39
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	39
ITEM 6. EXHIBITS	40
SIGNATURES	41

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2011	December 31, 2010
	(Unaudited)	
Assets		
Investments in hotel properties, net	$ 3,017,661	$ 3,023,736
Cash and cash equivalents	92,411	217,690
Restricted cash	73,485	67,666
Accounts receivable, net of allowance of $217 and $298, respectively	70,111	27,493
Inventories	2,588	2,909
Notes receivable	20,897	20,870
Investment in unconsolidated joint ventures	193,125	15,000
Assets held for sale	-	144,511
Deferred costs, net	18,050	17,519
Prepaid expenses	10,296	12,727
Interest rate derivatives	90,058	106,867
Other assets	4,637	7,502
Intangible assets, net	2,877	2,899
Due from third-party hotel managers	50,571	49,135
Total assets	$ 3,646,767	$ 3,716,524
Liabilities and Equity		
Liabilities:		
Indebtedness	$ 2,444,610	$ 2,518,164
Indebtedness of assets held for sale		50,619
Capital leases payable	24	36
Accounts payable and accrued expenses	98,760	79,248
Dividends payable	14,269	7,281
Unfavorable management contract liabilities	15,493	16,058
Due to related party	1,998	2,400
Due to third-party hotel managers	2,328	1,870
Other liabilities	4,597	4,627
Other liabilities of assets held for sale		2,995
Total liabilities	2,582,079	2,683,298
Commitments and contingencies (Note 13)		
Preferred stock, $0.01 par value, Series B-1 Cumulative Convertible Redeemable Preferred Stock, 7,247,865 shares issued and outstanding	72,986	72,986
Redeemable noncontrolling interests in operating partnership	142,998	126,722
Equity:		
Shareholders equity of the Company:		

Preferred stock, $0.01 par value, 50,000,000 shares authorized		
Series A Cumulative Preferred Stock, 1,487,900 shares issued and outstanding at March 31, 2011 and December 31, 2010	15	15
Series D Cumulative Preferred Stock, 8,966,797 shares issued and outstanding at March 31, 2011 and December 31, 2010	90	90
Common stock, $0.01 par value, 200,000,000 shares authorized, 123,503,893 and 122,403,893 shares issued at March 31, 2011 and December 31, 2010; 59,403,816 and 58,999,324 shares outstanding at March 31, 2011 and December 31, 2010	1,235	1,234
Additional paid-in capital	1,556,040	1,552,657
Accumulated other comprehensive loss	(411)	(550)
Accumulated deficit	(531,547)	(543,788)
Treasury stock, at cost, 64,100,077 and 64,404,569 shares at March 31, 2011 and December 31, 2010	(191,578)	(192,850)
Total shareholders equity of the Company	833,844	816,808
Noncontrolling interests in consolidated joint ventures	14,860	16,710
Total equity	848,704	833,518
Total liabilities and equity	$ 3,646,767	$ 3,716,524

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2011	**2010**
	(Unaudited)	
Revenue		
Rooms	$ 163,060	$ 151,726
Food and beverage	38,394	36,169
Rental income from operating leases	1,220	1,089
Other	9,282	9,808
Total hotel revenue	211,956	198,792
Interest income from notes receivable		337
Asset management fees and other	338	74
Total revenue	212,294	199,203
Expenses		
Hotel operating expenses:		
Rooms	37,088	34,635
Food and beverage	26,473	25,482
Other expenses	65,593	62,670
Management fees	8,879	8,368
Total hotel operating expenses	138,033	131,155
Property taxes, insurance and other	10,929	13,154
Depreciation and amortization	32,973	34,040
Impairment charges	(340)	(769)
Transaction acquisition costs	(1,224)	
Corporate general and administrative	13,883	6,658
Total expenses	194,254	184,238
Operating income	18,040	14,965
Equity in earnings of unconsolidated joint venture	28,124	658
Interest income	36	61
Other income	48,003	15,519
Interest expense and amortization of loan costs	(34,578)	(35,064)
Unrealized gain (loss) on derivatives	(16,817)	13,908
Income from continuing operations before income taxes	42,808	10,047
Income tax expense	(1,044)	(44)
Income from continuing operations	41,764	10,003
Income (loss) from discontinued operations	2,118	(4,777)

Net income	43,882	5,226
(Income) loss from consolidated joint ventures attributable to noncontrolling interests	(931)	701
Net income attributable to redeemable noncontrolling interests in operating partnership	(5,118)	(792)
Net income attributable to the Company	37,833	5,135
Preferred dividends	(6,555)	(4,830)
Net income attributable to common shareholders	$ 31,278	$ 305
Income (loss) per share basic:		
Income from continuing operations attributable to common shareholders	$ 0.51	$ 0.08
Income (loss) from discontinued operations attributable to common shareholders	0.02	(0.07)
Net income attributable to common shareholders	$ 0.53	$ 0.01
Income (loss) per share diluted:		
Income from continuing operations attributable to common shareholders	$ 0.45	$ 0.08
Income (loss) from discontinued operations attributable to common shareholders	0.01	(0.07)
Net income attributable to common shareholders	$ 0.46	$ 0.01
Weighted average common shares outstanding basic	57,931	53,073
Weighted average common shares outstanding diluted	79,330	53,073
Dividends declared per common share	$ 0.10	$
Amounts attributable to common shareholders:		
Income from continuing operations, net of tax	$ 36,873	$ 9,208
Income (loss) from discontinued operations, net of tax	960	(4,073)
Preferred dividends	(6,555)	(4,830)
Net income attributable to common shareholders	$ 31,278	$ 305

See Notes to Consolidated Financial Statements.

4

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

	Three Months Ended March 31,	
	2011	**2010**
	(Unaudited)	
Net income	$ 43,882	$ 5,226
Other comprehensive income (loss), net of tax:		
Change in unrealized loss on derivatives	8	(170)
Reclassification to interest expense	186	111
Total other comprehensive income (loss)	194	(59)
Comprehensive income	44,076	5,167
Less: Comprehensive (income) loss attributable to the noncontrolling interests in consolidated joint ventures	(966)	694
Less: Comprehensive income attributable to the redeemable noncontrolling interests in operating partnership	(5,138)	(782)
Comprehensive income attributable to the Company	$ 37,972	$ 5,079

See Notes to Consolidated Financial Statements.

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2011
(in thousands)
(Unaudited)

	Preferred Stock Series A		Preferred Stock Series D		Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Treasury Stock		Noncontrolling Interests in Consolidated Joint Ventures	
	Shares	Amounts	Shares	Amounts	Shares	Amounts	Capital	Deficit	Loss	Shares	Amounts		Total
uary 1,	1,488	$ 15	8,967	$ 90	123,404	$ 1,234	$ 1,552,657	$ (543,788)	$ (550)	(64,404)	$ (192,850)	$ 16,710	$ 833,51
treasury	-	-	-	-	-	-	1,472	-	-	300	1,342	-	2,81
estricted	-	-	-	-	-	-	8	-	-	(16)	(160)	-	(15
stricted nder ed plan	-	-	-	-	-	-	(90)	-	-	20	90	-	
ed expense	-	-	-	-	-	-	963	-	-	-	-	-	96
	-	-	-	-	-	-		37,833	-	-	-	931	38,76
lared es	-	-	-	-	-	-		(5,941)	-	-	-	-	(5,94
lared ares	-	-	-	-	-	-	-	(795)	-	-	-	-	(79
lared shares	-	-	-	-	-	-	-	(1,025)	-	-	-	-	(1,02
lared ares	-	-	-	-	-	-	-	(4,735)	-	-	-	-	(4,73
ealized vatives	-	-	-	-	-	-	-	-	7	-	-	-	
on to se	-	-	-	-	-	-	-	-	132	-	-	35	16
o g	-	-	-	-	-	-	-	-	-	-	-	(2,816)	(2,81
onversion its	-	-	-	-	100	1	1,030	(66)	-	-	-	-	96
nership on value								(13,030)					(13,03
	1,488	$ 15	8,967	$ 90	123,504	$ 1,235	$ 1,556,040	$ (531,547)	$ (411)	(64,100)	$ (191,578)	$ 14,860	$ 848,70

rch 31,

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2011	**2010**
	(Unaudited)	
Cash Flows from Operating Activities		
Net income	$ 43,882	$ 5,226
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	32,973	37,208
Impairment charges	(340)	(769)
Equity in earnings of unconsolidated joint venture	(28,124)	(658)
Distributions of earnings from unconsolidated joint venture		203
Income from derivatives	(18,003)	(15,534)
Amortization of loan costs, write-off of loan costs and exit fees	2,051	1,670
Gain on disposition of hotel properties	(2,802)	
Unrealized (gain) loss on derivatives	16,817	(13,908)
Stock/unit-based compensation expense	1,814	1,172
Changes in operating assets and liabilities		
Restricted cash	(5,819)	7,231
Accounts receivable and inventories	(42,382)	(13,487)
Prepaid expenses and other assets	1,208	200
Accounts payable and accrued expenses	16,898	19,802
Due to/from related parties	(1,532)	(258)
Due to/from third-party hotel managers	(978)	(2,200)
Other liabilities	286	(275)
Net cash provided by operating activities	15,949	25,623
Cash Flows from Investing Activities		
Repayments of notes receivable	313	20,823
Proceeds from sale/disposition of properties	143,915	
Investment in unconsolidated joint venture	(145,750)	
Acquisition of condominium properties	(12,000)	
Improvements and additions to hotel properties	(13,921)	(18,196)
Net cash provided by (used in) investing activities	(27,443)	2,627
Cash Flows from Financing Activities		
Repayments of indebtedness and capital leases	(125,219)	(1,377)
Payments of deferred loan costs	(2,166)	(834)
Issuance of common stock	2,814	
Distributions to noncontrolling interests in consolidated joint ventures	(127)	(129)
Payments of dividends	(7,291)	(5,566)
Cash income from derivatives	18,203	15,707
Repurchases of treasury stock		(29,094)

Redemption of operating partnership units and other	1	54
Net cash used in financing activities	(113,785)	(21,239)
Net increase (decrease) in cash and cash equivalents	(125,279)	7,011
Cash and cash equivalents at beginning of period	217,690	165,168
Cash and cash equivalents at end of period	$ 92,411	$ 172,179
Supplemental Cash Flow Information		
Interest paid	$ 32,239	$ 32,081
Income taxes paid (refund)	$ (63)	$ 257
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Accrued interest added to principal of indebtedness	$ 1,034	$ 1,155
Asset contributed to unconsolidated joint venture	$ 15,000	$

See Notes to Consolidated Financial Statements.

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

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, our operating partnership. Ashford OP General Partner LLC, a wholly-owned subsidiary of Ashford, serves as the sole general partner of our operating partnership. In this report, the terms the Company, we, us or our mean Ashford Hospitality Trust, Inc. and all entities included in its consolidated financial statements.

As of March 31, 2011, we owned 92 hotel properties directly and five hotel properties through majority-owned investments in joint ventures, which represents 20,774 total rooms, or 20,458 net rooms excluding those attributable to our joint venture partners. All of these hotel properties are located in the United States. In March 2011, we acquired 96 units of hotel condominiums at WorldQuest Resort in Orlando, Florida for $12.0 million. Also in March 2011, with an investment of $150.0 million, we converted our interest in a joint venture that held a mezzanine loan into a 71.74% common equity interest and a $25.0 million preferred equity interest in a new joint venture (the PIM Highland JV) that holds 28 high quality full and select service hotel properties with 8,084 total rooms, or 5,800 net rooms excluding those attributable to our joint venture partner. See Notes 3 and 6. At March 31, 2011, we also wholly owned mezzanine loan receivables with a carrying value of $20.9 million.

For federal income tax purposes, we elected to be treated as a REIT, which imposes limitations related to operating hotels. As of March 31, 2011, 96 of our 97 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, 2011, 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.

Remington Lodging & Hospitality, LLC (Remington Lodging), our primary property manager, is beneficially wholly owned by Mr. Archie Bennett, Jr., our Chairman, and Mr. Monty J. Bennett, our Chief Executive Officer. As of March 31, 2011, Remington Lodging managed 46 of our 97 hotel properties, while third-party management companies managed the remaining 51 hotel properties.

2. Significant Accounting Policies

Basis of Presentation The accompanying unaudited consolidated financial statements have been prepared inaccordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These consolidated financial statements include the accounts of Ashford, its majority-owned subsidiaries and its majority-owned joint ventures in which it has a controlling interest. All significant inter-company accounts and transactions between consolidated entities have been eliminated in these consolidated financial statements.

These financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in our 2010 Annual Report to Shareholders on Form 10-K.

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

Some of our properties operations have historically been seasonal. This seasonality pattern causes fluctuations in the operating results. Consequently, operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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

Marriott International, Inc. (Marriott) manages 41 of our properties. For these Marriott-managed hotels, the fiscal year reflects twelve weeks of operations in each of the first three quarters of the year and 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 first quarters of 2011 and 2010 ended March 25 and March 26, respectively.

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

Investments in Hotel Properties Hotel properties are generally stated at cost. However, the remaining four hotel properties contributed upon Ashford s formation in 2003 that are still owned by Ashford (the Initial Properties) are stated at the predecessor s historical cost, net of impairment charges, if any, plus a noncontrolling interest partial step-up related to the acquisition of noncontrolling interests from third parties associated with four of the Initial Properties. For hotel properties owned through our majority-owned joint ventures, the carrying basis attributable to the joint venture partners minority ownership is recorded at the predecessor s historical cost, net of any impairment charges, while the carrying basis attributable to our majority ownership is recorded based on the allocated purchase price of our ownership interests in the joint ventures. All improvements and additions which extend the useful life of the hotel properties are capitalized.

Impairment of Investment in Hotel Properties Hotel properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We test impairment by using current or projected cash flows over the estimated useful life of the asset. In evaluating the impairment of hotel properties, we make many assumptions and estimates, including projected cash flows, expected holding period and expected useful life. We may also use fair values of comparable assets. If an asset is deemed to be impaired, we record an impairment charge for the amount that the property s net book value exceeds its estimated fair value. No impairment charges were recorded for hotel properties for the three months ended March 31, 2011 or 2010.

Notes Receivable We provide mezzanine and first-mortgage financing in the form of notes receivable. 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 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, 2011 and $337,000 interest income was recognized for the three months ended March 31, 2010.

Variable interest entities, as defined by authoritative accounting guidance, must be consolidated by their controlling interest beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. Our mezzanine and first-mortgage notes receivable are each secured by various hotel properties or partnership interests in hotel properties and are subordinate to the controlling interest in the secured hotel properties. All such notes receivable are considered to be variable interests in the entities that own the related hotels. 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 the hotels for which we have provided financing. We will evaluate the interests in entities acquired or created in the future to determine whether such entities should be consolidated. In evaluating variable interest entities, our analysis involves considerable management judgment and assumptions.

Impairment of Notes Receivable We review notes receivables for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. 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. We apply normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment.

9

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

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 record a valuation allowance through a charge to earnings for any shortfall. Our assessment of impairment is based on considerable judgment and estimates. No impairment charges were recorded during the three months ended March 31, 2011 or 2010. Valuation adjustments of $340,000 and $769,000 on previously impaired notes were credited to impairment charges during the three months ended March 31, 2011 and 2010, respectively.

Investments in Unconsolidated Joint Ventures Investments in 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 venture s net income (loss). We review the investment in our unconsolidated joint ventures for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. The 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 venture. No such impairment was recorded in the three months ended March 31, 2011 and 2010. The equity accounting method is employed for our investment in the PIM Highland JV due to the fact that we do not control the joint venture. Although we have the majority ownership of 71.74% in the joint venture, all the major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs, incurring obligations, and expending amounts, 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. Our investment in PIM Highland JV had a carrying value of $193.1 million at March 31, 2011, which was based on our share of PIM Highland JV s equity. As discussed further in Note 6, the PIM Highland JV is in the process of finalizing their purchase price allocation. Therefore, our share of the PIM Highland JV s equity has been based on the preliminary purchase price allocation.

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

During the three months ended March 31, 2011, we completed the sale of three hotel properties that were reclassified as assets held for sale at December 31, 2010, and recorded a net gain of $2.8 million.

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 represents income from leasing hotel properties to third-party tenants on triple-net operating leases. Base rent on the triple-net lease is recognized on a straight-line basis over the lease terms and variable rent is recognized when earned. 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. We discontinue recording interest and amortizing discounts/premiums when the contractual payment of interest and/or principal is not received. Asset management fees are recognized when services are rendered. Taxes collected from customers and submitted to taxing authorities are not recorded in revenue. For the hotel leased to a third party, we report deposits into our escrow accounts for capital expenditure reserves as income.

Derivative Financial Instruments and Hedges We primarily use interest rate derivatives in order to capitalize on the historical correlation between changes in LIBOR (London Interbank Offered Rate) and RevPAR (Revenue per Available Room). The interest rate derivatives include swaps, caps, floors, flooridors and corridors. All derivatives are recorded on the consolidated balance sheets at fair value in accordance with the applicable authoritative accounting

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

guidance and reported as Interest rate derivatives. Accrued interest on the non-hedge designated derivatives is included in Accounts receivable, net on the consolidated balance sheets. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value is reported as a component of Accumulated Other Comprehensive Income (Loss) (OCI) in the equity section of the consolidated balance sheets. The amount recorded in OCI is reclassified to interest expense in the same period or periods during which the hedged transaction affects earnings, while the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings as Unrealized gain (loss) on derivatives in the consolidated statements of operations. For derivatives that are not designated as cash flow hedges, the changes in the fair value are recognized in earnings as Unrealized gain (loss) on derivatives in the consolidated statements of operations. 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. Derivatives subject to master netting arrangements are reported net in the consolidated balance sheets.

Recently Adopted Accounting Standards In December 2010, FASB issued an accounting standard update to require a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The new disclosures are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The pro forma disclosures related to our acquisition of the 28-hotel portfolio through the PIM Highland JV in Note 16 are made in accordance with the new requirements. The adoption did not have an impact on our financial position and results of operations.

Reclassifications Certain amounts in the consolidated financial statements for the three months ended March 31, 2010 have been reclassified for discontinued operations. These reclassifications have no effect on the results of operations or financial position previously reported.

3. Summary of Significant Transactions

Acquisition of Hotel Properties Securing Mezzanine Loans Held in Unconsolidated Joint Ventures In July 2010, as a strategic complement to our existing joint venture with Prudential Real Estate Investors (PREI) formed in 2008, we contributed $15.0 million for an ownership interest in a new joint venture with PREI. The new joint venture acquired a portion of the tranche 4 mezzanine loan associated with JER Partners 2007 privatization of the JER/Highland Hospitality portfolio (the Highland Portfolio). The mezzanine loan was secured by the same 28 hotel properties as our then existing joint venture investment in the tranche 6 mezzanine loan. Both of these mezzanine loans were in default since August 2010. After negotiating with the borrowers, senior secured lenders and senior mezzanine lenders for a restructuring, we, through another new joint venture, the PIM Highland JV, with PRISA III Investments, LLC (PRISA III) (an affiliate of PREI), invested $150.0 million and PRISA III invested $50.0 million of new capital to acquire the 28 high quality full and select service hotel properties comprising the Highland Portfolio on March 10, 2011. We and PRISA III have ownership interests of 71.74% and 28.26%, respectively, in the new joint venture. In addition to the common equity splits, we and PRISA III each have a $25.0 million preferred equity interest earning an accrued but unpaid 15% return with priority over common equity distributions. Our investment in the PIM Highland JV is accounted for using the equity method and the carrying value was $193.1 million at March 31, 2011. The PIM Highland JV recognized a gain of $75.4 million at acquisition, of which our share was $43.2 million, based on the preliminary assessment of the fair value of the assets acquired and the liabilities assumed. The purchase price has been allocated to the assets acquired and liabilities assumed on a preliminary basis using estimated fair value information currently available. The allocation of the purchase price to the assets and liabilities will be finalized as soon as practicable upon completion of the analysis of the fair values of the assets acquired and liabilities assumed,

which could result in adjustments to the gain recognized based on the preliminary assessment. See Note 6.

Litigation Settlement In March 2010, we entered into a Consent and Settlement Agreement (the Settlement Agreement) with Wells Fargo Bank, N.A. (Wells) to resolve potential disputes and claims between us and Wells

---

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

relating to our purchase of a participation interest in certain mezzanine loans. Wells denied the allegations in our complaint and further denies any liability for the claims asserted by us; however, the Settlement Agreement was entered into to resolve our claims against Wells and to secure Wells consent to our participation in the Highland Hospitality Portfolio restructuring. Pursuant to the Settlement Agreement, Wells has agreed to pay us $30.0 million over the next five years, or earlier, if certain conditions are satisfied. As part of the Settlement Agreement, we and Wells have agreed to a mutual release of claims. We expect that the settlement amount will likely be paid within the next 12 months. We recorded a receivable of $30.0 million and accrued legal costs of $5.5 million for the settlement. Of the total settlement amount, $30.0 million was recorded as Other income and the associated legal costs of $5.5 million were recorded as Corporate general and administrative expenses in the consolidated statements of operations.

Acquisition of Condominium Properties In March 2011, we acquired real estate and certain other rights in connection with the acquisition of the WorldQuest Resort, a condominium hotel project. More specifically, we acquired 96 condominium units, hotel amenities land and improvements, developable raw land, developer rights and Rental Management Agreements (RMA s) with third party owners of condominium units in the project. Units owned by third parties with RMA s and 62 of the 96 units we acquired participate in a rental pool program whereby the units are leased to guests similar to a hotel operation. Under the terms of the RMA s, we share in a percentage of the guest room revenues and are reimbursed for certain costs. The remaining 34 units that we own are currently being finished out and will be added to the rental pool when completed. All of these units are included in Investment in hotel properties, net in the consolidated balance sheet.

Resumption of Common Dividends In February 2011, the Board of Directors accepted management s recommendation to resume paying cash dividends on our outstanding shares of common stock with an annualized target of $0.40 per share for 2011. The dividend of $0.10 for the first quarter of 2011 was paid in April 2011, and subsequent payments will be reviewed on a quarterly basis.

Completion of Sales of Hotel Properties In the three months ended March 2011, we completed the sale of the three hotel properties which were classified as assets held for sale at December 31, 2010, the JW Marriott hotel in San Francisco, California, the Hilton hotel in Rye Town, New York and the Hampton Inn hotel in Houston, Texas. We received net proceeds of $93.7 million (net of repayments of related mortgage debt of $50.2 million). We used the net proceeds to reduce $70.0 million of the borrowings on our senior credit facility.

Sale of Additional Shares of Our Common Stock In January 2011, an underwriter purchased 300,000 shares of our common stock through the partial exercise of the underwriter s 1.125 million share over-allotment option in connection with the issuance of 7.5 million shares of common stock completed in December 2010, and we received net proceeds of $2.8 million.

4. Investments in Hotel Properties

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

	March 31, 2011	December 31, 2010
Land	$ 488,901	$ 488,901
Buildings and improvements	2,778,135	2,774,822
Furniture, fixtures and equipment	394,386	383,860
Construction in progress	2,664	4,473
Condominium properties	12,359	
Total cost	3,676,445	3,652,056
Accumulated depreciation	(658,784)	(628,320)

Investment in hotel properties, net	$ 3,017,661	$ 3,023,736

In March 2011, we acquired real estate and certain other rights in connection with the acquisition of the WorldQuest Resort, a condominium hotel project. More specifically, we acquired 96 condominium units, hotel amenities land and improvements, developable raw land, developer rights and Rental Management Agreements (RMA s) with third party owners of condominium units in the project. Units owned by third parties with RMA s and

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

62 of the 96 units we acquired participate in a rental pool program whereby the units are leased to guests similar to a hotel operation. Under the terms of the RMA s, we share in a percentage of the guest room revenues and are reimbursed for certain costs. The remaining 34 units that we own are currently being finished out and will be added to the rental pool when completed. All of these units are included in Investment in hotel properties, net in the consolidated balance sheet.

5. Notes Receivable

We had two mezzanine loans at March 31, 2011 and December 31, 2010. One mezzanine loan that is secured by a 105 hotel property portfolio has an unpaid principal balance of $25.7 million and an interest rate of LIBOR plus 5%, and is scheduled to mature in April 2011. In December 2010, we evaluated the collectability of this mezzanine loan and weighted different probabilities of outcome from full repayment at maturity to a foreclosure by the senior lender. Based on the analysis, we recorded a valuation allowance of $7.8 million. At March 31, 2011 and December 31, 2010, this mezzanine loan had a net carrying value of $17.9 million. No interest income was recognized for the three months ended March 31, 2011. Interest payments received on this loan since December 31, 2010 have been recorded as a credit to impairment charges.

The other mezzanine loan secured by one hotel property that had an original principal balance of $38.0 million was restructured in 2010 with a cash payment of $20.2 million and a $4.0 million note receivable which matures in June 2017 with an interest rate of 6.09%. At March 31, 2011 and December 31, 2010, this mezzanine loan had a net carrying value of $3.0 million.

Both of these loans were current at March 31, 2011. However, payments on these loans totaling $313,000 during the three months ended March 31, 2011 have been treated as a reduction of carrying values, and the valuation allowance adjustments have been recorded as credits to impairment charges in accordance with applicable accounting guidance. The average investment in impairment loans for the three months ended March 31, 2011 and 2010 was $20.9 million and $12.9 million, respectively.

From time to time, in evaluating possible loan impairments, we analyze our notes receivable individually and collectively for possible loan losses in accordance with applicable authoritative accounting guidance. The terms of our notes or participations are structured based on the different features of the related collateral and the priority in the borrower s capital structure. Based on the analysis, if we conclude that no loans are individually impaired, we then further analyze the specific characteristics of the loans, based on other authoritative guidance to determine if there would be probable losses in a group of loans with similar characteristics.

6. Investment in Unconsolidated Joint Ventures

As discussed in Note 3, we acquired a 71.74% ownership interest in the PIM Highland JV and a $25.0 million preferred equity interest earning an accrued but unpaid 15% return with priority over common equity distributions. Although we have the majority ownership interest and can exercise significant influence over the joint venture, we do not have control of the joint venture s operations. All the major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs, incurring obligations, and expending amounts, 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, our investment in the joint venture is accounted for using the equity method, which had a carrying value of $193.1 million at March 31, 2011.

The 28-hotel property portfolio acquired and the indebtedness assumed by the joint venture had preliminary fair values of approximately $1.3 billion and $1.1 billion, respectively, at the date of acquisition based on third-party appraisals (after a paydown of $170.0 million of related debt). Cash, receivables, other assets acquired and other liabilities assumed had a net value of approximately $291.1 million at the date of acquisition. The joint venture repaid $170.0 million of the debt assumed at acquisition. The purchase price was the result of arms-length negotiations. The PIM Highland JV recognized a gain of $75.4 million at acquisition, of which our share was $43.2 million, based on the preliminary assessment of the fair value of the assets acquired and the liabilities assumed. The purchase price has been allocated to the assets acquired and liabilities assumed on a preliminary basis using estimated fair value information currently available. The joint venture is in the process of evaluating the values assigned to investments in

hotel

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

properties, ground leases for above/below market rents, management contracts with non-affiliated managers, other intangibles and property level balances that have been transferred on to the joint venture s balance sheet. Thus, the balances reflected below are subject to change and could result in adjustments to the gain recorded on a preliminary basis. Any change in valuation of the PIM Highland JV s preliminary investments in hotel properties will also impact the depreciation and amortization expense and the resulting gain included in equity in earnings of unconsolidated joint venture on the Consolidated Statement of Operations.

The following tables summarize the balance sheet as of March 31, 2011 and the statement of operations for the period from March 10, 2011 through March 31, 2011 of the PIM Highland JV (in thousands):

PIM Highland JV
Consolidated Balance Sheet
March 31, 2011

Assets	
Investments in hotel properties, net	$ 1,275,768
Cash and cash equivalents	21,499
Restricted cash	57,530
Accounts receivable	21,044
Inventories	1,594
Deferred costs, net	14,125
Prepaid expenses and other assets	6,251
Interest rate derivatives	1,501
Due from affiliates	1,444
Due from third-party hotel managers	12,785
Total assets	$ 1,413,541
Liabilities and partners capital	
Liabilities:	
Indebtedness and capital leases	$ 1,097,248
Accounts payable and accrued expenses	31,483
Due to third-party hotel managers	457
Total liabilities	1,129,188
Partners capital	284,353
Total liabilities and equity	$ 1,413,541
Our ownership interest in PIM Highland JV	$ 193,125

ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
PIM Highland JV
Consolidated Statement of Operations
For the Period from March 10, 2011 through March 31, 2011

Revenue	
Rooms	$ 16,439
Food and beverage	6,122
Other	918
Total revenue	23,479
Expenses	
Rooms	3,594
Food and beverage	3,960
Other expenses	6,540
Management fees	764
Property taxes, insurance and other	1,305
Depreciation and amortization	5,850
Transaction acquisition costs	17,616
General and administrative	172
Total expenses	39,801
Operating loss	(16,322)
Interest expense and amortization of loan costs	(3,868)
Gain recognized at acquisition	75,372
Unrealized loss on derivatives	(590)
Income tax expense	(239)
Net income	$ 54,353
Our equity in earnings recorded	$ 28,124

Additionally, as of March 31, 2011, we had an 18% subordinated interest in a joint venture that holds the Sheraton hotel property in Dallas, Texas, (which was sold after the quarter-end), and a 14.4% subordinated beneficial interest in a trust that holds the Four Seasons hotel property in Nevis. Both of these joint ventures have zero carrying values at March 31, 2011 and December 31, 2010.

7. Asset Held for Sale and Discontinued Operations

In the quarter ended March 31, 2011, we completed the sales of the JW Marriott San Francisco in California, the Hilton Rye Town in New York and the Hampton Inn Houston in Texas. The operating results of these hotel properties are reported as discontinued operations for all periods presented. For the three months ended March 31, 2010, operating results of discontinued operations also include those of the Hilton Suites Auburn Hills in Michigan that was sold in June 2010, and the Westin O Hare in Illinois that was transferred to the lender through a deed-in-lieu of foreclosure in September 2010. The following table summarizes the operating results of the discontinued hotel properties (in thousands):

	Three Months Ended March 31,	
	2011	2010
Hotel revenue	$ 8,726	$ 17,809
Hotel operating expenses	(7,065)	(15,057)
Operating income	1,661	2,752
Property taxes, insurance and other	(625)	(1,919)
Depreciation and amortization		(3,168)
Gain on disposal of properties	2,802	
Interest expense and amortization of loan costs	(687)	(2,499)
Write-off of premiums, loan costs and exit fees	(948)	
Income (loss) from discontinued operations before income tax expense	2,203	(4,834)
Income tax (expense) benefit	(85)	57
(Income) loss from discontinued operations attributable to noncontrolling interests in consolidated joint venture	(1,023)	(37)
(Income) loss from discontinued operations attributable to redeemable noncontrolling interests in operating partnership	(135)	741
Income (loss) from discontinued operations attributable to Company	$ 960	$ (4,073)

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

8. Indebtedness

Indebtedness of our continuing operations consisted of the following (in thousands):

Indebtedness	Collateral	Maturity	Interest Rate	March 31, 2011	December 31, 2010
Mortgage loan	1 hotel	January 2011[1]	8.32%	$ 5,775	$ 5,775
Mortgage loan	5 hotels	December 2011	LIBOR[2] + 1.72%	203,400	203,400
Senior credit facility	Notes receivable	April 2012	LIBOR[2] + 2.75% to 3.5%[3]	45,000	115,000
Mortgage loan	10 hotels	May 2011[4]	LIBOR[2] + 1.65%	167,202	167,202
Mortgage loan	2 hotels	August 2013	LIBOR[2] + 2.75%	148,958	150,383
Mortgage loan	1 hotel	December 2014	Greater of 5.5% or LIBOR[2] + 3.5%	19,740	19,740
Mortgage loan	8 hotels	December 2014	5.75%	108,410	108,940
Mortgage loan	10 hotels	July 2015	5.22%	158,443	159,001
Mortgage loan	8 hotels	December 2015	5.70%	100,119	100,576
Mortgage loan	5 hotels	December 2015	12.26%	148,753	148,013
Mortgage loan	5 hotels	February 2016	5.53%	114,242	114,629
Mortgage loan	5 hotels	February 2016	5.53%	94,742	95,062
Mortgage loan	5 hotels	February 2016	5.53%	82,067	82,345
Mortgage loan	1 hotel	April 2017	5.91%	35,000	35,000
Mortgage loan	2 hotels	April 2017	5.95%	128,251	128,251
Mortgage loan	3 hotels	April 2017	5.95%	260,980	260,980
Mortgage loan	5 hotels	April 2017	5.95%	115,600	115,600
Mortgage loan	5 hotels	April 2017	5.95%	103,906	103,906
Mortgage loan	5 hotels	April 2017	5.95%	158,105	158,105
Mortgage loan	7 hotels	April 2017	5.95%	126,466	126,466
TIF loan	1 hotel	June 2018	12.85%	8,098	8,098
Mortgage loan	1 hotel	November 2020	6.26%	104,600	104,901
Mortgage loan	1 hotel	April 2034	Greater of 6% or Prime + 1%	6,753	6,791
Total indebtedness				$ 2,444,610	$ 2,518,164

(1) We obtained a three-year extension on this loan to May 2014 in May 2011.

(2) LIBOR rates were 0.24% and 0.26% at March 31, 2011 and December 31, 2010, respectively.

(3) Based on the debt-to-assets ratio defined in the loan agreement, interest rate on this debt was LIBOR + 3% at March 31, 2011 and December 31, 2010.

(4) The remaining one-year extension option as of March 31, 2011 has been exercised.

In March 2010, we elected to stop making payments on the $5.8 million mortgage note payable maturing January 2011, secured by a hotel property in Manchester, Connecticut. After negotiating with the special servicer, in May 2011, we obtained a three-year extension on this loan to May 2014. We paid $1.0 million at closing including a 1.25% extension fee, the principal and interest through May 1, 2011 to bring the loan current and certain deposits pursuant to the modification agreement.

We are required to maintain certain financial ratios under various debt, preferred equity 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 Hospitality Trust, Inc. or our operating partnership, Ashford Hospitality Limited Partnership and the liabilities of such subsidiaries do not constitute the obligations of Ashford Hospitality Trust, Inc. or Ashford Hospitality Limited Partnership. Presently, our existing financial debt covenants 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, 2011, we were in compliance with all covenants or other requirements set forth in our debt and derivative agreements as amended. There were no requirements to submit our covenant calculations related to our Series B-1 convertible preferred stock as all the outstanding shares were redeemed or converted to common stock on May 3, 2011. See Note 17.

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

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 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 per share (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2011	2010
Income (loss) attributable to common shareholders Basic:		
Income (loss) from continuing operations attributable to the Company	$ 36,873	$ 9,208
Less: Dividends on preferred stocks	(6,555)	(4,830)
Less: Dividends on common stock	(5,830)	
Less: Dividends on unvested restricted shares	(110)	
Less: Income from continuing operations allocated to unvested shares	(454)	(152)
Undistributed income from continuing operations allocated to common shareholders	$ 23,924	$ 4,226
Income (loss) from discontinued operations attributable to the Company	$ 960	$ (4,073)
Less: (Income) loss from discontinued operations allocated to unvested shares	(18)	141
Undistributed income (loss) from discontinued operations allocated to common shareholders	$ 942	$ (3,932)
Income (loss) attributable to common shareholders Diluted:		
Income from continuing operations distributed to common shareholders	$ 5,830	$
Undistributed income from continuing operations allocated to common shareholders	23,924	4,226
Total distributed and undistributed income from continuing operations basic	29,754	4,226
Add back: Income allocated to Series B-1 convertible preferred stock	1,024	
Add back: Income allocated to operating partnership units	4,983	
Add back: Difference in income allocated to unvested shares	124	
Income from continuing operations allocated to common shareholders diluted	$ 35,885	$ 4,226
Undistributed income (loss) from discontinued operations allocated to common shareholders	$ 942	$ (4,073)
Income (loss) from discontinued operations allocated to unvested shares	18	
Income (loss) from discontinued operations allocated to common shareholders	960	(4,073)
Add back: Income from discontinued operations allocated to operating partnership units	134	
Add back: Income allocated to unvested shares	(13)	

Income from discontinued operations allocated to common shareholders	$ 1,081	$ (4,073)
Total distributed and undistributed net income allocated to common shareholders	$ 36,966	$ 153
Weighted average common shares outstanding	57,931	53,073
Effect of assumed conversion of Series B-1 convertible preferred stock	7,248	
Effect of assumed conversion of operating partnership units	14,151	
Weighted average diluted shares outstanding	79,330	53,073
Basic income (loss) per share:		
Income from continuing operations allocated to common shareholders per share	$ 0.51	$ 0.08
Income (loss) from discontinued operations allocated to common shareholders per share	0.02	(0.07)
Net income (loss) allocated to common shareholders per share	$ 0.53	$ 0.01
Diluted income (loss) per share:		
Income from continuing operations allocated to common shareholders per share	$ 0.45	$ 0.08
Income (loss) from discontinued operations allocated to common shareholders per share	0.01	(0.07)
Net income (loss) allocated to common shareholders per share	$ 0.46	$ 0.01

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

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

	Three Months Ended March 31,	
	2011	**2010**
Income (loss) from continuing operations allocated to common shareholders is not adjusted for:		
Dividends to Series B-1 convertible preferred stock	$	$ 1,042
Income attributable to redeemable noncontrolling interests in operating partnership units		1,533
Total	$	$ 2,575
Income (loss) from discontinued operations allocated to common shareholders is not adjusted for:		
Loss attributable to redeemable noncontrolling interests in operating partnership units	$	$ (741)
Weighted average diluted shares are not adjusted for:		
Effect of assumed conversion of Series B-1 convertible preferred stock		7,448
Effect of assumed conversion of operating partnership units		14,370
Total		21,818

10. Derivatives and Hedging Activities

We are exposed to risks arising from our business operations, economic conditions and financial markets. To manage the risks, we primarily use interest rate derivatives to hedge our debt as a way to potentially improve cash flows. We also use non-hedge derivatives to capitalize on the historical correlation between changes in LIBOR and RevPAR. To mitigate the 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. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts/payments and the discounted expected variable cash payments/receipts. The fair values of interest rate caps, floors, flooridors and corridors are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below the strike rates of the floors or rise above the strike rates of the caps. The variable interest rates used in the calculation of projected receipts and payments on the swaps, caps, and floors are based on an expectation of future interest rates derived from observable market interest rate curves (LIBOR forward curves) and volatilities (the Level 2 inputs that are observable at commonly quoted intervals, other than quoted prices). We also incorporate credit valuation adjustments (the Level 3 inputs that are unobservable and typically based on our own assumptions, as there is little, if any, related market activity) to appropriately reflect both our own non-performance risk and the respective counterparty s non-performance risk in the fair value measurements.

We have determined that when a majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. However, when the valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and our counter-parties, 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, 2011, the LIBOR interest rate forward curve (the Level 2 inputs) assumed an uptrend from 0.26% to 1.97% for the remaining term of our derivatives. The credit spreads (the Level 3 inputs) used in determining the fair values assumed a downtrend in nonperformance risk for us and an uptrend for most of our counterparties.

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

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):

	March 31, 2011			December 31, 2010		
	Level 2	Level 3	Total	Level 2	Level 3	Total
Assets						
Non-hedge derivatives:						
Interest rate swap	$ 65,789	$	$ 65,789	$ 74,283	$	$ 74,283
Interest rate cap						
Interest rate flooridor	28,336		28,336	37,532		37,532
Hedge derivatives:						
Interest rate cap				3		3
Subtotal	94,125		94,125	111,818		111,818
Liabilities						
Non-hedge derivatives:						
Interest rate floor	(4,067)		(4,067)	(4,951)		(4,951)
Subtotal	(4,067)		(4,067)	(4,951)		(4,951)
Net	$ 90,058	$	$ 90,058	$ 106,867	$	$ 106,867

The reconciliation of the beginning and ending balances of the derivatives that were measured using Level 3 inputs is as follows (in thousands):

	Three Months Ended March 31,	
	2011	2010
Balance at beginning of period	$	$ (17,972)
Total unrealized loss included in earnings		(2,042)
Assets transferred out of Level 3 still held at the reporting date[1]		20,014
Balance at end of period	$	$

[1] Transferred in/out of Level 3 because the unobservable inputs used to determine the fair value at end of period were more/less than 10% of the total valuation of these derivatives.

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

The fair value of our non-hedge designated interest rate derivatives as of March 31, 2011 and December 31, 2010, and the effects of these derivatives on the consolidated statements of operations for the three months ended March 31, 2011 and March 31, 2010 were as follows ($ in thousands):

Derivative Type	Notional Amount	Strike Rate	Maturity	Fair Value Assets (Liabilities) March 31, 2011	Fair Value Assets (Liabilities) December 31, 2010	Gain or (Loss) Recognized in Income Three Months Ended March 31, 2011	Gain or (Loss) Recognized in Income Three Months Ended March 31, 2010	Interest Savings or (Cost) Recognized in Income Three Months Ended March 31, 2011	Interest Savings or (Cost) Recognized in Income Three Months Ended March 31, 2010
Interest rate cap	$ 1,000,000	3.75%	2011	$	$	$	$ (244)	$	$
Interest rate swap	$ 1,800,000	Pays LIBOR plus 2.638%, receives 5.84%	2013	82,385	95,081	(12,696)	12,860	13,234	13,364
Interest rate swap	$ 1,475,000	Pays 4.084%, receives LIBOR plus 2.638%	2013	(16,775)	(20,922)	4,147		(4,369)	
Interest rate swap	$ 325,000	Pays 4.114%, receives LIBOR plus 2.638%	2013	179	124	56		(183)	
Interest rate floor	$ 1,475,000	1.25%	2013(1)				(1,673)		(3,753)
Interest rate floor	$ 325,000	1.25%	2013	(4,067)	(4,951)	883	(369)	(804)	(827)
Interest rate flooridor	$ 3,600,000	1.25% 0.75%	2010			(9,196)	(2,420)		4,500
Interest rate flooridor	$ 1,800,000	1.75% 1.25%	2010				(1,638)		2,250
Interest rate flooridor	$ 1,800,000	2.75% 0.50%	2011	28,336	37,532		7,419	10,125	
Total				$ 90,058(2)	$ 106,864(2)	$ (16,806)(3)	$ 13,935(3)	$ 18,003(4)	$ 15,534(4)

(1) This interest rate floor was terminated in October 2010, and replaced by the 4.084%, $1,475,000 notional amount interest rate swap.

(2) Reported as Interest rate derivatives in the consolidated balance sheets.

(3) Reported as Unrealized gain (loss) on derivatives in the consolidated statements of operations.

(4) Reported as Other income in the consolidated statements of operations.

The fair value of our hedge-designated interest rate derivatives as of March 31, 2011 and December 31, 2010, and the effects of these derivatives on the consolidated statements of operations for the three months ended March 31,

2011 and 2010 were as follows ($ in thousands):

				Fair Value of Asset		Income (Loss) Recognized in OCI Three Months Ended		Reclassified from Accumulated OCI into Interest Expense Three Months Ended		Gain (Loss) Recognized in in Income for Ineffective Portion Three Months Ended	
	Notional	Strike		March 31,	December 31,	March 31,		March 31,		March 31,	
Derivative Type	Amount	Rates	Maturity	2011	2010	2011	2010	2011	2010	2011	2010
Interest rate cap	$ 160,000	5.00%	2010	$	$	$	$ 80	$	$ 76	$	$ (4)
Interest rate cap	$ 160,000	5.00%	2011			141	(53)	141			(23)
Interest rate cap	$ 55,000	5.00%	2010				18		18		
Interest rate cap	$ 55,000	5.00%	2011			21	(6)	12		(9)	
Interest rate cap	$ 60,800	4.81%	2012		2		(77)		1	(2)	
Interest rate cap	$ 203,400	4.50%	2010				(7)				
Interest rate cap	$ 203,400	6.25%	2011		1	(1)					
Interest rate cap	$ 167,212	6.00%	2010				14		14		
Interest rate cap	$ 167,212	4.75%	2011			24		24			
Interest rate corridor	$ 130,000	4.6%-6.0%	2010				2		2		
Interest rate cap	$ 19,740	4.00%	2012			9	(30)	9			
Total				$	$ 3(1)	$ 194	$ (59)	$ 186	$ 111	$ (11)(2)	$ (27)(2)

(1) Included in Interest rate derivatives in the consolidated balance sheets.

(2) Included in Unrealized gain (loss) on derivatives in the consolidated statements of operations.

During the next twelve months, we expect $416,000 of accumulated comprehensive loss related to the interest rate derivatives will be reclassified to interest expense.

We have derivative agreements that incorporate the loan covenant provisions of our senior credit facility requiring us to maintain certain minimum financial covenant ratios on our indebtedness. Failure to comply with the covenant provisions would result in us being in default on any derivative instrument obligations covered by the agreement. At

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

March 31, 2011, we were in compliance with all the covenants under the senior credit facility and the fair value of derivatives related to this agreement was an asset of $61.7 million.

11. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests in the operating partnership represents the limited partners proportionate share of equity in earnings/losses of the operating partnership, which is an allocation of net income/loss attributable to the common unit holders based on the weighted average ownership percentage of these limited partners common units and the units issued under our Long-Term Incentive Plan (the LTIP units) that are vested throughout the period plus distributions paid to these limited partners with regard to the Class B units. Class B common units have a fixed dividend rate of 7.2%, 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, at Ashford s sole discretion, one share of Ashford s common stock. The Class B common units are convertible at the option of Ashford or the holder, into an equivalent number of common units at any time after July 13, 2016.

Beginning in 2008, we started issuing LTIP units to certain executives and employees as compensation. These units have vesting periods ranging from three to four and one-half years. 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 stock. Since 2008, we have issued 2.2 million LTIP units. As of March 31, 2011, all the LTIP units issued prior to that date had reached full economic parity with the common units. All the LTIP units issued on or before March 31, 2011 had an aggregate value of $14.3 million at the date of grant which is being amortized over the vesting period. Compensation expense of $855,000 and $297,000 was recognized for the three months ended March 31, 2011 and 2010, respectively. The unamortized value of the LTIP units was $8.6 million at March 31, 2011, and that amount is being amortized over periods from 0.4 year to 5 years.

During the three months ended March 31, 2011, 100,000 operating partnership units with a fair value of $1.0 million presented for redemption were converted to common shares at our election.

Redeemable noncontrolling interests in our operating partnership as of March 31, 2011 and December 31, 2010 were $143.0 million and $126.7 million, which represented ownership of 17.7% and 17.5% in our operating partnership, respectively. The carrying value of redeemable noncontrolling interests as of March 31, 2011 and December 31, 2010 included adjustments of $84.4 million and $72.3 million, respectively, to reflect the excess of redemption value over the accumulated historical costs. We allocated net income of $5.1 million and $792,000 for the three months ended March 31, 2011 and March 31, 2010, respectively, to these redeemable noncontrolling interests. During the three months ended March 31, 2011, we declared cash distributions totaling $1.8 million with respect to the operating units. This distribution was recorded as a reduction of redeemable noncontrolling interests in operating partnership. No distributions were declared for the three months ended March 31, 2010.

12. Equity and Equity-Based Compensation

Sale of Additional Shares of Our Common Stock In January 2011, an underwriter purchased 300,000 shares of our common stock through the partial exercise of the underwriter s 1.125 million share over-allotment option in connection with the issuance of 7.5 million shares of common stock completed in December 2010, and we received net proceeds of $2.8 million.

Resumption of Common Dividends In February 2011, the Board of Directors accepted management s recommendation to resume paying cash dividends on our outstanding shares of common stock with an annualized target of $0.40 per share for 2011. The dividend of $0.10 for the first quarter of 2011 was paid in April, 2011, and subsequent payments will be reviewed on a quarterly basis.

Stock-Based Compensation During the three months ended March 31, 2011 and 2010, we recognized compensation expense of $959,000 and $877,000, respectively, related to our equity-based compensation plan. As of

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

March 31, 2011, the unamortized amount of the unvested shares of restricted equity was $3.0 million and is being amortized over periods from 0.4 year to 4.0 years.

Preferred Dividends During the three months ended March 31, 2011 and 2010, the Board of Directors declared dividends of $0.5344 per share for our 8.55% Series A preferred stock, or $795,000, and $0.5281 per share for our 8.45% Series D preferred stock, or $4.7 million.

Noncontrolling Interests in Consolidated Joint Ventures Noncontrolling joint venture partners have ownership interests ranging from 11% to 25% in five hotel properties with a total carrying value of $14.9 million and $16.7 million at March 31, 2011 and December 31, 2010, respectively, and are reported in equity in the consolidated balance sheets. Noncontrolling interests in consolidated joint ventures were allocated an income of $931,000 and a loss of $701,000 for the three months ended March 31, 2011 and 2010, respectively.

13. Commitments and Contingencies

Restricted Cash Under certain management and debt agreements for our hotel properties existing at March 31, 2011, 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 and management agreements, we escrow 4% to 6% of gross revenues for capital improvements.

Franchise Fees Under franchise agreements for our hotel properties existing at March 31, 2011, we pay franchisor royalty fees between 2.5% and 7.3% 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 3.75% of gross room revenue and, in some cases, food and beverage revenues. These franchise agreements expire on varying dates between 2011 and 2031. 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 $6.7 million and $5.8 million for the three months ended March 31, 2011 and 2010, respectively, which are included in other expenses in the accompanying consolidated statements of operations.

Management Fees Under management agreements for our hotel properties existing at March 31, 2011, 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 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 2012 through 2032, 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.

Taxes We and our subsidiaries file income tax returns in the federal jurisdiction and various states. Tax years 2007 through 2010 remain subject to potential examination by certain federal and state taxing authorities. In 2010, the Internal Revenue Service (IRS) audited one of our taxable REIT subsidiaries that leases two of our hotel properties for the tax year ended December 31, 2007. During the year ended December 31, 2010, the IRS issued a notice of proposed adjustment that reduced the amount of rent we charged to the taxable REIT subsidiary. We own a 75% interest in the hotel properties and the taxable REIT subsidiary at issue. We disagree with the IRS position and during the fourth quarter of 2010, we filed a written protest with the IRS and requested an IRS Appeals Office conference. 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 arm s length terms as required by applicable Treasury regulations. However, if the IRS were to prevail in its proposed adjustment, our taxable REIT subsidiary would owe approximately $1.1 million additional U.S. federal income taxes plus possible additional state income

taxes of $68,000,

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

net of federal benefit. We anticipate that the IRS will grant the Appeals conference during third quarter of 2011. We believe we will prevail in the settlement of the audit and that the settlement will not have a material adverse effect on our financial condition and results of operations. In May 2011, the IRS notified us of their intent to examine the federal income tax return for this same TRS for the tax year ended December 31, 2008. During 2010, the Canadian taxing authorities selected our TRS subsidiary that leased our one Canadian hotel for audit for the tax years ended December 31, 2007, 2008 and 2009. The Canadian hotel was sold in June 2008 and the TRS ceased activity in Canada at that time. We believe that the results of the completion of this examination will not have a material adverse effect on our financial condition.

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, 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, 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 our operating partnership, we agreed to certain tax indemnities with respect to ten 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.

Potential Pension Liabilities Certain employees at one of our hotel properties are unionized and covered by a multiemployer defined benefit pension plan. At acquisition of the hotel property in 2006, there were no unfunded pension liabilities. Although those workers are not our employees, the hotel manager of that hotel property may in the future de-unionize given their work rules. It is reasonably possible that we may incur additional cost for the unfunded pension liabilities should a de-unionizing occur. As of March 31, 2011, we have accrued $74,000 for the potential unfunded liabilities.

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.

14. Fair Value of Financial Instruments

The authoritative accounting guidance requires disclosures about the fair value of all financial instruments. Determining estimated fair values of our financial instruments requires considerable judgment to interpret market data. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Accordingly, the estimates presented are not necessarily indicative of the amounts at which these instruments could be purchased, sold or settled.

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

The carrying amounts and estimated fair values of financial instruments, for periods indicated, were as follows (in thousands):

	March 31, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 92,411	$ 92,411	$ 217,690	$ 217,690
Restricted cash	$ 73,485	$ 73,485	$ 67,666	$ 67,666
Accounts receivable	$ 70,111	$ 70,111	$ 27,493	$ 27,493
Notes receivable	$ 20,897	$ 22,759 to $25,155	$ 20,870	$ 6,756 to $7,467
Interest rate derivatives cash flow hedges	$	$	$ 3	$ 3
Interest rate derivatives non-cash flow hedges	$ 90,058	$ 90,058	$ 106,864	$ 106,864
Due from third-party hotel managers	$ 50,571	$ 50,571	$ 49,135	$ 49,135
Financial liabilities:				
Indebtedness of continuing operations	$2,444,610	$ 2,094,292 to $2,314,744	$2,518,164	$ 2,082,207 to $2,301,387
Indebtedness of assets held for sale	$	$	$ 50,619	$ 44,587 to $49,281
Accounts payable and accrued expenses	$ 98,760	$ 98,760	$ 79,248	$ 79,248
Dividends payable	$ 14,269	$ 14,269	$ 7,281	$ 7,281
Due to related parties	$ 1,998	$ 1,998	$ 2,400	$ 2,400
Due to third-party hotel managers	$ 2,328	$ 2,328	$ 1,870	$ 1,870

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.

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

Notes receivable. Fair value of the notes receivable may be determined by using similar loans with similar collateral. Since there is very little to no trading activity we had to rely on our internal analysis of what we believe a willing buyer would pay for these notes. We estimated the fair value of the notes receivable to be approximately 9% to 20% higher than the carrying value of $20.9 million at March 31, 2011, and approximately 64% to 68% lower than the carrying value of $20.9 million at December 31, 2010.

Indebtedness. Fair value of the 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. The 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 the credit spreads. Credit spreads take into consideration general market conditions, maturity and collateral. For the indebtedness valuation, we used estimated future cash flows discounted at applicable index forward curves adjusted for credit spreads. We estimated the fair value of the total indebtedness to be approximately 5% to 14% lower than the carrying value of $2.4 billion at

March 31, 2011, and approximately 8% to 17% lower than the carrying value of $2.6 billion at December 31, 2010.

Interest rate derivatives. Fair value of the interest rate derivatives are determined using the net present value of the expected cash flows of each derivative based on the market-based interest rate curve and adjusted for credit spreads of Ashford and the counterparties. See Note 10 for a complete description of the methodology and assumptions utilized in determining the fair values.

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

15. 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 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, 2011:				
Total revenue	$ 212,294	$	$	$ 212,294
Total hotel operating expenses	138,033			138,033
Property taxes, insurance and other	10,929			10,929
Depreciation and amortization	32,973			32,973
Impairment charges		(340)		(340)
Transaction acquisition costs			(1,224)	(1,224)
Corporate general and administrative			13,883	13,883
Total expenses	181,935	(340)	12,659	194,254
Operating income (loss)	30,359	340	(12,659)	18,040
Equity in earnings of unconsolidated joint ventures	28,124			28,124
Interest income			36	36
Other income	30,000		18,003	48,003
Interest expense and amortization of loan costs			(34,578)	(34,578)
Unrealized loss on derivatives			(16,817)	(16,817)
Income (loss) from continuing operations before income taxes	88,483	340	(46,015)	42,808
Income taxes			(1,044)	(1,044)
Income (loss) from continuing operations	$ 88,483	$ 340	$ (47,059)	$ 41,764
As of March 31, 2011:				
Total assets	$ 3,404,240	$ 51,385	$ 191,142	$ 3,646,767

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

	Direct Hotel Investments	Hotel Financing	Corporate	Consolidated
Three Months Ended March 31, 2010:				
Total revenue	$ 198,866	$ 337	$	$ 199,203
Total hotel operating expenses	131,155			131,155
Property taxes, insurance and other	13,154			13,154
Depreciation and amortization	34,040			34,040
Impairment charges		(769)		(769)
Corporate general and administrative			6,658	6,658