ASHFORD HOSPITALITY TRUST INC
Form 10-Q
August 05, 2011

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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 June 30, 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). þ 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	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	68,030,940

(Class)	*Outstanding at August 5, 2011*

ASHFORD HOSPITALITY TRUST, INC
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2011
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ASHFORD HOSPITALITY TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	June 30, 2011	December 31, 2010
	(Unaudited)	
Assets		
Investments in hotel properties, net	$ 2,983,582	$ 3,023,736
Cash and cash equivalents	154,221	217,690
Restricted cash	74,257	67,666
Accounts receivable, net of allowance of $191 and $298, respectively	39,758	27,493
Inventories	2,583	2,909
Notes receivable	3,039	20,870
Investment in unconsolidated joint ventures	190,824	15,000
Assets held for sale	10,032	144,511
Deferred costs, net	16,883	17,519
Prepaid expenses	15,134	12,727
Interest rate derivatives	72,327	106,867
Other assets	4,092	7,502
Intangible assets, net	2,854	2,899
Due from third-party hotel managers	55,248	49,135
Total assets	$ 3,624,834	$ 3,716,524
Liabilities and Equity		
Liabilities:		
Indebtedness	$ 2,445,424	$ 2,518,164
Indebtedness of assets held for sale		50,619
Capital leases payable	12	36
Accounts payable and accrued expenses	86,663	79,248
Dividends payable	15,165	7,281
Unfavorable management contract liabilities	14,928	16,058
Due to related party	1,656	2,400
Due to third-party hotel managers	2,270	1,870
Other liabilities	4,567	4,627
Other liabilities of assets held for sale		2,995
Total liabilities	2,570,685	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 at December 31, 2010		72,986
Redeemable noncontrolling interests in operating partnership	163,021	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 June 30, 2011 and December 31, 2010	15	15
Series D Cumulative Preferred Stock, 8,966,797 shares issued and outstanding at June 30, 2011 and December 31, 2010	90	90
Series E Cumulative Preferred Stock, 3,350,000 shares issued and outstanding at June 30, 2011	34	
Common stock, $0.01 par value, 200,000,000 shares authorized, 124,896,765 and 122,403,893 shares issued at June 30, 2011 and December 31, 2010; 61,030,940 and 58,999,324 shares outstanding at June 30, 2011 and December 31, 2010	1,249	1,234
Additional paid-in capital	1,654,956	1,552,657
Accumulated other comprehensive loss	(287)	(550)
Accumulated deficit	(589,434)	(543,788)
Treasury stock, at cost, 63,865,825 and 64,404,569 shares at June 30, 2011 and December 31, 2010	(190,650)	(192,850)
Total shareholders equity of the Company	875,973	816,808
Noncontrolling interests in consolidated joint ventures	15,155	16,710
Total equity	891,128	833,518
Total liabilities and equity	$ 3,624,834	$ 3,716,524

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(Unaudited)			
Revenue				
Rooms	$ 177,040	$ 164,762	$ 339,789	$ 315,820
Food and beverage	41,242	40,817	79,649	76,986
Rental income from operating leases	1,484	1,454	2,704	2,543
Other	10,253	10,122	19,599	19,923
Total hotel revenue	230,019	217,155	441,741	415,272
Interest income from notes receivable		346		683
Asset management fees and other	80	138	148	212
Total revenue	230,099	217,639	441,889	416,167
Expenses				
Hotel operating expenses:				
Rooms	39,205	36,716	76,251	71,215
Food and beverage	27,121	27,119	53,602	52,601
Other expenses	68,928	68,091	134,402	130,529
Management fees	9,184	8,834	18,043	17,166
Total hotel operating expenses	144,438	140,760	282,298	271,511
Property taxes, insurance and other	11,769	12,313	22,656	25,390
Depreciation and amortization	33,027	32,906	65,804	66,749
Impairment charges	(4,316)	(1,188)	(4,656)	(1,957)
Gain on insurance settlement	(1,905)		(1,905)	
Transaction acquisition costs	406		(818)	
Corporate general and administrative	11,005	8,323	24,888	14,981
Total expenses	194,424	193,114	388,267	376,674
Operating income	35,675	24,525	53,622	39,493
Equity in earnings (loss) of unconsolidated joint ventures	(2,301)	664	25,824	1,322
Interest income	23	51	59	112
Other income	18,157	15,652	66,160	31,171
Interest expense and amortization of loan costs	(34,808)	(35,321)	(69,386)	(70,385)
Unrealized gain (loss) on derivatives	(17,694)	16,534	(34,511)	30,442

Income (loss) from continuing operations before income taxes	(948)	22,105	41,768	32,155
Income tax expense	(285)	(414)	(1,329)	(458)
Income (loss) from continuing operations	(1,233)	21,691	40,439	31,697
Loss from discontinued operations	(6,029)	(14,189)	(3,819)	(18,970)
Net income (loss)	(7,262)	7,502	36,620	12,727
(Income) loss from consolidated joint ventures attributable to noncontrolling interests	(438)	427	(1,369)	1,129
Net (income) loss attributable to noncontrolling interests in operating partnership	3,389	(1,129)	(1,729)	(1,921)
Net income (loss) attributable to the Company	(4,311)	6,800	33,522	11,935
Preferred dividends	(24,771)	(4,831)	(31,326)	(9,661)
Net income (loss) attributable to common shareholders	$ (29,082)	$ 1,969	$ 2,196	$ 2,274
Income (loss) per share Basic				
Income (loss) from continuing operations attributable to common shareholders	$ (0.40)	$ 0.27	$ 0.11	$ 0.34
Loss from discontinued operations attributable to common shareholders	(0.09)	(0.23)	(0.07)	(0.30)
Net income (loss) attributable to common shareholders	$ (0.49)	$ 0.04	$ 0.04	$ 0.04
Income (loss) per share Diluted				
Income (loss) from continuing operations attributable to common shareholders	$ (0.40)	$ 0.25	$ 0.11	$ 0.33
Loss from discontinued operations attributable to common shareholders	(0.09)	(0.19)	(0.07)	(0.26)
Net income (loss) attributable to common shareholders	$ (0.49)	$ 0.06	$ 0.04	$ 0.07
Weighted average common shares outstanding basic	59,482	50,716	58,157	51,953
Weighted average common shares outstanding diluted	59,482	72,981	58,157	59,401

Dividends declared per common share	$ 0.10	$	$ 0.20	$
Amounts attributable to common shareholders:				
Income from continuing operations, net of tax	$ 969	$ 18,659	$ 37,768	$ 27,871
Loss from discontinued operations, net of tax	(5,280)	(11,859)	(4,246)	(15,936)
Preferred dividends	(24,771)	(4,831)	(31,326)	(9,661)
Net income (loss) attributable to common shareholders	$ (29,082)	$ 1,969	$ 2,196	$ 2,274

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(Unaudited)			
Net income (loss)	$ (7,262)	$ 7,502	$ 36,620	$ 12,727
Other comprehensive income, net of tax:				
Change in unrealized loss on derivatives	(24)	(84)	(16)	(254)
Reclassification to interest expense	206	164	392	275
Total other comprehensive income	182	80	376	21
Comprehensive income (loss)	(7,080)	7,582	36,996	12,748
Less: Comprehensive (income) loss attributable to noncontrolling interests in consolidated joint ventures	(479)	402	(1,445)	1,096
Less: Comprehensive (income) loss attributable to redeemable noncontrolling interests in operating partnership	3,372	(1,138)	(1,766)	(1,920)
Comprehensive income (loss) attributable to the Company	$ (4,187)	$ 6,846	$ 33,785	$ 11,924

See Notes to Consolidated Financial Statements.

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

	Preferred Stock Series A		Preferred Stock Series D		Preferred Stock Series E		Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Treasury Stock		Noncontrolling Interests in Consolidated Joint	
	Shares	Amounts	Shares	Amounts	Shares	Amounts	Shares	Amounts	Capital	Deficit	Income/(Loss)	Shares	Amounts	Ventures	
	1,488	$ 15	8,967	$ 90		$	123,404	$ 1,234	$ 1,552,657	$ (543,788)	$ (550)	(64,404)	$ (192,850)	$ 16,710	$
y									1,472			300	1,342		
					3,350	34			80,798						
							1,393	14	17,349	(17,363)					
d									10			(27)	(284)		
									(1,142)			265	1,142		
e									1,923						
										33,522				1,369	
s									859						
										(12,044)					
										(1,590)					
										(1,374)					
										(9,470)					
										(1,529)					
											(14)				
											277			76	
sts														(3,000)	
on								100	1	1,030	(66)				

o
e

(35,732)

1,488	$ 15	8,967	$ 90	3,350	$ 34	124,897	$ 1,249	$ 1,654,956	$ (589,434)	$ (287)	(63,866)	$ (190,650)	$ 15,155	$

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(Unaudited)	
Cash Flows from Operating Activities		
Net income	$ 36,620	$ 12,727
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	66,196	73,478
Impairment charges	1,581	10,111
Equity in earnings of unconsolidated joint venture	(25,824)	(1,322)
Gain on insurance settlements	(1,905)	
Distributions of earnings from unconsolidated joint venture		414
Income from derivatives	(36,160)	(31,241)
Amortization of loan costs, write-off of loan costs and exit fees	3,338	2,998
Gain on disposition of hotel properties	(2,961)	
Unrealized (gain) loss on derivatives	34,511	(30,442)
Equity-based compensation expense	5,360	3,239
Changes in operating assets and liabilities		
Restricted cash	(6,591)	5,336
Accounts receivable and inventories	(12,148)	(11,658)
Prepaid expenses and other assets	(3,247)	(2,783)
Accounts payable and accrued expenses	8,844	24,018
Due to/from related parties	(744)	400
Due to/from third-party hotel managers	(5,713)	2,267
Other liabilities	(1,080)	(745)
Net cash provided by operating activities	60,077	56,797
Cash Flows from Investing Activities		
Repayments of notes receivable	22,487	21,984
Proceeds from sale/disposition of properties	144,077	
Investment in unconsolidated joint venture	(145,750)	
Acquisition of condominium properties	(12,000)	
Improvements and additions to hotel properties	(28,348)	(33,491)
Insurance proceeds	748	
Net cash used in investing activities	(18,786)	(11,507)
Cash Flows from Financing Activities		
Borrowings on senior credit facility	25,000	

Repayments of indebtedness and capital leases	(150,494)	(5,426)
Payments of deferred loan costs	(2,369)	(2,465)
Issuance of preferred stock	80,832	
Issuance of common stock	2,814	
Contributions from noncontrolling interests in unconsolidated joint ventures		1,034
Distributions to noncontrolling interests in consolidated joint ventures	(3,000)	(181)
Payments of dividends	(21,909)	(11,133)
Payments for derivatives	(25)	(52)
Cash income from derivatives	36,407	31,413
Repurchase of Series B-1 convertible preferred stock	(72,986)	
Repurchases of treasury stock		(45,087)
Redemption of operating partnership units		(3,763)
Issuance of operating partnership units and other	970	54
Net cash used in financing activities	(104,760)	(35,606)
Net increase (decrease) in cash and cash equivalents	(63,469)	9,684
Cash and cash equivalents at beginning of period	217,690	165,168
Cash and cash equivalents at end of period	$ 154,221	$ 174,852
Supplemental Cash Flow Information		
Interest paid	$ 66,273	$ 67,147
Income taxes paid	$ 1,551	$ 1,163
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Accrued interest added to principal of indebtedness	$ 2,111	$ 2,031
Asset contributed to unconsolidated joint venture	$ 15,000	$

See Notes to Consolidated Financial Statements.

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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 June 30, 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 June 30, 2011, we also wholly owned a mezzanine loan receivable with a carrying value of $3.0 million.

For federal income tax purposes, we elected to be treated as a REIT, which imposes limitations related to operating hotels. As of June 30, 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 June 30, 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. With respect to our unconsolidated joint venture, PIM Highland JV, the 28 hotels are leased to its wholly-owned subsidiary that is treated as a taxable REIT subsidiary for federal income tax purposes.

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 June 30, 2011, Remington Lodging managed 46 of our 97 legacy hotel properties, while third-party management companies managed the remaining 51 hotel properties. In addition, Remington Lodging also managed 16 of the 28 PIM Highland JV hotel properties and Remington Parsippany Employers LLC managed one of the 28 PIM Highland JV.

2. Significant Accounting Policies

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

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

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 and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Marriott International, Inc. (Marriott) manages 40 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 second quarters of 2011 and 2010 ended June 17 and June 18, 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 investment in hotel properties included in our continuing operations for the three and six months ended June 30, 2011 and 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 and six months ended June 30, 2011, and $346,000 and $683,000 interest income was recognized for the three and six months ended June 30, 2010, respectively.

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

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

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.

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 and six months ended June 30, 2011 or 2010. Valuation adjustments of $4.3 million and $4.7 million on previously impaired notes were credited to impairment charges during the three and six months ended June 30, 2011, respectively. Valuation adjustments credited to impairment charges for the three and six months ended June 30, 2010 were $1.2 million and $2.0 million, 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 and six months ended June 30, 2011 and 2010. We adopted the equity accounting method 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 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. Our investment in PIM Highland JV had a carrying value of $190.8 million at June 30, 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. 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 six months ended June 30, 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 $3.0 million. In June 2011, we recorded an impairment charge of $6.2 million for a hotel property that was under contract to sell at June 30, 2011. The hotel property has been classified as assets held for sale.

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

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

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 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). 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 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, the Financial Accounting Standards Board (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.

Recently Issued Accounting Standards In May 2011, FASB issued an accounting guidance for common fair value measurement and disclosure requirements. The guidance requires disclosures of (i) quantitative information about the significant unobservable inputs used for level 3 measurements; (ii) description of the valuation processes surrounding level 3 measurements; (iii) narrative description of the sensitivity of recurring level 3 measurements to unobservable inputs; (iv) hierarchy classification for items whose fair value is only disclosed in the footnotes; and (v) any transfers between level 1 and 2 of fair value hierarchy. The new accounting guidance is effective during interim and annual periods beginning after December 15, 2011. We do not expect a material impact on our financial position and results of operations from the adoption of this accounting guidance, but will make required additional disclosures upon adoption.

In June 2011, FASB issued an accounting guidance for presentation of comprehensive income. The accounting update requires an entity to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not expect a material impact on our financial position

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

and results of operations from the adoption of this accounting guidance, but will make required presentation of net income and comprehensive income upon adoption.

Reclassifications Certain amounts in the consolidated financial statements for the three and six months ended June 30, 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

Pending Sale of Hotel Property In June 2011, we entered into an agreement for the sale of the Hampton Inn hotel property in Jacksonville, Florida. Based on the selling price, we recorded an impairment charge of $6.2 million. The sale was completed in July 2011. The hotel property has been reclassified as assets held for sale in the consolidated balance sheet at June 30, 2011, and its operating results, including the impairment charge, for all periods presented have been reported as discontinued operations in the consolidated statements of operations.

Investments in Securities We continually seek new and alternative strategies to leverage our industry and capital markets knowledge in ways that we believe will be accretive to our company. We believe that we can utilize the same real-time information we use to manage our portfolio and capital structure to invest capital in the public markets within the hospitality industry. To implement this investment strategy, in the three months ended June 2011, our Board of Directors authorized the formation of an investment subsidiary to invest in public securities of lodging entities. This investment will be carried at fair market value. The maximum aggregate investment amount that can be made by this subsidiary is currently $20.0 million.

Preferred Stock Offering and Redemption of Series B-1 Convertible Preferred Stock In April 2011, we completed the offering of 3.35 million shares (including 350,000 shares pursuant to the underwriters exercise of an over-allotment option) of our 9.00% Series E Cumulative Preferred Stock at a net price of $24.2125 per share, and we received net proceeds of $80.8 million after underwriting fees. Of the net proceeds from the offering, $73.0 million was used to redeem 5.9 million shares of the total 7.3 million shares of our Series B-1 convertible preferred stock outstanding on May 3, 2011. The remaining proceeds were used for other general corporate purposes. The remaining 1.4 million outstanding Series B-1 convertible preferred shares were converted into 1.4 million shares of our common stock, which was treated as a dividend of $17.4 million paid to the Series B-1 preferred shareholder in accordance with the applicable accounting guidance.

Repayment of a Mezzanine Loan In April 2011, we entered into a settlement agreement with the borrower of the mezzanine loan which was secured by a 105-hotel property portfolio and scheduled to mature in April 2011. The borrower paid off the loan for $22.1 million. The difference between the settlement amount and the carrying value of $17.9 million was recorded as a credit to impairment charges in accordance with applicable accounting guidance. We used $20.0 million of the settlement proceeds to pay down our senior credit facility.

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% annual 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 $190.8 million at June 30, 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

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

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 2011, 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 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 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 received the settlement payment of $30.0 million and paid legal costs of $6.9 million in June 2011 ($5.5 million of the legal costs were accrued at March 31, 2011). The settlement amount was recorded as Other income and the legal costs of $6.9 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 rented 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. For the six months ended June 30, 2011, we have declared dividends of $0.20 per share, subsequent payments will be reviewed on a quarterly basis.

Completion of Sales of Hotel Properties In the six months ended June 30, 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 $93.9 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.

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

4. Investments in Hotel Properties

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

	June 30, 2011	December 31, 2010
Land	$ 487,200	$ 488,901
Buildings and improvements	2,770,209	2,774,822
Furniture, fixtures and equipment	402,685	383,860
Construction in progress	2,090	4,473
Condominium properties	12,736	
Total cost	3,674,920	3,652,056
Accumulated depreciation	(691,338)	(628,320)
Investment in hotel properties, net	$ 2,983,582	$ 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 62 of the 96 units we acquired participate in a rental pool program whereby the units are rented 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 sheets.

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

The following table presents certain information related to our hotel properties as of June 30, 2011:

Hotel Property	Location	Service Type	Total Rooms	% Owned	Owned Rooms
Fee Simple Properties					
Embassy Suites	Austin, TX	Full	150	100%	150
Embassy Suites	Dallas, TX	Full	150	100%	150
Embassy Suites	Herndon, VA	Full	150	100%	150
Embassy Suites	Las Vegas, NV	Full	220	100%	220
Embassy Suites	Syracuse, NY	Full	215	100%	215
Embassy Suites	Flagstaff, AZ	Full	119	100%	119
Embassy Suites	Houston, TX	Full	150	100%	150
Embassy Suites	West Palm Beach, FL	Full	160	100%	160
Embassy Suites	Philadelphia, PA	Full	263	100%	263
Embassy Suites	Walnut Creek, CA	Full	249	100%	249
Embassy Suites	Arlington, VA	Full	267	100%	267
Embassy Suites	Portland, OR	Full	276	100%	276
Embassy Suites	Santa Clara, CA	Full	257	100%	257
Embassy Suites	Orlando, FL	Full	174	100%	174
Hilton Garden Inn	Jacksonville, FL	Limited	119	100%	119
Hilton	Houston, TX	Full	243	100%	243
Hilton	St. Petersburg, FL	Full	333	100%	333
Hilton	Santa Fe, NM	Full	157	100%	157
Hilton	Bloomington, MN	Full	300	100%	300
Hilton	Washington DC	Full	544	75%	408
Hilton	Costa Mesa, CA	Full	486	100%	486
Hilton	Tucson, AZ	Full	428	100%	428
Homewood Suites	Mobile, AL	Limited	86	100%	86
Hampton Inn	Lawrenceville, GA	Limited	86	100%	86
Hampton Inn	Evansville, IN	Limited	141	100%	141
Hampton Inn	Terre Haute, IN	Limited	112	100%	112
Hampton Inn	Buford, GA	Limited	92	100%	92
Hampton Inn	Jacksonville, FL	Limited	118	100%	118
Marriott	Durham, NC	Full	225	100%	225
Marriott	Arlington, VA	Full	697	100%	697
Marriott	Seattle, WA	Full	358	100%	358
Marriott	Bridgewater, NJ	Full	347	100%	347
Marriott	Plano, TX	Full	404	100%	404
Marriott	Dallas, TX	Full	266	100%	266
SpringHill Suites by Marriott	Jacksonville, FL	Limited	102	100%	102
SpringHill Suites by Marriott	Baltimore, MD	Limited	133	100%	133
SpringHill Suites by Marriott	Kennesaw, GA	Limited	90	100%	90
SpringHill Suites by Marriott	Buford, GA	Limited	96	100%	96
SpringHill Suites by Marriott	Gaithersburg, MD	Limited	162	100%	162
SpringHill Suites by Marriott	Centreville, VA	Limited	136	100%	136
SpringHill Suites by Marriott	Charlotte, NC	Limited	136	100%	136
SpringHill Suites by Marriott	Durham, NC	Limited	120	100%	120

SpringHill Suites by Marriott	Orlando, FL	Limited	400	100%	400
SpringHill Suites by Marriott	Manhattan Beach, CA	Limited	164	100%	164
SpringHill Suites by Marriott	Plymouth Meeting, PA	Limited	199	100%	199
SpringHill Suites by Marriott	Glen Allen, VA	Limited	136	100%	136
Fairfield Inn by Marriott	Kennesaw, GA	Limited	87	100%	87
Fairfield Inn by Marriott	Orlando, FL	Limited	388	100%	388
Courtyard by Marriott	Bloomington, IN	Limited	117	100%	117
Courtyard by Marriott	Columbus, IN	Limited	90	100%	90
Courtyard by Marriott	Louisville, KY	Limited	150	100%	150
Courtyard by Marriott	Crystal City, VA	Limited	272	100%	272
Courtyard by Marriott	Ft. Lauderdale, FL	Limited	174	100%	174
Courtyard by Marriott	Overland Park, KS	Limited	168	100%	168
Courtyard by Marriott	Palm Desert, CA	Limited	151	100%	151
Courtyard by Marriott	Foothill Ranch, CA	Limited	156	100%	156
Courtyard by Marriott	Alpharetta, GA	Limited	154	100%	154
Courtyard by Marriott	Philadelphia, PA	Limited	498	89%	443
Courtyard by Marriott	Seattle, WA	Limited	250	100%	250
Courtyard by Marriott	San Francisco, CA	Limited	405	100%	405

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

Hotel Property	Location	Service Type	Total Rooms	% Owned	Owned Rooms
Courtyard by Marriott	Orlando, FL	Limited	312	100%	312
Courtyard by Marriott	Oakland, CA	Limited	156	100%	156
Courtyard by Marriott	Scottsdale, AZ	Limited	180	100%	180
Courtyard by Marriott	Plano, TX	Limited	153	100%	153
Courtyard by Marriott	Edison, NJ	Limited	146	100%	146
Courtyard by Marriott	Newark, CA	Limited	181	100%	181
Courtyard by Marriott	Manchester, CT	Limited	90	85%	77
Courtyard by Marriott	Basking Ridge, NJ	Limited	235	100%	235
Marriott Residence Inn	Lake Buena Vista, FL	Limited	210	100%	210
Marriott Residence Inn	Evansville, IN	Limited	78	100%	78
Marriott Residence Inn	Orlando, FL	Limited	350	100%	350
Marriott Residence Inn	Falls Church, VA	Limited	159	100%	159
Marriott Residence Inn	San Diego, CA	Limited	150	100%	150
Marriott Residence Inn	Salt Lake City, UT	Limited	144	100%	144
Marriott Residence Inn	Palm Desert, CA	Limited	130	100%	130
Marriott Residence Inn	Las Vegas, NV	Limited	256	100%	256
Marriott Residence Inn	Phoenix, AZ	Limited	200	100%	200
Marriott Residence Inn	Plano, TX	Limited	126	100%	126
Marriott Residence Inn	Newark, CA	Limited	168	100%	168
Marriott Residence Inn	Manchester CT	Limited	96	85%	82
Marriott Residence Inn Buckhead	Atlanta, GA	Limited	150	100%	150
Marriott Residence Inn	Jacksonville, FL	Limited	120	100%	120
TownePlace Suites by Marriott	Manhattan Beach, CA	Limited	144	100%	144
One Ocean	Atlantic Beach, FL	Full	193	100%	193
Sheraton Hotel	Langhorne, PA	Full	187	100%	187
Sheraton Hotel	Minneapolis, MN	Full	222	100%	222
Sheraton Hotel	Indianapolis, IN	Full	371	100%	371
Sheraton Hotel	Anchorage, AK	Full	370	100%	370
Sheraton Hotel	San Diego, CA	Full	260	100%	260
Hyatt Regency	Coral Gables, FL	Full	242	100%	242
Crowne Plaza	Beverly Hills, CA	Full	260	100%	260
Annapolis Historic Inn	Annapolis, MD	Full	124	100%	124
Air Rights/Ground Lease Properties					
Doubletree Guest Suites	Columbus, OH	Full	194	100%	194
Hilton	Ft. Worth, TX	Full	294	100%	294
Hilton	La Jolla, CA	Full	394	75%	296
Crowne Plaza	Key West, FL	Full	160	100%	160
Renaissance	Tampa, FL	Full	293	100%	293
Total			20,774		20,458

5. Notes Receivable

We had one mezzanine loan at June 30, 2011 and two mezzanine loans at December 31, 2010. In April 2011, we entered into a settlement agreement with the borrower of the mezzanine loan which was secured by a 105-hotel property portfolio and scheduled to mature in April 2011. The borrower paid off the loan for $22.1 million. The mezzanine loan had a carrying value of $17.9 million at March 31, 2011 and December 31, 2010, after an impairment charge of $7.8 million was recorded at December 31, 2010. The difference between the settlement amount and the carrying value of $4.2 million was recorded as a credit to impairment charges in accordance with applicable accounting guidance.

Our remaining mezzanine loan, which is secured by one hotel property, had an original principal balance of $38.0 million. This loan 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 June 30, 2011 and December 31, 2010, this mezzanine loan had a net carrying value of $3.0 million. Payments on this loan 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.

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

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% annual 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 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, our investment in the joint venture is accounted for using the equity method, which had a carrying value of $190.8 million at June 30, 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 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 ventures on the Consolidated Statement of Operations.

The following tables summarize the preliminary balance sheet as of June 30, 2011 and the statement of operations for the three months ended June 30, 2011 and the period from March 10, 2011 through June 30, 2011 of the PIM Highland JV (in thousands):

PIM Highland JV
Consolidated Balance Sheet

	June 30, 2011
Assets	
Investments in hotel properties, net	$ 1,261,760
Cash and cash equivalents	27,414
Restricted cash	67,552
Accounts receivable	20,992
Inventories	1,595
Deferred costs, net	13,046
Prepaid expenses and other assets	9,530
Due from third-party hotel managers	18,247
Total assets	$ 1,420,136
Liabilities and partners capital	
Liabilities:	

Indebtedness and capital leases	$ 1,096,110
Accounts payable and accrued expenses	39,273
Due to affiliates	2,991
Due to third-party hotel managers	616
Total liabilities	1,138,990
Partners capital	281,146
Total liabilities and partners capital	$ 1,420,136
Our ownership interest in PIM Highland JV	$ 190,824

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PIM Highland JV
Consolidated Statement of Operations

	Three Months Ended June 30, 2011	Period From March 10 to June 30, 2011
Revenue		
Rooms	$ 75,963	$ 92,402
Food and beverage	27,653	33,775
Other	4,379	5,297
Total revenue	107,995	131,474
Expenses		
Rooms	16,094	19,688
Food and beverage	17,964	21,924
Other expenses	31,167	37,707
Management fees	3,418	4,182
Property taxes, insurance and other	5,819	7,124
Depreciation and amortization	17,672	23,522
Transaction acquisition costs	647	18,263
General and administrative	798	970
Total expenses	93,579	133,380
Operating income (loss)	14,416	(1,906)
Interest expense and amortization of loan costs	(15,006)	(18,874)
Gain recognized at acquisition		75,372
Unrealized loss on derivatives	(1,049)	(1,639)
Income tax expense	(1,568)	(1,807)
Net income (loss)	$ (3,207)	$ 51,146
Our equity in earnings (loss) of the joint venture recorded	$ (2,301)	$ 25,824

Additionally, as of June 30, 2011, we had a 14.4% subordinated beneficial interest in a trust that holds the Four Seasons hotel property in Nevis, which had a zero carrying value. The Sheraton hotel property in Dallas, Texas, held by a joint venture, in which we had an 18% subordinated ownership interest, was carried at zero value. This hotel was sold in May 2011, but due to our subordinated status we did not receive any proceeds from the sale, and no gain or loss was recognized.

7. Assets Held for Sale and Discontinued Operations

In the six months ended June 30, 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. As of June 30, 2011, the Hampton Inn hotel property in Jacksonville, Florida was under contract for sale. The operating results of these hotel properties are reported as discontinued operations for all periods presented. For the three and six months ended June 30, 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.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Hotel revenue	$ 747	$ 22,980	$ 10,248	$ 41,463
Hotel operating expenses	(415)	(17,221)	(7,910)	(32,683)
Operating income	332	5,759	2,338	8,780
Property taxes, insurance and other	(86)	(1,919)	(769)	(3,915)
Depreciation and amortization	(196)	(3,364)	(392)	(6,729)
Impairment charges	(6,237)	(12,068)	(6,237)	(12,068)
Gain on disposal of properties	158		2,961	
Interest expense and amortization of loan costs		(2,576)	(687)	(5,075)
Write-off of premiums, loan costs and exit fees			(948)	
Loss from discontinued operations before income tax expense	(6,029)	(14,168)	(3,734)	(19,007)
Income tax (expense) benefit		(21)	(85)	37
Income from discontinued operations attributable to noncontrolling interests in consolidated joint venture		(34)	(1,031)	(72)
Loss from discontinued operations attributable to redeemable noncontrolling interests in operating partnership	749	2,364	604	3,106
Loss from discontinued operations attributable to Company	$ (5,280)	$ (11,859)	$ (4,246)	$ (15,936)

8. Indebtedness

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

Indebtedness	**Collateral**	**Maturity**	**Interest Rate**	**June 30, 2011**	**December 31, 2010**
Mortgage loan	5 hotels	December 2011	LIBOR(1) + 1.72%	$ 203,400	$ 203,400
Senior credit facility(2)	Notes receivable	April 2012	LIBOR(1) + 2.75% to 3.5%	50,000	115,000
Mortgage loan	10 hotels	May 2012	LIBOR(1) + 1.65%	167,202	167,202
Mortgage loan	2 hotels	August 2013	LIBOR(1) + 2.75%	147,533	150,383
Mortgage loan	1 hotel	May 2014	8.32%	5,580	5,775
Mortgage loan	1 hotel	December 2014	Greater of 5.5% or LIBOR(1) + 3.5%	19,740	19,740
Mortgage loan	8 hotels	December 2014	5.75%	107,908	108,940
Mortgage loan	10 hotels	July 2015	5.22%	157,676	159,001

Mortgage loan	8 hotels	December 2015	5.70%	99,686	100,576
Mortgage loan	5 hotels	December 2015	12.60%	149,528	148,013
Mortgage loan	5 hotels	February 2016	5.53%	113,718	114,629
Mortgage loan	5 hotels	February 2016	5.53%	94,307	95,062
Mortgage loan	5 hotels	February 2016	5.53%	81,690	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%	104,330	104,901
Mortgage loan	1 hotel	April 2034	Greater of 6% or Prime + 1%	6,720	6,791
Total indebtedness				$ 2,445,424	$ 2,518,164

(1) LIBOR rates were 0.19% and 0.26% at June 30, 2011 and December 31, 2010, respectively. (2) The outstanding balance of the senior credit facility was repaid in full in July 2011.

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%

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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 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 June 30, 2011, we were in compliance with all covenants or other requirements set forth in our debt and derivative agreements as amended.

In May 2011, we swapped $1.18 billion of our existing floating-rate debt (including our 71.74% of the floating rate debt of the PIM Highland JV) to a fixed one-month LIBOR rate of 0.2675%. The swap was effective from June 13, 2011 and terminates on January 13, 2012. There was no upfront cost to us for entering into this swap other than customary transaction costs.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Income (loss) attributable to common shareholders Basic:				
Income from continuing operations attributable to the Company	$ 969	$ 18,659	$ 37,768	$ 27,871
Less: Dividends on preferred stocks	(24,771)	(4,831)	(31,326)	(9,661)
Less: Dividends on common stock	(6,009)		(11,840)	
Less: Dividends on unvested restricted shares	(94)		(204)	
Less: Income from continuing operations allocated to unvested shares		(357)		(408)
Undistributed income (loss) from continuing operations allocated to common shareholders	$ (29,905)	$ 13,471	$ (5,602)	$ 17,802
Loss from discontinued operations attributable to the Company	$ (5,280)	$ (11,859)	$ (4,246)	$ (15,936)
Less: Loss from discontinued operations allocated to unvested shares		306		357
Undistributed loss from discontinued operations allocated to common shareholders	$ (5,280)	$ (11,553)	$ (4,246)	$ (15,579)
Income (loss) attributable to common shareholders Diluted:				
Income from continuing operations distributed to common shareholders	$ 6,009	$	$ 11,840	$
Undistributed income (loss) from continuing operations allocated to common shareholders	(29,905)	13,471	(5,602)	17,802
Total distributed and undistributed income (loss) from continuing operations basic	(23,896)	13,471	6,238	17,802
Add back: Income allocated to Series B-1 convertible preferred stock		1,042		2,084
Add back: Income allocated to operating partnership units		3,493		
	$ (23,896)	$ 18,006	$ 6,238	$ 19,886

Income (loss) from continuing operations allocated to common shareholders diluted				
Undistributed loss from discontinued operations allocated to common shareholders	$ (5,280)	$ (11,553)	$ (4,246)	$ (15,579)
Add back: Loss from discontinued operations allocated to operating partnership units		(2,364)		
Total distributed and undistributed net loss from discontinued operations allocated to common shareholders	$ (5,280)	$ (13,917)	$ (4,246)	$ (15,579)
Weighted average common shares outstanding	59,482	50,716	58,157	51,953
Effect of assumed conversion of Series B-1 convertible preferred stock		7,448		7,448
Effect of assumed conversion of operating partnership units		14,817		
Weighted average diluted shares outstanding	59,482	72,981	58,157	59,401
Basic income (loss) per share:				
Income (loss) from continuing operations allocated to common shareholders per share	$ (0.40)	$ 0.27	$ 0.11	$ 0.34
Loss from discontinued operations allocated to common shareholders per share	(0.09)	(0.23)	(0.07)	(0.30)
Net income (loss) allocated to common shareholders per share	$ (0.49)	$ 0.04	$ 0.04	$ 0.04
Diluted income (loss) per share:				
Income (loss) from continuing operations allocated to common shareholders per share	$ (0.40)	$ 0.25	$ 0.11	$ 0.33
Loss from discontinued operations allocated to common shareholders per share	(0.09)	(0.19)	(0.07)	(0.26)
Net income (loss) allocated to common shareholders per share	$ (0.49)	$ 0.06	$ 0.04	$ 0.07

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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 June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Income (loss) from continuing operations allocated to common shareholders is not adjusted for:				
Dividends to Series B-1 Preferred stock	17,713	$	18,737	$
Income (loss) allocated to unvested restricted shares	94	357	204	409
Income (loss) attributable to redeemable noncontrolling interests in operating partnership units	(2,640)		2,332	5,027
Total	$ 15,167	$ 357	$ 21,273	$ 5,436
Weighted average diluted shares are not adjusted for:				
Effect of unvested restricted shares	616	657	702	778
Effect of assumed conversion of Preferred B-1 preferred stock	2,788		5,018	
Effect of assumed conversion of operating partnership units	15,550		14,851	14,594
Total	18,954	657	20,571	15,372

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 June 30, 2011, the LIBOR interest rate forward curve (the Level 2 inputs) assumed an uptrend from 0.19% to 1.12% for the remaining term of our derivatives. The credit spreads (the Level 3 inputs) used in determining the fair values of the non-hedge designated derivatives assumed an uptrend in nonperformance risk for us and most of our counterparties. The credit spreads used in determining the fair values of the hedge designated derivatives assumed a downtrend in nonperformance risk for all but one 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):

	June 30, 2011			December 31, 2010		
	Level 2	Level 3	Total	Level 2	Level 3	Total
Assets						
Non-hedge derivatives:						
Interest rate swap	$ 58,604	$	$ 58,604	$ 74,283	$	$ 74,283
Interest rate flooridor	18,418		18,418	37,532		37,532
Hedge derivatives:						
Interest rate cap				3		3
Subtotal	77,022		77,022	111,818		111,818
Liabilities						
Non-hedge derivatives:						
Interest rate swap	(93)		(93)			
Interest rate floor	(4,602)		(4,602)	(4,951)		(4,951)
Subtotal	(4,695)		(4,695)	(4,951)		(4,951)
Net	$ 72,327	$	$ 72,327	$ 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance at beginning of period	$	$	$	$ (17,972)
Total unrealized loss included in earnings				(2,042)
Total unrealized loss included in other comprehensive income				
Total loss reclassified to interest expense				
Purchases				
Assets transferred into Level 3 still held at the reporting date[(1)]				
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.

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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 June 30, 2011 and the effects of these derivatives on the consolidated statements of operations for the three and six months ended June 30, 2011 were as follows ($ in thousands):

					Gain or (Loss) Recognition in Income		Interest Savings or (Cost) Recognized in Income	
				Fair Value	Three Months	Six Months	Three Months	Six Months
Derivative Type	**Notional Amount**	**Strike Rate**	**Maturity**	**Assets/ (Liability)**	**June 30, 2011**	**June 30, 2011**	**June 30, 2011**	**June 30, 2011**
Interest rate swap	$ 1,800,000	Pays LIBOR plus 2.638%, receives 5.84%	2013	$ 83,151	$ 765	$ (11,930)	$ 13,601	$ 26,835
Interest rate swap	$ 1,475,000	Pays 4.084%, receives LIBOR Plus 2.638%	2013	(23,750)	(6,975)	(2,828)	(4,599)	(8,968)
Interest rate swap	$ 325,000	Pays 4.114%, receives LIBOR plus 2.638%	2013	(797)	(976)	(921)	(185)	(368)
Interest rate swap	$ 1,180,000	Pays 0.2675%, receives LIBOR	2012	(93)	(93)	(93)	(46)	(46)
Interest rate floor	$ 325,000	1.25%	2013	(4,602)	(535)	349	(852)	(1,656)
Interest rate flooridor	$ 1,800,000	2.75% 0.50%	2011	18,418	(9,917)	(19,114)	10,238	20,363
Total				$ 72,327(1)	$ (17,731)(2)	$ (34,537)(2)	$ 18,157(3)	$ 36,160(3)

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

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

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

The fair value of our non-hedge designated interest rate derivatives as of December 31, 2010 and the effects of these derivatives on the consolidated statement of operations for the three and six months ended June 30, 2010 were as follows ($ in thousands):

					Gain or (Loss) Recognition in Income		Interest Savings or (Cost) Recognized in Income	
				Fair Value	Three Months	Six Months	Three Months	Six Months
	Notional			Assets/				

Derivative Type	Amount	Strike Rate	Maturity	(Liability)	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010
Interest rate cap	$ 1,000,000	3.75%	2011	$	$ (3)	$ (247)	$	$
Interest rate swap	$ 1,800,000	Pays LIBOR plus 2.638%, receives 5.84%	2013	95,081	20,495	33,355	13,215	26,579
Interest rate swap	$ 1,475,000	Pays 4.084%, receives LIBOR plus 2.638%	2013	(20,922)				
Interest rate swap	$ 325,000	Pays 4.114%, receives LIBOR plus 2.638%	2013	124				
Interest rate floor[1]	$ 1,475,000	1.25%	2013		(4,071)	(5,744)	(3,551)	(7,304)
Interest rate floor	$ 325,000	1.25%	2013	(4,951)	(897)	(1,266)	(782)	(1,609)
Interest rate flooridor	$ 3,600,000	1.25% 0.75%	2010		(4,367)	(6,787)	4,550	9,050
Interest rate flooridor	$ 1,800,000	1.75% 1.25%	2010		(2,245)	(3,883)	2,275	4,525
Interest rate flooridor	$ 1,800,000	2.75% 0.50%	2011	37,532	7,623	15,042		
Total				$ 106,864[2]	$ 16,535[3]	$ 30,470[3]	$ 15,707[4]	$ 31,241[4]

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

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

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

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

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

The fair value of our hedge-designated interest rate derivatives as of June 30, 2011 and the effects of these derivatives on the consolidated statement of operations for the three and six months ended June 30, 2011 were as follows ($ in thousands):

					Income (Loss) Recognized in OCI		Reclassified from Accumulated OCI into Interest Expense		Gain (Loss) Recognized in Income for Ineffective Portion	
Derivative Type	**Notional Amount**	**Strike Rates**	**Maturity**	**Fair Value Asset**	**Three Months Ended June 30, 2011**	**Six Months Ended June 30, 2011**	**Three Months Ended June 30, 2011**	**Six Months Ended June 30, 2011**	**Three Months Ended June 30, 2011**	**Six Months Ended June 30, 2011**
Interest rate cap	$ 160,000	5.00%	2011	$	$ 165	$ 306	$ 165	$ 306	$ (1)	$ (1)
Interest rate cap	$ 55,000	5.00%	2011			21		12		(9)
Interest rate cap	$ 60,800	4.81%	2012							(2)
Interest rate cap	$ 167,212	4.75%	2011		24	48	24	48		
Interest rate cap	$ 167,212	6.00%	2012		(24)	(24)				
Interest rate cap	$ 203,400	6.25%	2011		1		1	1		
Interest rate cap	$ 19,740	4.00%	2012		16	25	16	25		
Total				$ (1)	$ 182	$ 376	$ 206	$ 392	$ (1)(2)	$ (12)(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.

The fair value of our hedge-designated interest rate derivatives as of December 31, 2010 and the effects of these derivatives on the consolidated statement of operations for the three and six months ended June 30, 2010 were as follows ($ in thousands):

					Income (Loss) Recognized in OCI		Reclassified from Accumulated OCI into Interest Expense		Gain (Loss) Recognized in Income for Ineffective Portion	
Derivative Type	**Notional Amount**	**Strike Rates**	**Maturity**	**Fair Value Asset**	**Three Months Ended June 30, 2010**	**Six Months Ended June 30, 2010**	**Three Months Ended June 30, 2010**	**Six Months Ended June 30, 2010**	**Three Months Ended June 30, 2010**	**Six Months Ended June 30, 2010**
Interest rate cap	$ 160,000	5.00%	2010	$	$ 110	$ 190	$ 110	$ 186	$	$ (4)

Interest rate cap	$ 160,000	5.00%	2011		(6)	(59)				(24)
Interest rate cap	$ 55,000	5.00%	2010		26	44	27	45		
Interest rate cap	$ 55,000	5.00%	2011			(6)				
Interest rate cap	$ 60,800	4.81%	2012	2	(16)	(93)	3	4		
Interest rate cap	$ 203,400	4.50%	2010	1	1	(6)	1	1		
Interest rate cap	$ 167,212	6.00%	2010		12	26	12	26		
Interest rate cap	$ 167,212	4.75%	2011		(51)	(51)				
Interest rate corridor	$ 130,000	4.6%-6.0%	2010		11	13	11	13		
Interest rate cap	$ 19,740	4.00%	2012		(7)	(37)				
Total				$ 3(1)	$ 80	$ 21	$ 164	$ 275	$ (2)	$ (28)(2)