ASHFORD HOSPITALITY TRUST INC
Form 10-K
March 02, 2010

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

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

For the fiscal year ended December 31, 2009

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

(Exact name of registrant as specified in its charter)

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

(972) 490-9600

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock	**New York Stock Exchange**
Preferred Stock, Series A	**New York Stock Exchange**
Preferred Stock, Series D	**New York Stock Exchange**

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

o Yes þ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (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

As of June 30, 2009, the aggregate market value of 65,103,421 shares of the registrant s common stock held by non-affiliates was approximately $182,941,000.

As of March 1, 2010, the registrant had 53,731,818 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement pertaining to the 2010 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Form 10-K.

ASHFORD HOSPITALITY TRUST, INC.
YEAR ENDED DECEMBER 31, 2009
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This Annual Report is filed by Ashford Hospitality Trust, Inc., a Maryland corporation (the Company). Unless the context otherwise requires, all references to the Company include those entities owned or controlled by the Company. In this report, the terms the Company, we, us or our mean Ashford Hospitality Trust, Inc. and all entities included i its consolidated financial statements.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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PART I

Item 1. *Business*

GENERAL

Ashford Hospitality Trust, Inc., together with its subsidiaries, is a self-advised real estate investment trust (REIT). We commenced operations in August 2003 with the acquisition of six hotel properties (the Initial Properties) 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 the Company, serves as the sole general partner of our operating partnership.

During 2004, we acquired 15 hotel properties in seven transactions. In 2005, we closed three purchase transactions, resulting in the acquisition of 43 hotel properties. In 2006, we acquired an additional nine hotel properties in five transactions. In April 2007, we acquired a 51-property hotel portfolio (CNL Portfolio) from CNL Hotels and Resorts, Inc. (CNL). Pursuant to the purchase agreement, we acquired 100% of 33 properties and interests ranging from 70% to 89% in 18 properties through existing joint ventures. In connection with the CNL transaction, we acquired the 15% remaining joint venture interest in one hotel property not owned by CNL at the acquisition and acquired in May 2007 two other hotel properties previously owned by CNL (collectively, the CNL Acquisition). In December 2007, we completed an asset swap with Hilton Hotels Corporation (Hilton), whereby we surrendered our majority ownership interest in two hotel properties in exchange for Hilton s minority ownership interest in nine hotel properties. Net of subsequent sales and the asset swap, 42 and 43 of these hotels were included in our hotel property portfolio at December 31, 2009 and 2008, respectively. In 2008, we completed the sale of nine hotel properties and an office building for an aggregate sales price of $437.1 million. We received net proceeds of $428.5 million from the sales and recognized a net gain of $48.5 million.

In addition, beginning in March 2008, we entered into various derivative transactions with financial institutions to hedge our debt to improve cash flows and to capitalize on the historical correlation between changes in LIBOR and RevPAR. Through December 31, 2009, the derivative transactions made us income of $62.6 million.

In response to the recent financial market crisis, we have undertaken a series of actions to manage the sources and uses of our funds in an effort to navigate through challenging market conditions while still pursuing opportunities that can create long-term shareholder value. In this effort, we have attempted to proactively address value and cash flow deficits among certain of our mortgaged hotels, with a goal of enhancing shareholder value through loan amendments, or in certain instances, consensual transfers of hotel properties to the lenders in satisfaction of the related debt, some of which will likely result in impairment charges. In December 2009, after fully cooperating with the servicer for a consensual foreclosure or deed in lieu of foreclosure, we agreed to transfer possession and control of the Hyatt Regency Dearborn to a receiver. Additionally, we are continuing to negotiate a consensual transfer of the Westin O Hare hotel to the related lender. In each of these instances, the hotel was not generating sufficient cash flow to cover its debt service and was not expected to generate sufficient cash flow to cover its debt service for the foreseeable future. The loans secured by these hotels, subject to certain customary exceptions, were non-recourse to us. We may continue to proactively address value and cash flow deficits in a similar manner as necessary and appropriate.

As of December 31, 2009, we owned 96 hotel properties directly and six hotel properties through majority-owned investments in joint ventures, which represented 22,483 total rooms, or 22,141 net rooms excluding those attributable to joint venture partners. Our hotels are primarily operated under the widely recognized upper upscale brands of Crown Plaza, Hilton, Hyatt, Marriott, Sheraton and Westin. All these hotels are located in the United States. As of December 31, 2009, we also owned $55.7 million of mezzanine or first-mortgage loans receivable. In addition, at December 31, 2009, we had a 25% ownership in a joint venture which had $80.9 million of mezzanine loans. See Notes 3, 5 and 6 of Notes to Consolidated Financial Statements included in Item 8.

For federal income tax purposes, we elected to be treated as a REIT, which imposes limitations related to operating hotels. As of December 31, 2009, 101 of our hotel properties were leased or owned by our wholly-owned subsidiaries that are treated as taxable REIT subsidiaries for federal income tax purposes (collectively, these subsidiaries are referred to as Ashford TRS). Ashford TRS then engages third-party or affiliated hotel management companies to operate the hotels under management contracts. Hotel operating results related to these properties are included in the consolidated statements of operations. As of December 31, 2009, one hotel property

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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.

We do not operate any of our hotels directly; instead we employ hotel management companies to operate them for us under management contracts or operating leases. Remington Lodging & Hospitality, 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 December 31, 2009, Remington Lodging managed 46 of our 102 hotel properties while third-party management companies managed the remaining 56 hotel properties.

SIGNIFICANT TRANSACTIONS AND MAJOR DEVELOPMENTS

Material Impairments In June 2009, Extended Stay Hotels, LLC (ESH), the issuer of our $164 million principal balance mezzanine loan receivable secured by 681 hotels with initial maturity in June 2009, filed for Chapter 11 bankruptcy protection from its creditors. This mezzanine loan was originally purchased for $98.4 million. At the time of ESH s bankruptcy filing, a discount of $11.4 million had been amortized to increase the carrying value of the note to $109.4 million. We anticipate that ESH, through its bankruptcy filing, may attempt to impose a plan of reorganization which could extinguish our investment. Accordingly, we recorded a valuation allowance of $109.4 million in earnings for the full amount of the book value of the note. Additional valuation allowances totaling $39.3 million were recorded on four other mezzanine loans in 2009. See Notes 5 and 16 to Consolidated Financial Statements included in Item 8.

Beginning in June 2009, we elected to cease making payments on the note payable of $29.1 million secured by the Hyatt Regency Dearborn hotel property. Due to the effect of market conditions in the region, the operating cash flows from the hotel property were not anticipated to cover the principal and interest payments on the note and the related capital expenditures on the property. The lender issued a notice of default and an acceleration notice. We did not cure the notice of default and intended to fully settle the debt via a deed-in-lieu of foreclosure or foreclosure of the hotel property. As a result, we recorded an impairment charge of $10.9 million during the quarter ended June 30, 2009, to write down the carrying amount of the hotel property to its estimated fair value. Effective December 3, 2009, a receiver appointed by the State of Michigan circuit court completed taking possession and full control of the hotel property. As a result, the hotel property was deconsolidated from our consolidated financial statements and a loss of $2.9 million was recognized at deconsolidation. See Notes 4, 7 and 16 of Notes to Consolidated Financial Statements included in Item 8.

Applying a similar cash flow analysis to the Westin O Hare hotel property, we anticipated that the operating cash flows from the underlying hotel property would be inadequate to cover the related debt service payments for the foreseeable future. Based on this analysis, beginning in December 2009, we stopped making payments on the note payable of $101.0 million secured by the Westin O Hare hotel property under the terms of a Forbearance Agreement entered into with the lender which grants us a grace period through March 5, 2010. As a result, we recorded an impairment charge of $59.3 million in the fourth quarter of 2009, to write down the carrying amount of the hotel property to its estimated fair value. We are currently working with the lender for a deed-in-lieu of foreclosure during the lender extended grace period. We expect that if the deed-in-lieu of foreclosure successfully closes, the property is deeded back to the lender and we are legally released from our obligations in the future, a gain of approximately $53 million will be recognized for financial statement purposes. There should be no cash proceeds associated with such a gain. See Notes 4 and 16 of Notes to Consolidated Financial Statements included in Item 8.

Sale and Settlement of Notes Receivable In November 2009, we completed the sale of the $11.0 million mezzanine loan receivable secured by the Westin Westminster hotel property that was defeased by the original borrower. We negotiated for the release of the portfolio of government agency securities serving as the defeased loan collateral, and sold the actual securities via an auction for $13.6 million. We received net proceeds of $13.3 million and recorded a gain of $2.4 million. In addition, in February 2010, we received repayment of $20.0 million and a $4.0 million note for the settlement of the $23.0 million mezzanine loan receivable secured by the Ritz-Carlton hotel property in Key Biscayne, Florida. The carrying amount of this loan was $33.7 million before the impairment charge of $10.7 million recorded in the quarter ended September 30, 2009. See Note 26 of Notes to Consolidated Financial Statements included in Item 8.

Interest Rate Derivative Transactions In an effort to take advantage of declining LIBOR rates, we have entered into a series of interest rate derivatives, referred to as flooridors and corridors beginning in March 2009. The interest rate flooridor combines two interest rate floors, structured such that the purchaser simultaneously buys an interest

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rate floor at a strike rate X and sells an interest rate floor at a lower strike rate Y. The purchaser of the flooridor is paid when the underlying interest rate index (for example, LIBOR) resets below strike rate X during the term of the flooridor. Unlike a standard floor, the flooridor limits the benefit the purchaser can receive as the related interest rate index falls. Once the underlying index falls below strike Y, the sold floor offsets the purchased floor. The interest rate corridor involves purchasing of an interest rate cap at one strike rate X and selling an interest rate cap with a higher strike rate Y. The purchaser of the corridor is paid when the underlying interest rate index resets above the strike rate X during the term of the corridor. The corridor limits the benefit the purchaser can receive as the related interest rate index rises above the strike rate Y. There is no liability to us other than the purchase price associated with the flooridor and corridor.

In March 2009, we entered into a one-year flooridor with a financial institution for the period commencing December 14, 2009 and ending December 13, 2010 for a notional amount of $3.6 billion. The $3.6 billion flooridor establishes a floor rate of 0.75%. Under the new flooridor, the counterparty will pay us interest on the notional amount when LIBOR rates are below the original floor of 1.25% up to a maximum of 50 basis points on the notional amount. The cost of this flooridor was $8.5 million.

On July 1, 2009, we purchased two one-year term flooridors, each with a notional amount of $1.8 billion. Under the first flooridor, the counterparty pays us interest on the notional amount for the period commencing December 14, 2009 and ending December 13, 2010 when LIBOR rates are below 1.75% up to a maximum of 50 basis points on the notional amount. Under the second flooridor, the counterparty will pay us interest on the notional amount for the period commencing December 13, 2010 and ending December 13, 2011 when LIBOR rates are below 2.75% up to a maximum of 225 basis points on the notional amount. The cost of this flooridor was $22.3 million.

In October 2009, we entered into another three-month flooridor transaction for the period commencing October 1, 2009 and ending December 31, 2009 for a notional amount of $2.7 billion. Under the flooridor, the counterparty paid us interest on the notional amount as LIBOR rates remained below the floor of 2%, up to a maximum of 100 basis points. The cost of this flooridor was $6.9 million which was offset by the income received from this flooridor.

For the year ended December 31, 2009, we recognized income of $52.3 million on our interest rate derivatives. In addition, we recognized a $31.8 million unrealized loss for changes in fair values of our interest rate derivatives.

In addition, during 2009, we entered into eight interest rate caps with total notional amounts of $506.2 million to cap the interest rates on our mortgage loans with an aggregate principal amount of $506.2 million (aggregate principal balance at December 31, 2009 was $503.7 million) with strike rates between 4% and 6%. The total price for these hedges was $383,000. These interest rate caps were designated as cash flow hedges.

In December 2009, we also entered into an interest rate corridor, which was designated as cash flow hedge, with a notional amount of $130.0 million to effectively lower the existing interest rate cap on one of our floating rate mortgage loans for the period between December 2009 and May 2010. Under the corridor, the counterparty will pay us interest on the notional amount when LIBOR rates are above 4.6% up to a maximum of 140 basis points during the term of the corridor. The cost of this corridor was $13,000.

We have no further liability under the flooridors and the corridor to the counterparties.

For full descriptions of interest rate derivatives, see Notes 2 and 11 of Notes to Consolidated Financial Statements included in Item 8.

Repurchases of Common and Preferred Shares and Prepayment of Outstanding Debt Obligations In the fourth quarter of 2007, the Board of Directors authorized a $50 million common stock repurchase program, which was increased by $75 million in September 2008, and the program was subsequently amended to include both common and preferred stock. In January 2009, the Board of Directors authorized an additional $200.0 million for the repurchase plan and expanded the plan to include not only common and preferred stock but prepayment of our outstanding debt obligations, including debt secured by our hotel assets and debt senior to our mezzanine or loan investments. In February 2010, the Board of Directors expanded the repurchase program further to also include the potential repurchase of units of our operating partnership. During 2009, we purchased 30.1 million shares of our common stock at an average price of $2.71 per share, 697,600 shares of the Series A preferred stock at an average price of $7.65 per share and 727,550 shares of the Series D preferred stock at an average price of $7.31 per share for a total price of $92.0 million, including $690,000 of commissions paid to brokers.

Debt Financing and Refinancing In February 2009, we refinanced a $47.4 million principal balance mortgage loan (excluding a premium of $1.4 million) secured by a hotel property in Arlington, Virginia, with a $60.8 million mortgage loan at an interest rate of LIBOR plus 4% for three years with two one-year extension options. In addition, in March 2009, we obtained a $7.0 million mortgage loan on a previously unencumbered hotel property in Jacksonville, Florida. The new loan matures in April 2034 and bears an interest rate at the greater of 6% or prime plus 1%.

In June 2009, we modified the original maturity of the $55.0 million mortgage loan secured by the JW Marriott hotel property from September 2010 to March 2011 and paid down the outstanding principal balance by $2.5 million. The modified mortgage has an interest rate at LIBOR plus 3.75% with a LIBOR floor rate of 2.5%.

In November 2009, we refinanced two mortgage loans secured by seven hotel properties with two new loans secured by five hotel properties. The loans that were refinanced had principal balances of $75.0 million and $65.0 million and maturity dates in March 2010 and April 2011, respectively. The new loans consist of a senior loan with a principal amount of $100.0 million and a junior loan with a principal amount of $45.0 million ($41.0 million was advanced at closing) with a blended interest rate of 12.26%, and each matures in December 2015. The refinance unencumbered two hotel properties previously collateralizing the original mortgage loans.

In December 2009, we refinanced a $19.7 million mortgage loan collateralized by a hotel property in Tucson, Arizona, maturing in June 2011, with a new loan having the same principal balance and bearing interest rate at the greater of 5.5% or LIBOR plus 3.5% for a term of five years.

BUSINESS STRATEGIES

CURRENT STRATEGIES

The U.S. economy has been in a recession since December 2007 caused by the global credit crisis and declining GDP, employment, business investment, corporate profits and consumer spending. As a result of the dramatic downturn in the economy, lodging demand in the U.S. declined significantly throughout 2009 and we have experienced significant declines in demand for hotel rooms associated with leisure, group, business and transient travel. Despite this negative trend, our overall current strategy is to take advantage of the cyclical nature of the hotel industry. We believe that, in the current cycle, hotel values and cash flows, for the most part, peaked in 2007. However, we also believe that the hotel industry will recover and achieve those values and cash flows again. The question is when. Currently, we believe we will not achieve similar cash flows and values in the immediate future. Industry pundits believe the industry will achieve these cash flows by 2014 through 2016.

As a result of the current unprecedented recession, we have incurred significant impairment charges against earnings from our mezzanine loan investments. Because of these difficulties and in light of the continuing challenging market conditions in the hotel industry, investing in mezzanine loans is not one of our priorities at this time. However, as the global economic environment improves and the hotel industry stabilizes, we may refocus our efforts on the acquisition or origination of mezzanine loans at that time. Given the greater repayment risks of these types of loans, to the extent we pursue a mezzanine loan investment strategy in the future, we will likely have an even more conservative approach in underwriting these types of investments.

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

- preserving capital, enhancing liquidity, continuing current cost saving measures, and creating long term shareholder value;
- implementing selective capital improvements designed to increase profitability;
- implementing asset management strategies to minimize operating costs and increase revenues;
- repurchasing capital stock subject to regulatory limitations and our Board of Directors authorization;

- financing or refinancing hotels on competitive terms;
- utilizing hedges and derivatives to mitigate risks; and
- making other investments and pursuing other strategies that our Board of Directors deems appropriate.

The above strategy differs somewhat from our long-term investment strategy described below, which is to continue to invest in a variety of lodging-related assets; however, our current strategy reflects the difficult choices we are facing in the current business cycle. As the business cycle changes and the hotel markets recover, we intend to adjust to such changes and attempt to capitalize on favorable market fundamentals within the lodging industry. Any such shift in our strategy may come about suddenly and without notice due to other changes that affect us, the presentation of compelling investment opportunities, or for other reasons beyond our control.

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LONG-TERM STRATEGIES

Not withstanding that our current business strategy focuses on preserving capital, enhancing liquidity and continuing cost saving measures, our long-term investment strategies will continue to focus on the upscale and upper-upscale segments within the lodging industry. We believe that as supply, demand, and capital market cycles change, we will be able to shift our investment strategies to take advantage of new lodging-related investment opportunities as they may develop. Our Board of Directors may change our investment policies at any time without stockholder approval or notice.

As the business cycle changes and the hotel markets improve, we intend to continue to invest in a variety of lodging-related assets based upon our evaluation of diverse market conditions including our cost of capital and the expected returns from those investments. These investments may include: (i) direct hotel investments; (ii) mezzanine financing through origination or acquisition in secondary markets; (iii) first-lien mortgage financing through origination or acquisition in secondary markets; and (iv) sale-leaseback transactions.

Our strategy is designed to take advantage of lodging industry conditions and adjust to changes in market circumstances over time. Our assessment of market conditions will determine asset reallocation strategies. While we seek to capitalize on favorable market fundamentals, conditions beyond our control may have an impact on overall profitability and our investment returns.

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

- capitalize on both current yield and price appreciation, while simultaneously offering diversification of types of assets within the hospitality industry; and
- vary investments across an array of hospitality assets to take advantage of market cycles for each asset class.

Our long-term investment strategy primarily targets limited and full-service hotels in primary, secondary, and resort markets throughout the United States. To take full advantage of future investment opportunities in the lodging industry, we intend to invest according to the asset allocation strategies described below. However, due to ongoing changes in market conditions, we will continually evaluate the appropriateness of both our current and long-term investment strategies. Our Board of Directors may change any or all of these strategies at any time without notice.

Direct Hotel Investments In selecting hotels to acquire, we target hotels that offer one or more of the following attributes: a high current return or have the opportunity to increase in value through repositioning, capital investments, market-based recovery, or improved management practices. Our direct hotel acquisition strategy will continue to follow similar investment criteria and will seek to achieve both current income and income from appreciation. In addition, we will continue to assess our existing hotel portfolio and make strategic decisions to sell certain under-performing or non-strategic hotels that do not fit our investment strategy or criteria due to micro or macro market changes.

Mezzanine Financing Subordinated loans, or mezzanine loans, that we acquire or originate relate to a diverse segment of hotels that are located across the U.S. These mezzanine loans are secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels. As the global economic environment improves and the hotel industry stabilizes, we may refocus our efforts on the acquisition or origination of mezzanine loans. Given the greater repayment risks of these types of loans, to the extent we acquire or originate them in the future, we will have a more conservative approach in underwriting these assets. Mezzanine loans that we acquire in the future may be secured by individual assets as well as cross-collateralized portfolios of assets.

First Mortgage Financing From time to time, we may acquire or originate first mortgages. As the dynamics in the capital markets and the hotel industry make first-mortgage investments more attractive, we may acquire, potentially at a discount to par, or originate loans secured by first priority mortgages on hotels. We may be subject to certain state-imposed licensing regulations related to commercial mortgage lenders, with which we intend to comply. However, because we are not a bank or a federally chartered lending institution, we are not subject to state and federal regulatory constraints imposed on such entities.

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

BUSINESS SEGMENTS

We currently operate in two business segments within the hotel lodging industry: direct hotel investments and hotel financing. A discussion of each operating segment is incorporated by reference in Note 21 of Notes to Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data.

FINANCING STRATEGY

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

- our leverage levels across the portfolio;
- the purchase price of our investments to be acquired with debt financing;
- impact on financial covenants;
- cost of debt;
- loan maturity schedule;
- the estimated market value of our investments upon refinancing; and
- the ability of particular investments, and our Company as a whole, to generate cash flow to cover expected debt service.

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

We may use the proceeds from any borrowings for working capital to:

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

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

DISTRIBUTION POLICY

Effective with the fourth quarter ended December 31, 2008, the Board of Directors suspended the common stock dividend for 2009. In December 2009, the Board of Directors determined, subject to ongoing review, to continue the suspension of the common dividend in 2010. Notwithstanding our current distribution policy, to maintain our qualification as a REIT, we are required to make annual distributions to our stockholders of at least 90% of our REIT taxable income, excluding net capital gains, (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles). The distributions we made to our preferred stockholders and preferred unit holders have allowed us to satisfy this requirement. To the extent we are required or elect to pay dividends on our common stock in the future, such dividends may be paid in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements.

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

Our charter allows us to issue preferred stock with a preference on distributions, such as our Series A, Series B-1 and Series D preferred stock. The partnership agreement of our operating partnership also allows the operating partnership to issue units with a preference on distribution, such as our class A common units. The issuance of these series of preferred stock and units together with any similar issuance in the future, given the dividend preference on such stock or units, could limit our ability to make a dividend distribution to our common stockholders.

COMPETITION

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

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

EMPLOYEES

At December 31, 2009, we had 67 full-time employees. These employees directly or indirectly perform various acquisition, development, asset management, capital markets, accounting, legal, redevelopment, and corporate management functions. None of our corporate employees are unionized. All persons employed in day-to-day hotel operations are employees of the management companies and not the Company, and some of the management company employees are unionized.

ENVIRONMENTAL MATTERS

Under various federal, state, and local laws and regulations, an owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on such property. These laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances. Furthermore, a person who arranges for the disposal of a hazardous substance or transports a

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hazardous substance for disposal or treatment from property owned by another may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner s ability to sell the affected property or to borrow using the affected property as collateral. In connection with the ownership and operation of our properties, we, our operating partnership, or Ashford TRS may be potentially liable for any such costs. In addition, the value of any lodging property loan we originate or acquire would be adversely affected if the underlying property contained hazardous or toxic substances.

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

- historical reviews of the properties,
- reviews of certain public records,
- preliminary investigations of the sites and surrounding properties,
- screening for the presence of hazardous substances, toxic substances, and underground storage tanks, and
- the preparation and issuance of a written report.

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

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

INSURANCE

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

FRANCHISE LICENSES

We believe that the public s perception of quality associated with a franchisor can be an important feature in the operation of a hotel. Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity, and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards, and centralized reservation systems.

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As of December 31, 2009, we owned interests in 102 hotels, 101 of which operated under the following franchise licenses or brand management agreements:

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

Doubletree is a registered trademark of Hilton Hospitality, Inc.

Hilton is a registered trademark of Hilton Hospitality, Inc.

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

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

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

Marriott is a registered trademark of Marriott International, Inc.

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

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

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

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

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

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

Renaissance is a registered trademark of Marriott International, Inc.

Hyatt Regency is a registered trademark of Hyatt Corporation.

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

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

Crowne Plaza is a registered trademark of InterContinental Hotels Group.

One Ocean is a registered trademark of Remington Hotels LP.

Our management companies, including our affiliate Remington Lodging, must operate each hotel pursuant to the terms of the related franchise or brand management agreement, and must use their best efforts to maintain the right to operate each hotel pursuant to such terms. In the event of termination of a particular franchise or brand management agreement, our management companies must operate any affected hotels under another franchise or brand management agreement, if any, that we enter into. We anticipate that many of the additional hotels we acquire could be operated under franchise licenses or brand management agreements as well.

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

- training of operational personnel;
- safety;
- maintaining specified insurance;

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

display of signage; and

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

SEASONALITY

Some of our properties operations historically have been seasonal. Seasonality patterns can cause fluctuations in our quarterly lease revenue under our variable percentage leases. We anticipate that our cash flows from the operations of our properties will be sufficient to enable us to make distributions to maintain our REIT status. To the extent that cash flows from operations are insufficient during any quarter due to temporary or seasonal fluctuations in lease revenue, we expect to utilize other cash on hand or borrowings to fund required distributions. However, we cannot make any assurances that we will make distributions in the future.

ACCESS TO REPORTS AND OTHER INFORMATION

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

All reports filed with the Securities and Exchange Commission may also be read and copied at the SEC s Public Reference Room at 100 F Street, N.E. Washington, DC 20549-1090. Further information regarding the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. In addition, all of our filed reports can be obtained at the SEC s website at www.sec.gov.

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

RISKS RELATED TO OUR BUSINESS

The current financial crisis and general economic slowdown has harmed the operating performance of the hotel industry generally. If these or similar events continue or occur again in the future, our operating and financial results may be harmed by declines in occupancy, average daily room rates and/or other operating revenues.

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

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

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

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

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

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

We have voluntarily elected to cease making payments on the mortgages securing two of our hotels, and we may voluntarily elect to cease making payments on additional mortgages in the future, which could reduce the number of hotels we own as well as our revenues and could affect our ability to raise equity or debt financing in the future.

We have recently undertaken a series of actions to manage the sources and uses of our funds in an effort to navigate through challenging market conditions while still pursuing opportunities that can create long-term shareholder value. In this effort, we have attempted to proactively address value and cash flow deficits among certain of our mortgaged hotels, with a goal of enhancing shareholder value through loan amendments, or in certain instances, consensual transfers of hotel properties to the lenders in satisfaction of the related debt, some of which will likely result in impairment charges. The loans secured by these hotels, subject to certain customary exceptions, were non-recourse to us. We may continue to proactively address value and cash flow deficits in a similar manner as necessary and appropriate.

We have elected to cease making payments on the mortgages securing certain of our hotel properties. In December 2009, after fully cooperating with the servicer for a consensual foreclosure or deed in lieu of foreclosure, we agreed to transfer possession and control of the Hyatt Regency Dearborn to a receiver. Additionally, we are continuing to negotiate a consensual transfer of the Westin O Hare hotel to the related lender. In each of these instances, the hotel was not generating sufficient cash flow to cover its debt service and was not expected to generate sufficient cash flow to cover its debt service for the foreseeable future. These and any similar transfers reduce our assets and debt, and could have an adverse effect on our ability to raise equity or debt capital in the future, as well as increase the cost of such capital.

In addition to the foregoing loans, we may face issues with other loans in the future, some of which may be beyond our control, including our ability to service payment obligations from the cash flow of the applicable hotel, or the inability to refinance existing debt at the applicable maturity date. In such event, we may elect to default on the applicable loan and, as a result, the lenders would have the right to exercise various remedies under the loan documents, which would include foreclosure on the applicable hotels. Any such defaults, whether voluntary or involuntary, could result in a default under our other debt or otherwise have an adverse effect on our business, results of operations or financial condition.

Our stock repurchase program could increase the volatility of the price of our common stock and utilizes our current cash on hand.

We have repurchased shares of our common and preferred stock in the market since the fourth quarter of 2007. Under this plan, repurchases may be made in the open market, in privately negotiated transactions or by other means, from time to time, subject to market conditions, applicable legal requirements and other factors, including the limitations set forth in our debt covenants. The existence of our stock repurchase program and any purchases

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under this program could result in an increase in the market price of our stock. In addition, purchases under this repurchase program could reduce the liquidity for our stock. Our ability and willingness to continue to repurchase shares is subject to, among other things, the availability of cash resources, current market conditions, the market value of our stock, and the nature of other investment opportunities presented to us from time to time. Our stock repurchase program does not obligate us to acquire any particular amount of common or preferred stock, and the program may be suspended at any time at our discretion. Any discontinuation could cause the market price of our stock to decline. There can be no assurance that any past or future repurchases will have a positive impact on our stock price. In addition, purchases under this repurchase program could reduce the liquidity for our stock and utilize cash on hand that would otherwise be available for other corporate purposes.

Our long-term business strategy depends on our continued growth. We may be unable to return to a period of business growth, which may adversely affect our operating results.

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

If we are able to return to a period of business growth, we may be unable to identify additional investments that meet our investment criteria or to acquire the properties we have under contract.

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

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

Conflicts of interest in general and specifically relating to Remington Lodging may lead to management decisions that are not in the stockholders best interest. The Chairman of our Board of Directors, Mr. Archie Bennett, Jr., serves as the Chairman of the Board of Directors of Remington Lodging, and our Chief Executive Officer, Mr. Monty J. Bennett, serves as the Chief Executive Officer of Remington Lodging. Messrs. Archie and Monty J. Bennett beneficially own 100% of Remington Lodging, which, as of December 31, 2009, manages 46 of our 102 properties and provides related services, including property management services and project management services.

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

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

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

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

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

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

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

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

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

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

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Hotel franchise requirements could adversely affect distributions to our stockholders.

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

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

Our investments are concentrated in particular segments of a single industry.

Most of our business is hotel related. Our current long-term investment strategy is to acquire or develop upscale to upper-upscale hotels, acquire first mortgages on hotel properties, invest in other mortgage-related instruments such as mezzanine loans to hotel owners and operators, and participate in hotel sale-leaseback tran