ASHFORD HOSPITALITY TRUST INC
Form S-11
April 07, 2004

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As filed with the Securities and Exchange Commission on April 7, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-11

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ASHFORD HOSPITALITY TRUST, INC.

(Exact name of registrant as specified in its governing instruments)

14185 Dallas Parkway, Suite 1100

Dallas, Texas 75254
(972) 490-9600
(Address, including zip code, and telephone number,
including area code, of registrant s principal executive offices)

Montgomery J. Bennett

David A. Brooks
14185 Dallas Parkway, Suite 1100
Dallas, Texas 75254
(972) 490-9600
(Name, address, including zip code, and
telephone number, including area code, of agent for service)

Copies to:

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(214) 659-4400	**(919) 862-2200**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If the Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Securities Being Registered	Amount Being Registered(1)	Proposed Maximum Offering Price per Unit(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, $0.01 par value per share	8,625,000 shares	$10.00	$86,250,000	$10,928

(1) Includes 1,125,000 shares that may be purchased pursuant to an over-allotment option granted to the underwriters.

(2) Estimated solely for the purpose of determining the registration fee in accordance with Rule 457(a).

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED APRIL , 2004

PROSPECTUS

7,500,000 Shares of Common Stock

Ashford Hospitality Trust, Inc. is a real estate investment trust, or REIT, that focuses on investments in the lodging industry at all levels of the capital structure and across all segments where pricing, yield and capital appreciation advantages may exist. We are self-advised and own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. Since the completion of our initial public offering in August 2003, when we acquired six hotel properties from affiliated parties, we have acquired $203.8 million in lodging-related assets from unaffiliated parties, including 11 hotels and five loans, also known as mezzanine loans, secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels. We also have two additional properties under firm purchase contracts for a total consideration of $32.6 million that we intend to acquire with cash on hand. In addition, on March 15, 2004, we declared our first dividend of $0.06 per share.

We are offering 7,500,000 shares of our common stock. We have granted the underwriters an option to purchase up to 1,125,000 additional shares of common stock to cover over-allotments.

Our common stock is listed on the New York Stock Exchange under the symbol AHT. The last reported sale price of our common stock on the New York Stock Exchange on April 6, 2004 was $10.00 per share.

To assist us in complying with certain federal income tax requirements applicable to REITs, our charter contains certain restrictions relating to the ownership and transfer of our stock, including an ownership limit of 9.8% on our common stock.

Investing in our common stock involves risks. See Risk Factors beginning on page 12 of this prospectus to read about risks you should consider before buying our common stock. These risks include:

We may fail to integrate recent and additional investments into our operations or otherwise manage our planned growth, which may adversely affect our operating results. We cannot assure you that we will be able to complete any of the acquisitions that we have under contract.

Mr. Archie Bennett, our Chairman, and Mr. Montgomery Bennett, our President and Chief Executive Officer, have conflicts of interest with us, including ownership of our primary property manager.

We may have to pay substantial fees to our primary hotel manager, which is owned by the Bennetts, upon early termination of our hotel management agreement.

Our mortgage loan assets are generally non-recourse, and in the case of a defaulted non-recourse loan, our recovery will be limited to the value of the underlying property, which may be less than the loan amount.

Increases in the interest rates on our borrowings may reduce our net income by reducing the spread between the interest rate on our borrowings to fund an investment and the investment s return.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$

Underwriting discount	$ —	$ —
Proceeds, before expenses, to us	$	$

The underwriters have an option to purchase up to 1,125,000 additional shares of our common stock to cover over-allotments.

We expect to deliver the common stock on or about , 2004.

FRIEDMAN BILLINGS RAMSEY

The date of this prospectus is , 2004.

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No dealer, salesperson or other individual has been authorized to give any information or to make any representation other than those contained in this prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us or the underwriters. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs or that information contained herein is correct as of any time subsequent to the date hereof.

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PROSPECTUS SUMMARY

This summary highlights information relating to Ashford Hospitality Trust, Inc. and our common stock that is being offered by this prospectus. More detailed discussions of this information are contained in this prospectus. To better understand the offering and our business, you should carefully review this entire prospectus, including Risk Factors. Unless indicated otherwise, the information included in this prospectus assumes no exercise of the underwriters over-allotment option, and, unless otherwise mentioned or unless the context requires, all references in this prospectus to we, us, our or similar references mean Ashford Hospitality Trust, Inc., Ashford Hospitality Limited Partnership, our operating partnership, and our other subsidiaries. In addition, unless otherwise mentioned or unless the context requires, all reference in the Prospectus to Remington Hotel Corporation or Remington Hotel means Remington Hotel Corporation, Remington Lodging & Hospitality, L.P. and their respective subsidiaries.

In this prospectus, we often refer to units of limited partnership in Ashford Hospitality Limited Partnership, our operating partnership. These units were issued in connection with the formation of our company and the acquisition of our initial properties and assets and the acquisition of one other property we have acquired since our initial public offering. These units are redeemable for cash equal to the then-current market value of one share of common stock or, at our option, one share of our common stock, commencing one year following the issuance of the units being redeemed.

Overview

We are a Maryland corporation that was formed in May 2003 to take advantage of the existing and developing investment opportunities in the lodging industry. These diverse lodging investment opportunities may result from inefficiencies related to market illiquidity, supply/demand imbalances and general business cycles. We target specific opportunities created by the current recovering lodging market while retaining the flexibility to invest in the most attractive risk-reward opportunities as they develop in the lodging business cycle. To our knowledge, we are one of the few publicly traded REITs exclusively focused on investing in the hospitality industry at all levels of the capital structure and across all segments where pricing, yield and capital appreciation advantages may exist.

We completed an initial public offering, or IPO, of our common stock in August 2003. In connection with the IPO, we acquired six hotels and eight asset management and consulting agreements for a total cash and equity consideration of $137.6 million, including $65.7 million to repay mortgage indebtedness related to our initial assets. Upon completion of the initial public offering and related formation transactions, we had approximately $131.1 million in cash to invest in lodging-related assets and for general corporate purposes.

Since then, we have acquired 11 additional hotel properties for a total consideration of $132.2 million. For the 12 months ended December 31, 2003, the aggregate EBITDA for these 11 properties was approximately $13.9 million, and the weighted average EBITDA acquisition multiple for the 12 months ended December 31, 2003, based on the aggregate acquisition price for these 11 properties, was approximately 9.5x. For a reconciliation of EBITDA to net income, see Summary Selected Historical and Pro Forma Financial Information in this prospectus summary. Additionally, we currently have two hotel properties under firm purchase contracts, and we intend to acquire these properties for a total purchase price of approximately $32.6 million. We also have acquired or originated five mezzanine loans for a total consideration of $71.6 million since the completion of our IPO.

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Presented in the table below is certain descriptive information regarding our existing portfolio as of, and for the year ending, December 31, 2003 and information regarding the two properties that we have acquired since December 31, 2003.

Hotel Property	Location	Year Built/ Renovated	Rooms	Average Occupancy(1)	Average Daily Rate(2)	Revenue per Available Room(3)
Properties Acquired upon Completion of our IPO:						
Embassy Suites	Austin, TX	1998	150	70.3%	$114.58	$ 80.55
Embassy Suites	Dallas, TX	1998	150	65.2	108.10	70.48
Embassy Suites	Herndon, VA	1998	150	80.9	135.71	109.79
Embassy Suites	Las Vegas, NV	1999	220	84.8	107.37	91.05
Radisson Hotel	Covington, KY	1972/2000	236	59.3	67.25	39.88
Radisson Hotel	Holtsville, NY	1989/2001	188	66.0	96.24	63.52
Properties Acquired since Completion of our IPO:						
Doubletree Guest Suites	Columbus, OH	1985	194	70.8%	$ 97.43	$ 68.98
Doubletree Guest Suites	Dayton, OH	1987	137	67.8	83.02	56.29
Embassy Suites	Flagstaff, AZ	1988	119	68.7	92.10	63.27
Embassy Suites	Phoenix, AZ	1981	229	68.6	96.47	66.18
Embassy Suites	Syracuse, NY	1990	215	71.3	106.34	75.82
Hampton Inn	Lawrenceville, GA	1997	86	67.1	69.54	46.66
Hilton Garden Inn	Jacksonville, FL	1999	119	76.3	91.38	69.72
Homewood Suites	Mobile, AL	1998	86	82.1	87.00	71.43
Marriott Residence Inn(4)	Lake Buena Vista, FL	2001	210	71.5	101.67	72.69
Sea Turtle Inn(4)	Atlantic Beach, FL	1972/2000	193	75.2	111.86	84.12
SpringHill Suites by Marriott	Jacksonville, FL	2000	102	84.3	76.37	64.38
Total/ Weighted Average			2,784	71.8%	$ 98.65	$ 70.80

(1) Average occupancy represents the number of occupied rooms during the period divided by the total number of rooms available during that period.

(2) Average daily rate or ADR represents the total room revenue for the applicable period divided by the number of occupied rooms.

(3) Revenue per available room or RevPAR represents the total room revenue per total available rooms for the applicable period and is calculated by multiplying average occupancy by the average daily rate.

(4) The financial information for these properties, which we acquired after December 31, 2003, is derived from historical financial statements as of, and for the year ended, December 31, 2003.

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As of December 31, 2003, we owned one $10.0 million mezzanine loan, secured by the Hilton Times Square in New York City. Since then, we have acquired four additional mezzanine loans totaling $61.6 million secured by first or subordinate liens on 20 hotels located in 15 states.

Presented in the table below is certain descriptive information regarding our existing loan portfolio as of March 31, 2004

Property	Location	Origination or Acquisition Date	Loan Amount	Interest Rate	Maturity Date
Hilton Times Square	New York, NY	November 26, 2003	$ 10,000,000	LIBOR + 900 bps 2% LIBOR floor	August 2006, with two one-year extension options(1)
Adam s Mark	Denver, CO	January 23, 2004	15,000,000	LIBOR + 900 bps	February 2006, with three one-year extension options(2)
17 Wyndham-owned hotels (3)	12 states	March 4, 2004	25,000,000	LIBOR + 870 bps 2.5% LIBOR floor	July 2005, with three one-year extension options(4)
Embassy Suites	Boston, MA	March 19, 2004	15,000,000	LIBOR + 1025 bps 1.75% LIBOR floor	April 2007, with two one-year extension options(5)
Northland Inn & Conference Center	Brooklyn Park, MN	March 24, 2004	6,600,000	greater of 12% or LIBOR + 1000 bps 2% LIBOR floor	January 2006(6)
Total			$ 71,600,000		

(1) Interest only payments until August 2004, with amortization thereafter based on a 25-year repayment schedule. The terms of the loan prohibit prepayment through August 2004, and thereafter the loan may be prepaid subject to decreasing prepayment premiums until February 2006, when no prepayment premium is payable.

(2) Interest only payments for the first two years, with amortization during the extension period based on a 25-year repayment schedule. The terms of the loan prohibit prepayment before December 2004, and thereafter the loan may be prepaid subject to decreasing prepayment premiums until September 2005, when no prepayment premium is payable.

(3) Includes nine Wyndham hotels, three Hilton hotels, three Doubletree hotels, one Crowne Plaza hotel and one Radisson hotel.

(4) Payment terms are based on a 25-year repayment schedule, and the terms of the loan prohibit prepayment until July 2005, subject to certain release provisions.

(5) Interest only payments through maturity. The terms of the loan prohibit prepayment through September 2005.

(6) Interest only payments through maturity. At maturity, an additional interest payment will be due to reflect an accrual rate that is the greater of 15% or LIBOR plus 1300 basis points.

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We currently have two additional hotel properties under firm purchase contracts, and we intend to acquire these properties for total consideration of approximately $32.6 million. We refer to these properties in this prospectus as the acquisition properties. We will use cash on hand to pay the $25.8 million cash component of the purchase price for these properties. In addition, we intend to assume approximately $6.8 million of debt secured by the SpringHill Suites by Marriott in Baltimore, Maryland. Completion of these acquisitions is subject to customary conditions, and we cannot assure you that we will be able to complete any of the acquisitions that we have under contract or that the terms we have negotiated will not change. Presented in the table below is certain descriptive information regarding the acquisition properties as of, and for the year ending, December 31, 2003.

Hotel Property(1)	Location	Year Built or Renovated	Rooms	Average Occupancy(2)	Average Daily Rate(3)	Revenue per Available Room(4)	EBITDA(5)	EBITDA Multiple(6)
Sheraton Bucks County (unaudited)	Langhorne, PA	1986	187	68.2%	$109.82	$74.90	$2,216,377	7.5x
SpringHill Suites by Marriott	Baltimore, MD	2001	133	74.9	104.32	78.14	1,471,758	10.8x
Total/ Weighted Average			320	71.0%	$107.41	$76.24	$3,688,135	8.8x

(1) The financial information for these properties is derived from historical financial statements as of, and for the year ended, December 31, 2003.

(2) Average occupancy represents the number of occupied rooms during the period divided by the total number of rooms available during that period.

(3) Average daily rate represents the total room revenue for the applicable period divided by the number of occupied rooms.

(4) Revenue per available room represents the total room revenue per total available rooms for the applicable period and is calculated by multiplying average occupancy by the average daily rate.

(5) Represents earnings before interest, taxes, depreciation and amortization for the 12 months ended December 31, 2003. For a reconciliation of total EBITDA of our owned properties and these two acquisition properties to proforma net income, see Summary Selected Historical and Pro Forma Financial Information in this prospectus summary.

(6) EBITDA acquisition multiple represents the total acquisition price for the acquisition properties as a multiple of the EBITDA for the 12 months ended December 31, 2003.

As of April 1, 2004, we had total debt outstanding of approximately $115.7 million, comprised of $16.0 million of mortgage debt secured by the Embassy Suites Las Vegas, $6.4 million of mortgage debt secured by the Hilton Garden Inn in Jacksonville, Florida, $15.7 million of mortgage debt secured by the Sea Turtle Inn, Atlantic Beach, Florida, a $36.0 million non-recourse loan, with a current outstanding balance of $27.8 million, secured by three Embassy Suites and two Doubletrees, and a $60.0 million secured revolving credit facility, with a current outstanding balance of $49.8 million, which matures in February 2007 and is collateralized by seven hotels. We anticipate repaying the outstanding indebtedness on our secured revolving credit facility and a portion of our $36.0 million non-recourse loan with the net proceeds from this offering. After these repayments, we expect to have the full amount of our secured revolving credit facility available for re-borrowing, subject to certain restrictions.

We are self-advised and own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. We currently own an 81.7% interest in our operating partnership. The remaining 18.3% is owned by limited partners who received units in exchange for the contribution of certain of our assets. The substantial majority of these limited partnership units are owned by certain of our executives, employees and employees of our affiliates. Following completion of this offering, we expect to own 85.2% and have a 14.8% minority interest (of which less than 0.3% will be held by persons other than certain of our directors, executives, employees and employees of our affiliates). We are the sole general partner of our operating partnership.

We have elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. Because of limitations imposed on REITs in operating hotel properties, third-party managers manage each of our hotel properties. Remington Lodging & Hospitality, L.P., or Remington Lodging, is our primary property manager, managing 13 of our 17 hotel properties. Remington Lodging is wholly owned by Mr. Archie Bennett, our Chairman, and Mr. Montgomery J. Bennett, our President and Chief Executive Officer. Messrs. Archie and Montgomery Bennett also own 100% of Remington Hotel Corporation, which is one of the largest privately-owned independent hotel management companies in the country and has managed over $1 billion of hotels in 28 states. Our remaining four hotel properties are managed by Noble Management Group, a management company unaffiliated with us. Additionally, if we acquire both of the acquisition properties we currently have under firm purchase contracts, one will be managed by Remington Lodging and one will be managed by PM Hospitality Strategies, a management company unaffiliated with us.

Our principal executive offices are located at 14185 Dallas Parkway, Suite 1100, Dallas, Texas 75254. Our telephone number is (972) 490-9600. Our website is http://www.ahtreit.com. The contents of our website are not a part of this prospectus.

Our Competitive Strengths

We believe we distinguish ourselves from other owners, operators, acquirers and developers of hotel properties in a number of ways and enjoy significant competitive strengths, including:

Our senior management has significant experience in sourcing, underwriting, operating, repositioning, developing, selling and financing lodging-related assets. Our roots in the hotel industry trace back to 1968 when our Chairman, Archie Bennett, Jr., built his first hotel. Prior to our IPO, Mr. Bennett and certain members of our senior management team were involved in the investment in, or management of, 190 hotels or mortgage loans secured by hotels, totaling approximately 31,119 rooms in 33 states and in the development of 35 hotels, totaling approximately 9,201 rooms in 11 states.

Historically, our management team has successfully implemented a business strategy of identifying attractive investment opportunities in the lodging industry, matching these opportunities with appropriate institutional investors, and managing these investments, including providing development, management and construction services, for the institutional owners.

Our flexible asset allocation strategy, described below, allows us to reallocate our investments to take advantage of changing opportunities in the lodging market and the capital markets.

Our Business Strategy

Our primary business objective is to maximize stockholder value by achieving attractive risk-adjusted returns throughout the business cycles of the lodging industry. Our strategy is to selectively invest capital in a variety of lodging-related assets based on our evaluation of diverse market conditions. By investing in diversified lodging assets, at different levels of a given hotel s capital structure, we plan to take advantage of changes in the capital markets.

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

maximize economic benefits from an industry that has suffered significant reductions in value and operating performance and appears to be at the beginning stages of a recovery;

capitalize on both current yield and price appreciation, while simultaneously offering diversification of types of assets within the hospitality industry;

vary investments across an array of hospitality assets to take advantage of market cycles for each asset class; and

offer an attractive liquidity alternative to asset sales (through structure and tax deferral) and traditional financing (due to rate, structure, loan-to-value and asset class).

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Our investment strategy primarily targets limited and full service hotels in primary, secondary and resort markets throughout the United States. To take full advantage of current and future investment opportunities in the lodging industry, we will invest according to the asset allocation strategies described below. Due to ongoing changes in market conditions we will continually evaluate the appropriateness of our investment strategies, and our board of directors may change any or all of these strategies at any time. In addition to our investment activities, we will also perform certain asset management and consulting services for other management companies affiliated with Remington Hotel.

We evaluate our portfolio on a regular basis to determine if it continues to satisfy our investment criteria. Subject to certain restrictions applicable to REITs and subject to the relative illiquidity of real estate assets, we may sell investments opportunistically. Our decision to sell a hotel often will be predicated upon, among other things: projected cash flow; size of the hotel; strength of the franchise; property condition and related costs to renovate the property; strength of market demand; projected supply of hotel rooms in the market; probability of increased valuation; and geographic profile of the hotel. Our decision to sell other lodging-related assets will depend upon, among other things: management s forecast and review of the performance of our overall portfolio and management s assessment of changing conditions in the investment and capital markets.

Direct Hotel Investments

In connection with our initial public offering, we acquired six hotel properties. Since then, we have acquired 11 additional hotel properties and contracted to acquire an additional two hotel properties. In selecting the hotels that we have acquired since our initial public offering, we have targeted hotels that either offer a high current return or have the opportunity to increase in value through brand repositioning, capital investments, market based recovery or improved management practices. We intend to continue acquiring existing hotels and, under appropriate market conditions, to develop new hotels. Our direct hotel acquisition strategy will follow similar investment criteria and will seek to achieve both current income and income from appreciation. We believe that values for, and operating performances of, lodging properties remain below historical levels, making this an attractive time for acquisitions. Our direct hotel investments represent approximately 77.3% of our total investments made to date.

Mezzanine Financing

Since the date of our initial public offering, we have acquired or originated five subordinated loans, also known as mezzanine loans, secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels and, in one instance, by a junior participation in a first mortgage. We expect the current yield, on a risk-adjusted basis, on each of these mezzanine loans to provide attractive returns. The loans we have acquired or originated relate to upscale or first class hotels that we believe require no significant near-term capital expenditures, have reputable managers and are located in good or emerging sub-markets.

We intend to continue to acquire or originate mezzanine loans. Mezzanine loans that we may acquire in the future may be secured by individual assets as well as cross-collateralized portfolios of assets. Although these types of loans generally have greater repayment risks than first mortgages due to the subordinated nature of the loans, we believe that a strong need for lodging mezzanine loans currently exists on behalf of hotel owners. We believe that the recent slowdown in the travel industry has caused the value of hotel properties to decline below the values at which they were acquired or last refinanced. This decline in market value, coupled with more stringent underwriting criteria by senior hotel lenders, has caused a gap to develop in the loan-to-value ratio of these properties, making it increasingly difficult for owners to refinance their properties. We believe that mezzanine capital provides a solution for these owners by providing loans to cover the loan-to-value shortfalls. We expect this asset class to provide us with attractive yields and potentially allow us to participate in the improving economics of the underlying hotel. In addition, subject to restrictions applicable to REITs, we may acquire or originate corporate-level mezzanine loans on an unsecured basis. Our mezzanine loans represent approximately 22.7% of our total investments made to date.

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First Mortgage Financing

To date, we have not originated or purchased any first mortgages other than one junior participation in a first mortgage, which we refer to as a mezzanine loan throughout this prospectus. However, as interest rates increase and the dynamics in the hotel industry make first mortgage investments more attractive, we intend to acquire, potentially at a discount to par, or originate loans secured by first priority mortgages on hotels. 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 the state and federal regulatory constraints imposed on such entities. Also, because we do not intend to securitize our assets, we expect to be able to offer more flexible terms than commercial lenders who contribute loans to securitized mortgage pools. We anticipate that this asset class will provide us with stable, attractive current yields.

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. Our sale-leaseback strategy will target, among other things, hotel owners that want the ability to realize the value of their investments while maintaining operating control of their hotels. We will seek to structure the transactions as net leases with participation features, terms ranging up to 20 years plus extension options, and with the operating responsibility for the property assumed by the lessee. We believe these transactions will provide us current income and growth through contractual rental increases or cash flow participations.

Asset Management and Consulting Services

To comply with the REIT rules, our property managers perform the day-to-day management activities related to the operations of our properties. However, in exchange for a fee, we provide or supervise certain asset management services to property managers. These services include risk management; assistance with tax returns; negotiation of hotel franchise agreements and monitoring compliance with franchise requirements; negotiation of property financings and monitoring compliance with loan covenants; negotiation and closing of equipment leases; property litigation management; assistance with preparation of hotel budgets; and monitoring compliance with management agreements. We also occasionally provide additional services to these property managers such as market and feasibility analysis, capital improvement assistance and financial planning. To the extent permitted by REIT rules, we perform similar functions with respect to our own properties. We must monitor and limit the amount of income derived from our asset management and consulting services as fees for these services are not qualifying income for REIT purposes. We do not intend to actively pursue additional asset management and consulting contracts in the future.

Summary Risk Factors

An investment in our common stock involves various risks. You should carefully consider these and other matters discussed under Risk Factors prior to making an investment in us. Some of these risks include:

Our business strategy depends on our continued rapid growth. We may fail to integrate recent and additional investments into our operations or otherwise manage our planned growth, which may adversely affect our operating results. We cannot assure you that we will be able to complete any of the acquisitions that we have under contract or that the terms we have negotiated will not change.

Our Chairman s and Chief Executive Officer s conflicts of interest arising from their ownership interests in Remington Lodging, which manages 13 of our 17 hotel properties and receives substantial fees from us, and in other lodging business entities and their and our other officers tax

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positions and tax indemnification rights may result in management decisions not in the stockholders best interest and may make sales or refinancings of some of our properties less likely.

We may have to pay substantial fees to Remington Lodging, our primary hotel manager, which is owned by our Chairman and our Chief Executive Officer, upon early termination of our hotel management agreement.

Our mortgage loan assets are, and generally will be, non-recourse, uninsured by the government and below investment grade. In the case of a defaulted non-recourse loan, our recovery will be limited to the value of the underlying property, which may be less than the loan amount. Our mezzanine mortgage loans, even if secured, are generally subordinated to a senior lender with a first mortgage and may become unsecured upon foreclosure.

Interest rate mismatches between our borrowings and our investments as well as changes in prepayment rates on our mortgage loan assets may reduce our income.

While our current policy is to limit total consolidated indebtedness to no more than 60% of the aggregate investment in the hotels and debt instruments which we own, our board of directors may change this and our other operating policies and strategies at any time without stockholder approval. Our debt service obligations may reduce our cash available for distribution.

We have agreed for a period of up to 10 years from the date of our initial public offering to pay to certain affiliated entities that contributed assets to us in connection with our formation the amount of their income tax liability, plus a gross-up amount, if we dispose of any of their contributed properties in a taxable transaction. The partners in the contributing partnerships that could benefit from our payment of an indemnity include our Chairman, our Chief Executive Officer and other executive officers and family members of Mr. Edelman, one of our directors.

We may enter into interest rate hedging transactions, which may reduce our net income because they may be unsuccessful or the counterparties to hedging transactions may not perform their obligations.

Hotel operations are sensitive to economic and political conditions.

We depend on the business relationships and experience of our key personnel, the loss of whom could threaten our ability to execute our strategies.

If we fail to maintain our REIT status, we will be subject to greater federal income tax.

We may not be able to maintain or renew our hotel franchises, and maintaining our hotels and complying with hotel franchise standards may require us to make significant capital expenditures.

Our assets, especially our hotel properties, are illiquid, and sales of hotel properties and other assets could result in unfavorable tax consequences to us because of the Internal Revenue Code rules governing REITs.

The costs of compliance with environmental and other regulations by us and the operators of the hotels underlying our loans may harm our operating results.

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The Offering

Common stock offered by us	7,500,000 shares
Common stock outstanding after this offering	33,300,447 shares(1)
Use of proceeds	We estimate that the net proceeds of this offering will be approximately $70.3 million, after deducting the underwriting discount and estimated offering expenses payable by us. We will contribute the net proceeds of this offering to our operating partnership. Our operating partnership will subsequently use the proceeds to repay the outstanding indebtedness on our existing revolving credit facility and to repay a portion of our $36.0 million non-recourse loan.

(1) The number of shares of common stock outstanding after this offering is based on 25,800,447 shares of common stock outstanding as of March 15, 2004, and does not include: (a) 5,764,592 shares issuable upon the conversion of units of partnership interest in our operating partnership or (b) 746,964 shares reserved for issuance under our stock plan.

Distributions

To maintain our qualification as a REIT, we intend to make annual distributions to our stockholders of at least 90% of our taxable income (which for these purposes excludes our net capital gain and does not necessarily equal net income as calculated in accordance with generally accepted accounting principles). Distributions will be authorized by our board of directors and declared by us based upon a variety of factors deemed relevant by our directors, and 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, Ashford Hospitality Limited Partnership, which may depend upon receipt of lease payments with respect to our properties from the indirect, wholly-owned subsidiary of our operating partnership, Ashford TRS, and, in turn, upon the management of our properties by our property managers. On March 15, 2004, we declared a dividend to common stockholders of record of $.06 per fully-diluted share. The dividend will be paid April 15, 2004 to all stockholders of record as of March 31, 2004.

Our charter allows us to issue preferred stock with a preference on distributions, and the partnership agreement of our operating partnership allows it to issue preferred units with a preference on distributions. We currently have no intention to issue any preferred stock. We may issue preferred units in connection with the acquisition of additional properties. The dividend preference on any preferred units, or on any preferred stock we later choose to issue, could limit our ability to make a dividend distribution to our common stockholders.

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Summary Selected Historical and Pro Forma Financial Information

The following table sets forth summary selected historical and pro forma financial data for Ashford Hospitality Trust, Inc. To the extent that this information is presented for time periods or dates preceding our initial public offering, the information represents the historical financial condition and results of operations of entities that owned the assets we acquired in connection with our initial public offering.

The following summary selected historical consolidated and combined financial information as of December 31, 2003 and 2002 and for each of the two years in the period ended December 31, 2003 was derived from audited consolidated financial statements of Ashford Hospitality Trust, Inc. and its predecessor contained elsewhere in this prospectus.

With respect to the statement of operations information below, the pro forma adjustments give effect to the completion of the following transactions as if they occurred on January 1, 2003: our IPO, the issuance of restricted shares to employees, the acquisition of nine hotel properties from FelCor Lodging Limited Partnership and Noble Investment Group, the acquisition or origination of five mezzanine loans receivable, the acquisition of four hotel properties since December 31, 2003, including two properties not acquired but currently under firm purchase contracts, this offering and the related increase in weighted average shares outstanding and the reduction of interest expense associated with the pro forma changes in indebtedness.

With respect to the balance sheet information below, the pro forma adjustments give effect to the completion of the following transactions as of December 31, 2003: this offering and related reduction of debt with the proceeds, the acquisition and origination of four mezzanine loans receivable which occurred subsequent to December 31, 2003, the acquisition of four hotel properties since December 31, 2003, including two properties not acquired but currently under firm purchase contracts and the borrowing of $49.8 million under the $60.0 million revolving credit facility.

You should read the information below along with all other financial information and analysis presented in this prospectus, including the sections captioned Management s Discussion and Analysis of Financial Condition and Results of Operations and Ashford Hospitality Trust, Inc. s combined financial statements and related notes included elsewhere in this prospectus.

	Historical December 31, 2002	Historical December 31, 2003	Pro Forma Adjustments	Pro Forma December 31, 2003
Operating Information:				
Revenue				
Total revenue	$35,357,781	$42,278,601	$64,503,904	$106,782,505
Expenses				
Operating expenses, excluding depreciation and amortization	$27,134,438	$36,770,818	$47,273,155	$ 84,043,973
Depreciation & amortization	4,833,551	4,932,676	5,413,667	10,346,343
Interest expense (net of non-operating interest income)	6,482,710	4,711,073	(1,172,178)	3,538,895
Total expenses	38,450,699	46,414,567	51,514,644	97,929,211
Net income (loss) before provision for income taxes and minority interest	$ (3,092,918)	$ (4,135,966)	$12,989,260	$ 8,853,294
Provision for income taxes		(142,178)	(365,352)	(507,530)
Minority interest		357,943	(1,589,778)	(1,231,835)
Net income (loss)	$ (3,092,918)	$ (3,920,201)	$11,034,130	$ 7,113,929

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	Historical December 31, 2002	Historical December 31, 2003	Pro Forma Adjustments	Pro Forma December 31, 2003
Balance Sheet Information:				
Investment in hotel properties, net	$85,246,801	$173,723,998	$ 83,100,000	$256,823,998
Cash and cash equivalents	2,968,814	76,254,052	(71,747,640)	4,506,412
Notes receivable		10,000,000	61,600,000	71,600,000
Total assets	95,416,446	267,882,417	73,589,360	341,471,777
Mortgage notes payable	82,126,150	50,201,779	2,050,000	52,251,779
Capital leases payable	621,351	456,869		456,869
Total liabilities and owners equity	$95,416,446	$267,882,417	$ 73,589,360	$341,471,777
Other Information (unaudited):				
Total number of rooms	1,094	2,381	856	3,237
Total number of hotels	6	15	4	19
EBITDA(1)	$ 8,223,343	$ 5,449,268	$ 13,933,057	$ 19,382,325

(1) EBITDA is defined as income (loss) before net gain on sale of properties, interest expense, interest income (excluding interest income from mezzanine loans), income taxes, depreciation and amortization. We believe EBITDA is useful to investors as an indicator of our ability to service debt and pay cash distributions. EBITDA, as calculated by us, may not be comparable to EBITDA reported by other companies that do not define EBITDA exactly as we define the term. EBITDA does not represent cash generated from operating activities determined in accordance with accounting principles generally accepted in the United States (GAAP), and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

Reconciliation of EBITDA (unaudited):			
Net loss	$(3,092,918)	$(3,920,201)	$ 7,113,929
Plus depreciation and amortization	4,833,551	4,932,676	10,346,343
Plus interest expense	6,536,195	5,000,206	3,828,028
Less non-operating interest income	(53,485)	(289,133)	(289,133)
Plus provision for income taxes		142,178	507,530
Minority interest		(357,943)	1,231,835
Gross EBITDA	$ 8,223,343	$ 5,507,783	22,738,532
EBITDA related to minority interest		(58,515)	(3,356,207)
EBITDA	$ 8,223,343	$ 5,449,268	$19,382,325

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RISK FACTORS

An investment in our common stock involves various risks. You should carefully consider the following risk factors in conjunction with the other information contained in this prospectus before purchasing our common stock. The risks discussed in this prospectus can adversely affect our business, liquidity, operating results, prospects and financial condition. This could cause the market price of our common stock to decline and could cause you to lose all or part of your investment. The risk factors described below are not the only risks that may affect us. Additional risks and uncertainties not presently known to us also may adversely affect our business, liquidity, operating results, prospects and financial condition.

Risks Related to Our Business

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

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

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

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

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

Conflicts of interest relating to Remington Hotel Corporation 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 Hotel, and our Chief Executive Officer and President, Mr. Montgomery Bennett serves as the Chief Executive Officer and President of Remington Hotel. Messrs. Archie and Montgomery Bennett own 100% of Remington Hotel. Remington Lodging, which is also 100% owned by Messrs. Archie and Montgomery Bennett, manages 13 of our 17 properties and provides related services and provides property management services, fee development services and occasional property identification services for third parties. Additionally, Messrs. Archie and Montgomery Bennett own minority interests in several lodging properties not transferred to our operating partnership in connection with our initial public offering.

Messrs. Archie and Montgomery Bennett s ownership interests in and management obligations to Remington Hotel and Remington Lodging present them with conflicts of interest in making management decisions related to the commercial arrangements between us and Remington Hotel and will reduce the time and effort they each spend managing us. Our board of directors has adopted a policy that requires all management decisions relating to the management agreement with Remington Lodging be approved by a majority or, in certain circumstances, all of our independent directors. See Policies and Objectives with Respect to Certain Activities Conflict of Interest Policy.

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

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

We are a party to a master hotel management agreement and an exclusivity agreement with Remington Lodging. Of our 17 hotels, 13 are currently managed by Remington Lodging. The management agreement describes the terms of Remington Lodging s management of the 13 hotels, as well as any future hotels we may acquire that will be managed by Remington. If we terminate the management agreement as to any of our hotels that are subject to the management agreement, we will be required to pay Remington Lodging a substantial termination fee. For example, if we were to terminate the management agreement with respect to all 13 of our hotels that are currently being managed by Remington Lodging because we elected to sell those hotels, the fee would be approximately $11.3 million. The exclusivity agreement requires us to engage Remington Lodging, unless our independent directors either (i) unanimously vote to hire a different manager or developer, or (ii) by a majority vote, elect not to engage Remington Lodging because they have determined that special circumstances exist or that, based on Remington Lodging s prior performance, another manager or developer could perform the duties materially better. As the sole owners of Remington Lodging, which would receive any development, management and management termination fees payable by us under the management agreement, Messrs. Archie and Montgomery Bennett may influence our decisions to sell a hotel or acquire or develop a hotel when it is not in the best interests of our stockholders to do so.

In addition, Ashford Financial Corporation contributed to us asset management and consulting agreements that relate to management and consulting services that Ashford Financial Corporation agreed to perform for hotel property managers with respect to certain identified hotel properties. Ashford Financial Corporation is 100% owned by Messrs. Archie and Montgomery Bennett. The agreements provide for annual payments to us, as the assignee of Ashford Financial Corporation, in consideration for our performance of certain asset management and consulting services. These services relate to 27 hotel properties managed by eight management companies. The exact amount of the consideration due to us is contingent upon the revenue generated by the hotels underlying the asset management and consulting agreements. Ashford Financial Corporation has guaranteed a minimum payment to us of $1.2 million per year, subject to adjustments based on the consumer price index, for five years beginning on the date of our initial public offering. If any property underlying any asset management and consulting agreement is sold at any time, we will no longer derive any income from such property, and the amount of income we receive under the applicable asset management and consulting agreement will be decreased. Any sale or related decrease in income, however, will not affect the amount guaranteed by Ashford Financial Corporation under its guaranty.

Each of the eight management companies is either owned 100% by Messrs. Archie and Montgomery Bennett, or is a wholly-owned subsidiary of Remington Hotel Corporation, which is owned 100% by

Messrs. Archie and Montgomery Bennett. Messrs. Archie and Montgomery Bennett also have a minority ownership interest in the hotel properties benefiting from the services provided pursuant to the asset management and consulting agreements. Although they do not own a controlling interest in such properties, Messrs. Archie and Montgomery Bennett may benefit from a future sale of the properties.

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 five 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, in which Messrs. Archie and Monty Bennett have substantial ownership interests, against the tax consequences of the sale. We have agreed to pay a contributor s tax liability if we dispose of a property contributed by the contributor in a taxable transaction before the earlier of:

- 10 years after the contribution of such property, and
- the date on which the contributor no longer owns, in the aggregate, at least 25% of the units we issued to the contributor at the time of its contribution of property to our operating partnership.

This tax indemnity will be equal to the amount of the federal and state income tax liability the contributor incurs with respect to the gain allocated to the contributor. The terms of the contribution agreements also require us to gross up the tax indemnity payment for the amount of income taxes due as a result of the tax indemnity payment. While the tax indemnities 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 in a taxable transaction during the 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.

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, we are prohibited from selling or transferring the Sea Turtle Inn in Atlantic Beach, Florida until April 1, 2007 if, as a result, the entity from whom we acquired the property would recognize gain for federal tax purposes. If we sell or transfer this property after April 1, 2007, but prior to April 1, 2009, and the sale or transfer results in the entity that sold us the property having to recognize gain for federal tax purposes, we must pay $180,000 to that entity. However, this amount will be reduced by $7,500 for each passing month from April 1, 2007 until April 1, 2009.

Hotel franchise requirements could adversely affect distributions to our stockholders.

We must comply with operating standards and terms and conditions imposed by the franchisors of the hotel brands under which our hotels operate. The 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. The 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 on the completion of capital improvements that our management or board of directors determines are too expensive or otherwise not economically feasible in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, our management or board of directors may elect to allow the franchise to lapse or be terminated which could result in a change in brand franchising or operation of the hotel as an independent hotel.

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

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

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

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

Our entire business is hotel related. Our current investment strategy is to acquire or develop mid to 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 transactions. Adverse conditions in the hotel industry will have a material adverse effect on our operating and investment revenues and cash available for distribution to our stockholders.

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

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

Accordingly, while we may lease hotels to a TRS that we own, the TRS must engage a third-party operator to manage the hotels and our ability to direct and control how our hotels are operated is less than if we were able to manage our hotels directly. We have entered into a management agreement with Remington Lodging, which is owned 100% by Messrs. Archie and Montgomery Bennett, to manage 13 of our 17 lodging properties, and we have hired Noble Management Group to manage the remaining four properties we currently own. Additionally, if we acquire the SpringHill Suites by Marriott in Baltimore, Maryland, that property will be managed by PM Hospitality Strategies. We do not supervise any of the property managers or their respective personnel on a day-to-day basis, and we cannot assure you that the property managers will manage our properties in a manner that is consistent with their respective obligations under the applicable management agreement or our obligations under our hotel franchise agreements. We also cannot assure you that our property managers will not be negligent in their performance, will not engage in other criminal or fraudulent activity, or will not otherwise default on their respective management obligations to us. If any of the foregoing occurs, our relationships with the franchisors may be damaged and we may then be in breach of the franchise agreement, and we could incur liabilities resulting from loss or injury to our property or to persons at our properties, any of which could have a material adverse effect on our operating results and financial condition, as well as our ability to pay dividends to stockholders.

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

We are required to distribute to our stockholders at least 90% of our taxable income, excluding net capital gain, each year to continue to qualify as a REIT. As a result, our retained earnings available to fund acquisitions, development or other capital expenditures are nominal. After utilizing the proceeds of this offering, we will rely upon the availability of additional debt or equity capital to fund these activities. Our long-term ability to grow through acquisitions or development of hotel-related assets will be limited if we cannot obtain additional financing. Market conditions may make it difficult to obtain financing, and we cannot assure you that we will be able to obtain additional debt or equity financing or that we will be able to obtain it on favorable terms.

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

As a REIT, we are required to distribute at least 90% of our taxable income each year to our stockholders. We intend to distribute to our stockholders all or substantially all of our taxable income each year so as to qualify for the tax benefits accorded to REITs, but our ability to make distributions may be adversely affected by the risk factors described in this prospectus. We cannot assure you that we will be able to make distributions in the future. In the event of continued or future downturns in our operating results and financial performance or unanticipated capital improvements to our hotels or declines in the value of our mortgage portfolio, we may be unable to declare or pay distributions to our stockholders. The timing and amount of distributions are in the sole discretion of our board of directors, which will consider, among other factors, our financial performance, debt service obligations and applicable debt covenants (if any), and capital expenditure requirements.

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

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

If we violate covenants in any debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of certain debt covenants may result in our being unable to borrow unused amounts under our line of credit, even if repayment of some or all borrowings is not required.

In any event, financial covenants under our current or future debt obligations could impair our planned business strategies by limiting our ability to borrow beyond certain amounts or for certain purposes.

While our policy is to limit the leverage on our investments to 60% of gross assets, our board of directors may change this and our other operating policies and strategies at any time without stockholder approval. Our governing instruments do not contain any limitation on our ability to incur indebtedness.

An interest rate mismatch could occur between asset yields and borrowing rates, resulting in decreased yields on our investment portfolio.

Our operating results will depend in part on differences between the income from our assets (net of credit losses) and our borrowing costs. We intend to fund the origination and acquisition of a portion of our assets with borrowings that have interest rates that reset relatively rapidly, such as monthly or quarterly. We anticipate that, in many cases, the income from our assets will respond more slowly to interest rate fluctuations than the cost of our borrowings, creating a mismatch between asset yields and borrowing rates. Consequently, changes in interest rates, particularly short-term interest rates, may influence our net income. Increases in these rates will tend to decrease our net income and market value of our mortgage assets. We will incur operating losses if interest rate fluctuations result in our interest expense exceeding interest income.

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

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

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

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

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

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

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

- Available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought.
- The duration of the hedge may not match the duration of the related liability.
- The party owing money in the hedging transaction may default on its obligation to pay.
- The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction.
- The value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value. Downward adjustments, or mark-to-market losses, would reduce our stockholders equity.

Hedging involves risk and typically involves costs, including transaction costs, that may reduce our overall returns on our investments. These costs increase as the period covered by the hedging increases and during periods of rising and volatile interest rates. These costs will also limit the amount of cash available for distributions to stockholders. We generally intend to hedge as much of the interest rate risk as management determines is in our best interests given the cost of such hedging transactions. The REIT qualification rules may limit our ability to enter into hedging transactions by requiring us to limit our income from hedges. See Risks Related to Our Status as a REIT Complying with REIT requirements may limit our ability to hedge effectively. If we are unable to hedge effectively because of the REIT rules, we will face greater interest rate exposure than may be commercially prudent.

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

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

Risks Related to Hotel Investments

We are subject to general risks associated with operating hotels.

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

- our hotels compete with other hotel properties in their geographic markets and many of our competitors have substantial marketing and financial resources;
- over-building in our markets, which adversely affects occupancy and revenues at our hotels;
- dependence on business and commercial travelers and tourism; and
- adverse effects of general, regional and local economic conditions and increases in energy costs or labor costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists.

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

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

Our hotels have an ongoing need for renovations and other capital improvements, including replacements of furniture, fixtures and equipment. The franchisors of our hotels may also require periodic capital improvements as a condition of keeping the franchise licenses. Generally, we are responsible for the costs of these capital improvements, which gives rise to the following risks:

- cost overruns and delays;
- renovations can be disruptive to operations and can displace revenue at the hotels, including revenue lost while rooms under renovation are out of service;
- the cost of funding renovations and the possibility that financing for these renovations may not be available on attractive terms; and
- the risk that the return on our investment in these capital improvements will not be what we expect.

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

The hotel business is seasonal, which will affect our results of operations from quarter to quarter.

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

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

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

actual development costs may exceed our budgeted or contracted amounts;

construction delays may prevent us from opening hotels on schedule;

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

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

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

Risks Relating to Investments in Mortgages and Mezzanine Loans

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

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

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

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

Interest rate fluctuations affect the value of our mortgage assets, net income and common stock.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Interest rate fluctuations can adversely affect our income and value of our common stock in many ways and present a variety of risks including the risk of variances in the yield curve, a mismatch between asset yields and borrowing rates, and changing prepayment rates.

Variances in the yield curve may reduce our net income. The relationship between short-term and longer-term interest rates is often referred to as the yield curve. Short-term interest rates are ordinarily lower than longer-term interest rates. If short-term interest rates rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our assets. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested in mortgage loans, the spread between the yields of the new investments and available borrowing rates may decline, which would likely decrease our net income. It is also possible that short-term interest rates may exceed longer-term interest rates (a yield curve inversion), in which event our borrowing costs may exceed our interest income and we could incur operating losses.

The effect of a mismatch between asset yields and borrowing rates is explained above under Risks Related to our Business An interest rate mismatch could occur between asset yields and borrowing rates, resulting in decreased yields on our investment portfolio. The effect of mortgage prepayments are explained in the risk factor immediately below.

Prepayment rates on our mortgage loans may adversely affect our yields.

The value of our mortgage loan assets may be affected by prepayment rates on investments. Prepayment rates are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond our control, and consequently, such prepayment rates cannot be predicted with certainty. To the extent we originate mortgage loans, we expect that such mortgage loans will have a measure of protection from prepayment in the form of prepayment lock-out periods or prepayment penalties. However, this protection may not be available with respect to investments that we acquire but do not originate. Four of the five mortgage loans assets we currently have in our investment portfolio have some combination of prepayment lock-out periods or prepayment penalties; however, we cannot assure you that these lock-out periods or penalties will sufficiently protect us from prepayment risk or that future mortgage loans we acquire will have prepayment protection mechanisms.

In periods of declining mortgage interest rates, prepayments on mortgages generally increase. If general interest rates decline as well, the proceeds of prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the investments that were prepaid. In addition, the market value of mortgage investments may, because of the risk of prepayment, benefit less from declining interest rates than from other fixed-income securities. Conversely, in periods of rising interest rates, prepayments on mortgages generally decrease, in which case we would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios we may fail to fully recoup our cost of acquisition of certain investments.

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

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

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

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

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

Risks Related to the Real Estate Industry

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

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

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

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

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

- adverse changes in national and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning and other ordinances and costs of compliance with laws and regulations;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of war and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

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

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make

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those improvements. In acquiring a property, we may agree to lock-out provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could have a material adverse effect on our operating results and financial condition, as well as our ability to pay dividends to stockholders.

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

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

- our knowledge of the contamination;
- the timing of the contamination;
- the cause of the contamination; or
- the party responsible for the contamination of the property.

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

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

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

Our properties and the properties underlying our mortgage loans may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem or reduce the ability of our borrowers to meet their debt obligations to us or reduce the value of the collateral for our loan assets.

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

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

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

We may experience uninsured or underinsured losses.

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

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

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

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Risks Related to Our Status as a REIT

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

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

- we would be taxed as a regular domestic corporation, which, among other things, means being unable to deduct distributions to stockholders in computing taxable income and being subject to federal income tax on our taxable income at regular corporate rates;
- we would also be subject to federal alternative minimum tax and, possibly, increased state and local taxes;
- any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders; and
- unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification, and, thus, our cash available for distribution to stockholders would be reduced for each of the years during which we did not qualify as a REIT.

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

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

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

- We will be required to pay tax on undistributed REIT taxable income.
- We may be required to pay the alternative minimum tax on our items of tax preference.
- If we have net income from the disposition of foreclosure property held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay tax on that income at the highest corporate rate.
- If we sell a property in a prohibited transaction, our gain from the sale would be subject to a 100% penalty tax. A prohibited transaction would be a sale of property, other than a foreclosure property, held primarily for sale to customers in the ordinary course of business.
- Our taxable REIT subsidiary, Ashford TRS, is a fully taxable corporation and will be required to pay federal and state taxes on its income.

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

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution.

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Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

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

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

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

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

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

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

From time to time, we may generate taxable income greater than our net income for financial reporting purposes due to, among other things, amortization of capitalized purchase premiums, or our taxable income may be greater than our cash flow available for distribution to stockholders. If we do not have other funds available in these situations, we could be required to borrow funds, sell investments at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity.

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

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or you as a stockholder. On May 28, 2003, the President signed the Jobs and

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Growth Tax Relief Reconciliation Act of 2003, which we refer to as the Jobs and Growth Tax Act. Effective for taxable years beginning after December 31, 2002, the Jobs and Growth Tax Act reduced the maximum rate of tax applicable to individuals on dividend income from regular C corporations from 38.6% to 15.0%. This reduced substantially the so-called double taxation (that is, taxation at both the corporate and stockholder levels) that has generally applied to corporations that are not taxed as REITs. Generally, dividends from REITs will not qualify for the dividend tax reduction. The implementation of the Jobs and Growth Tax Act could cause individual investors to view stocks of non-REIT corporations as more attractive relative to shares of REITs than was the case previously because the dividends paid by non-REIT corporations would be subject to lower tax rates for the individual. We cannot predict whether in fact this will occur or whether, if it occurs, what the impact will be on the value of our common shares.

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

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

Risk Factors Related to Our Corporate Structure

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

We intend to continue paying quarterly dividends and to make distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. However, our ability to pay dividends may be adversely affected by the risk factors described in this prospectus. All distributions will be made at the discretion of our board of directors and will depend upon our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future. In addition, some of our distributions may include a return of capital.

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

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

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

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

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

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

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

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

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

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend distributions, may adversely affect the market price of our common stock.

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

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estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

Common stock eligible for future sale may have adverse effects on our share price.

We cannot predict the effect, if any, of future sales of common stock, or the availability of common stock for future sales, on the market price of our common stock. Sales of substantial amounts of common stock (including up to (i) 5,764,592 shares of common stock issuable upon the conversion of units of our operating partnership, (ii) 759,717 restricted shares, issued to certain of our directors, executive officers and employees of the company and its affiliates, which, in the case of the executive officers and employees, are subject to continued employment by such officer or employee and (iii) restricted shares issuable to executive officers only if specified performance criteria are satisfied), or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock.

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

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

Our future success depends, to a significant extent, upon the continued services of our management team. In particular, the lodging industry experience of Messrs. Archie and Montgomery Bennett, Kessler, Brooks, Kimichik and Nunneley and the extent and nature of the relationships they have developed with hotel franchisors, operators and owners and hotel lending and other financial institutions are critically important to the success of our business. We do not maintain key person life insurance on any of our officers. Although these officers currently have employment agreements with us through 2006 (2007 for Mr. Montgomery Bennett), we cannot assure you of the continued employment of all of our officers. The loss of services of one or more members of our corporate management team could harm our business and our prospects.

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

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

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

Although we have adopted a policy pursuant to which we maintain the amount of indebtedness that we incur at no more than 60% of the aggregate investment in the hotels and debt instruments which we own, our board may amend or waive this debt policy and our other operating policies at any time without stockholder approval and without notice to stockholders. Changes in our strategy or investment or leverage policy could expose us to greater credit risk and interest rate risk or could result in a more leveraged balance sheet. We cannot predict the effect any changes to our current operating policies and strategies may have on our business, operating results and stock price. However, the effects may be adverse.

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A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus 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;
- the impact of technology on our operations and business; and
- use of the proceeds of this offering.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider this risk when you make an investment decision concerning our common stock. Additionally, the following factors could cause actual results to vary from our forward-looking statements:

- the factors discussed in this prospectus, including those set forth under the sections titled Risk Factors, Management s Discussion and Analysis of Financial Conditions and Results of Operations and 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 the words will likely result, may, anticipate, estimate, should, expect, believe, intend, or similar expressions, we 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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USE OF PROCEEDS

We estimate that the net proceeds of this offering will be approximately $70.3 million, after deducting the underwriting discount and estimated offering expenses payable by us. If the underwriters over-allotment option is exercised in full, our net proceeds will be approximately $80.9 million. We will contribute the net proceeds of this offering to our operating partnership. Our operating partnership will subsequently use the net proceeds received from us as follows:

approximately $49.8 million to repay the outstanding principal balance of our $60.0 revolving credit facility, which is secured by seven of our hotel properties, bears interest at the annual rate of LIBOR plus 3.25% and has a term ending February 5, 2007; and

approximately $20.5 million to pay down a portion of the $27.8 million outstanding principal balance of our $36.0 million non-recourse loan, which is secured by five of our hotel properties, bears interest at the annual rate LIBOR plus 3.25% and has a term ending December 31, 2007.

The proceeds from our revolving credit facility were used to fund (i) the origination of a mezzanine loan receivable secured by a junior lien on the Northland Inn and Conference Center in Brooklyn Park, Minnesota and (ii) the acquisition of the Marriott Residence Inn in Lake Buena Vista, Florida and the Sea Turtle Inn in Atlantic Beach, Florida. The proceeds from our $36.0 million non-recourse loan were used to fund the acquisition of two of our mezzanine loans.

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CAPITALIZATION

The following table sets forth our capitalization (i) as of December 31, 2003 on an historical basis; (ii) as adjusted to give effect to the sale of 7,500,000 shares of common stock at an assumed offering price of $10.00 per share, the acquisition of the two hotel properties we have completed since December 31, 2003 and the acquisition or origination of the four mezzanine loans we have completed since December 31, 2003, in each case, as of December 31, 2003; and (iii) as further adjusted to give effect to the completion of the acquisition of the two properties we currently have under firm purchase contracts. You should read this table in conjunction with the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical and unaudited pro forma financial information and related notes included elsewhere in this prospectus.

	Historical December 31, 2003	Pro Forma Adjustments(1)	Pro Forma December 31, 2003
Debt:			
Mortgage notes payable	$ 50,201,779	$ 2,050,000	$ 52,251,779
Capital leases payable	456,869		456,869
Total debt	$ 50,658,648	$ 2,050,000	$ 52,708,648
Stockholders equity:			
Common Stock, $.01 par value per share, 200,000,000 shares authorized, 25,730,047 at December 31, 2003 issued and outstanding, as adjusted	$ 257,300	$ 75,000	$ 332,300
Additional paid-in capital	179,226,668	70,175,000	249,401,668
Unearned compensation and accumulated deficit	(7,191,720)		(7,191,720)
Total stockholders equity	$172,292,248	$70,250,000	$242,542,248
Total capitalization	$222,950,896	$72,300,000	$295,250,896

(1) For detail regarding these pro forma adjustments, see the footnotes to the consolidated pro forma balance sheet as of December 31, 2003 under Unaudited Pro Forma Financial Information in this prospectus.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTION POLICY

Our common stock trades on the New York Stock Exchange under the symbol AHT. The following table sets forth, for the periods indicated, the high, low and last sale prices in dollars on the NYSE for our common stock.

	Price Range			
	High	**Low**	**Last**	**Cash Dividend Per Share**
Year ending December 31, 2004				
First quarter	$10.52	$9.10	$10.19	$0.06
Year ending December 31, 2003				
Fourth quarter	$ 9.80	$8.97	$ 9.39	
Third quarter (from August 29, 2004, date of initial public offering)	$ 9.50	$8.85	$ 8.97	

As of April 6, 2004, the closing sale price for our common stock, as reported on the NYSE, was $10.00. As of March 26, 2004, there were 25,800,447 shares of common stock outstanding held by approximately 2,600 holders of record. The number of shares outstanding does not include outstanding units of limited partnership interest in our operating partnership, and the number of holders of record does not reflect the beneficial ownership of shares held in nominee names.

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We intend to make regular quarterly distributions to our stockholders. To qualify as a REIT, we must distribute to our stockholders an amount at least equal to:

(i) 90% of our REIT taxable income, determined before the deduction for dividends paid and excluding any net capital gain (which for those purposes excludes our net capital gain and does not necessarily equal net income as calculated in accordance with generally accepted accounting principles); plus

(ii) 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Internal Revenue Code; less

(iii) any excess non-cash income (as determined under the Internal Revenue Code). See Federal Income Tax Consequences of Our Status as a REIT.

On March 15, 2004, we declared a dividend to common stockholders of record of $.06 per fully-diluted share. The dividend will be paid April 15, 2004 to all stockholders of record as of March 31, 2004. We have not declared any other dividends since our inception.

Future distributions will be authorized by our board of directors and declared by us based upon a number of factors, including actual results of operations, the timing of the investment of the net proceeds of this offering, the amount of funds from operations, our financial condition, debt service requirements, capital expenditure requirements for our properties, our taxable income, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, our operating expenses and other factors our directors deem relevant. Our ability to pay dividends to our stockholders will depend upon our receipt of distributions from our operating partnership, Ashford Hospitality Limited Partnership, which may depend, in part, upon receipt of lease payments with respect to our properties from Ashford TRS, and, in turn, upon the management of our properties by our property managers. Distributions to stockholders will generally be taxable to our stockholders as ordinary income; however, because a portion of our investments are equity ownership interests in hotels, which will 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 not inconsistent with maintaining our REIT status, we may accumulate earnings of Ashford TRS in that entity. We cannot assure you that we will be able to generate sufficient revenue from operations to pay dividends to our stockholders or that our directors will not change our dividend policy in the future. See Risk Factors.

Our charter allows us to issue preferred stock with a preference on distributions, and the partnership agreement of our operating partnership allows us to issue preferred units with a preference on distributions. We currently have no intention to issue any preferred stock. We may issue preferred units in connection with the acquisition of additional properties. The dividend preference on any preferred units, or any preferred stock we may later choose to issue, could limit our ability to make a dividend distribution to our common stockholders.

We anticipate adopting, in the future, a dividend reinvestment plan that will allow our stockholders that have enrolled in the plan to reinvest their distributions automatically in additional shares of common stock.

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SELECTED FINANCIAL INFORMATION

The following table sets forth selected consolidated historical operating and financial data for Ashford Hospitality Trust, Inc. To the extent that this information is presented for time periods or dates preceding our initial public offering on August 29, 2003, the information represents the combined historical financial condition and results of operations of the predecessor entities that owned the assets we acquired in connection with our initial public offering.

The following selected historical consolidated and combined balance sheet information as of December 31, 2003, 2002 and 2001 and statement of operations information for each of the four years in the period ended December 31, 2003 was derived from audited financial statements. The following selected combined historical financial information as of December 31, 2000 and 1999 and for the year ending December 31, 1999 was derived from unaudited financial statements. The unaudited historical combined financial statements include all adjustments, consisting of normal recurring adjustments, which we consider necessary for a fair presentation of our financial condition and the results of operations as of such dates and for such periods under accounting principles generally accepted in the United States.

You should read the information below along with all other financial information and analysis presented in this prospectus, including the sections captioned Management s Discussion and Analysis of Financial Condition and Results of Operations and Ashford Hospitality Trust, Inc. s consolidated and combined financial statements and related notes included elsewhere in this prospectus.

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	Year Ended December 31,				
	2003(1)	2002	2001	2000	1999
Operating Data:					
Revenue:					
Hotel revenues					
Rooms	$34,682,916	$28,529,640	$29,165,515	$24,654,910	$17,420,118
Food and beverage	6,158,916	5,698,029	5,691,902	3,178,314	1,911,786
Interest income from mezzanine loans	110,000				
Other	1,326,769	1,130,112	1,358,229	1,470,000	800,664
Total Operating Revenue	$42,278,601	$35,357,781	$36,215,646	$29,303,224	$20,132,568
Expenses:					
Rooms	$ 8,113,097	$ 6,461,721	$ 6,260,660	$ 5,763,985	$ 4,729,894
Food and beverage	4,702,780	4,183,371	4,477,315	2,473,295	1,725,270
Other direct	900,621	621,693	608,350	661,351	508,164
Indirect	14,823,432	12,370,304	12,373,861	8,721,893	6,896,658
Management fees, including related parties	1,369,888	1,059,867	1,463,900	1,308,966	907,612
Property taxes, insurance and other	2,858,050	2,437,482	2,197,404	1,558,545	1,096,857
Depreciation and amortization	4,932,676	4,833,551	4,446,486	3,249,308	2,738,428
Corporate general and administrative	4,002,950				
Total Operating Expenses	$41,703,494	$31,967,989	$31,827,976	$23,737,343	$18,602,883
Operating income (loss)	575,107	3,389,792	4,387,670	5,565,881	1,529,685
Interest income	289,133	53,485	226,531	161,004	9,075
Interest expense	(5,000,206)	(6,536,195)	(7,520,694)	(5,014,163)	(3,417,233)
Net income (loss) before provision for income taxes and minority interest	$ (4,135,966)	$ (3,092,918)	$ (2,906,493)	$ 712,722	$ (1,878,473)
Provision for income taxes	(142,178)				
Minority interest	357,943				
Net income (loss)	$ (3,920,201)	$ (3,092,918)	$ (2,906,493)	$ 712,722	$ (1,878,473)
Basic and diluted loss per share from inception through December 31, 2003	$ (0.07)				
Weighted average basic and diluted shares outstanding from inception through December 31, 2003	24,627,298				

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	Year Ended December 31,				
	2003[(1)]	2002	2001	2000	1999
Dividends were not declared during the five years presented.					
Balance Sheet Information:					
Investments in hotel properties, net	$173,723,998	$85,246,801	$ 88,874,078	$ 68,292,242	$ 58,710,746
Cash, cash equivalents and restricted cash	77,627,643	6,322,368	8,329,486	5,991,418	5,381,569
Notes receivable	10,000,000				
Total assets	267,882,417	95,416,446	100,001,305	77,046,232	66,843,976
Mortgage notes payable	50,201,779	82,126,150	80,410,792	49,355,734	39,653,655
Capital leases payable	456,869	621,351	277,810	92,370	
Total liabilities	57,943,496	86,105,492	84,684,368	53,836,084	43,438,808
Total liabilities and owners equity	267,882,417	$95,416,446	$100,001,305	$ 77,046,232	$ 66,843,976
Other Information:					
Cash Flow:					
Provided by (used in) operating activities	$ 5,734,806	$ 622,734	$ 1,108,150	$ 4,870,739	$ (628,153)
Used in investing activities	$ (89,188,930)	$ (1,079,824)	$ (24,899,286)	$(12,778,381)	$(23,744,316)
Provided by (used in) financing activities	$161,718,791	$ (1,726,457)	$ 24,921,233	$ 8,315,129	$ 26,303,213
Unaudited:					
Total number of rooms	2,381	1,094	1,094	906	670
Total number of hotels	15	6	6	5	4
EBITDA[(2)]	$ 5,449,268	$ 8,223,343	$ 8,834,156	$ 8,815,188	$ 4,268,113
FFO[(3)]	$ 647,287	$ 1,740,633	$ 1,539,993	$ 3,962,030	$ 859,954

(1) Financial information for the year ended December 31, 2003 includes our results from commencement of operations on August 29, 2003 through December 31, 2003 aggregated with the operations of our predecessor from January 1, 2003 through August 28, 2003.

(2) EBITDA is defined as income (loss) before net gain on sale of properties, interest expense, interest income (excluding interest income from mezzanine loans), income taxes, depreciation and amortization. We believe EBITDA is useful to investors as an indicator of our ability to service debt and pay cash distributions. EBITDA, as calculated by us, may not be comparable to EBITDA reported by other companies that do not define EBITDA exactly as we define the term. EBITDA does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

Reconciliation of EBITDA (unaudited):					
Net (loss) income	$(3,920,201)	$(3,092,918)	$(2,906,493)	$ 712,721	$(1,878,473)
Plus depreciation and amortization	4,932,676	4,833,551	4,446,486	3,249,308	2,738,428
Plus interest expense	5,000,206	6,536,195	7,520,694	5,014,163	3,417,233
Less interest income	(289,133)	(53,485)	(226,531)	(161,004)	(9,075)
Plus provision for income taxes	142,178				
Less minority interest	(357,943)				
Gross EBITDA	5,507,783	8,223,343	8,834,156	8,815,188	4,268,113
EBITDA related to minority interest	(58,515)				
EBITDA	$ 5,449,268	$ 8,223,343	$ 8,834,156	$8,815,188	$ 4,268,113

(3) The White Paper on Funds From Operations (FFO) approved by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT) in April 2002 defines FFO as net income (loss) computed in accordance with GAAP, excluding gains (or losses) from sales or properties and extraordinary items as defined by GAAP, plus depreciation and amortization of real estate assets, and net of adjustments for the portion of these items related to unconsolidated entities and joint ventures. NAREIT developed FFO as a relative measure of performance of an equity REIT to recognize that income-producing real estate historically has not depreciated on the basis determined by GAAP. We compute FFO in accordance with our interpretation of standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the NAREIT definition differently than us. FFO does not represent cash generated from operating activities as determined by GAAP and should not be considered an alternative to (a) GAAP net income (loss) as an indication of our financial performance or (b) GAAP cash flows from operating activities as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our

ability to make cash distributions. We believe that to facilitate a clear understanding of our historical operating results, FFO should be considered along with our net income (loss) and cash flows reported in the consolidated financial statements.

FFO Reconciliation (unaudited):					
Net income (loss)	$(3,920,201)	$(3,092,918)	$(2,906,493)	$ 712,722	$(1,878,473)
Plus real estate and property level FF&E depreciation and amortization	4,930,796	4,833,551	4,446,486	3,249,308	2,738,428
Less minority interest	(357,943)				
Gross FFO	652,652	1,740,633	1,539,993	3,962,030	859,954
Less FFO related to minority interests	(5,365)				
FFO	$ 647,287	$ 1,740,633	$ 1,539,993	$3,962,030	$ 859,954

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

The tables below set forth unaudited pro forma financial data for Ashford Hospitality Trust, Inc.

With respect to the balance sheet information below, the pro forma adjustments give effect to the completion of the following transactions as of December 31, 2003: this offering and related reduction of debt with the proceeds, the acquisition and origination of four mezzanine loans receivable which occurred subsequent to December 31, 2003, the acquisition of four hotel properties since December 31, 2003, including two properties not acquired but currently under firm purchase contracts and the borrowing of $49.8 million under the $60.0 million revolving credit facility.

With respect to the statement of operations information below, the pro forma adjustments give effect to the completion of the following transactions as if they occurred on January 1, 2003: our IPO, the issuance of restricted shares to employees, the acquisition of nine hotel properties from FelCor Lodging Limited Partnership and Noble Investment Group, the acquisition or origination of five mezzanine loans receivable, the acquisition of four hotel properties since December 31, 2003, including two properties not acquired but currently under firm purchase contracts, this offering and the related increase in weighted average shares outstanding and the reduction of interest expense associated with the pro forma changes in indebtedness.

You should read the information below along with all other financial information and analysis presented in this prospectus, including the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operation and our and our predecessors historical consolidated and combined financial statements and related notes included elsewhere in this prospectus. The unaudited pro forma combined financial information is presented for information purposes only, and we do not expect that this information will reflect our future results of operations or our financial position. The unaudited pro forma adjustments and eliminations are based upon assumptions that we believe are reasonable. The unaudited pro forma financial information assumes that this offering and the transactions described above were completed as of the balance sheet date for purposes of the unaudited pro forma consolidated balance sheet, and as of January 1st of the period for purposes of the unaudited pro forma consolidated statements of operation.

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ASHFORD HOSPITALITY TRUST, INC.

CONSOLIDATED PRO FORMA BALANCE SHEET

As of December 31, 2003
(Unaudited)

	Historical December 31, 2003	(a) Acquisitions Pro Forma Adjustments	(b) Loans Receivable Pro Forma Adjustments	(c) Credit Facility Pro Forma Adjustments	(d) Offering Pro Forma Adjustments	Pro Forma December 31, 2003
Assets						
Investment in hotel properties, net	$173,723,998	83,100,000(1)				$256,823,998
Cash and cash equivalents	76,254,052	(59,526,640)(2)	(61,509,000)	49,288,000		4,506,412
Restricted cash	1,373,591					1,373,591
Accounts receivable, net of allowance	1,534,843					1,534,843
Inventories	262,619					262,619
Notes receivable	10,000,000		61,600,000			71,600,000
Deferred costs, net	2,386,937		125,000	512,000		3,023,937
Prepaid expenses	1,577,628					1,577,628
Other assets	550,636					550,636
Due from affiliates	218,113					218,113
Total assets	$267,882,417	23,573,360	216,000	49,800,000		$341,471,777
Liabilities and Owners Equity						
Indebtedness	$ 50,201,779	22,500,000(3)		49,800,000	(70,250,000)	$ 52,251,779
Capital leases payable	456,869					456,869
Accounts payable	2,127,611					2,127,611
Accrued expenses	4,572,594					4,572,594
Deferred notes receivable income			216,000			216,000
Due to affiliates	584,643					584,643
Total liabilities	$ 57,943,496	22,500,000	216,000	49,800,000	(70,250,000)	$ 60,209,496
Commitments & contingencies	$					$
Minority interest	$ 37,646,673	1,073,360(4)				$ 38,720,033
Common stock	$ 257,300				75,000	$ 332,300
Additional paid-in capital	179,226,668				70,175,000	249,401,668
Unearned compensation	(5,564,401)					(5,564,401)
Accumulated deficit	(1,627,319)					(1,627,319)
Total owners equity	$172,292,248				70,250,000	$242,542,248
Total liabilities and owners equity	$267,882,417	$ 23,573,360	$ 216,000	$49,800,000	$	$341,471,777

The accompanying notes and management s assumptions are an integral part of this consolidated pro forma balance sheet.

Explanation of pro forma adjustments:

(a) Represents pro forma adjustments to reflect the acquisition of four properties since December 31, 2003 including two properties currently under firm purchase contracts on various dates in 2004, excluding an acquired office complex which the Company intends to sell and has minimal operations.

(b) Represents pro forma adjustments to reflect mezzanine loans receivable acquired or originated subsequent to December 31, 2003.

(c) Represents pro forma adjustments to reflect a $60 million secured credit facility entered into on February 5, 2004, of which $49.8 million has been funded, and the related deferred loan costs.

(d) Represents pro forma adjustments to reflect the issuance of 7,500,000 shares at $10.00 per share, net of underwriters fees of $3,750,000 and estimated offering costs of $1,000,000, the proceeds from which reduced indebtedness.

Footnotes to pro forma adjustments:

(1) Represents management s estimate of the allocation of the purchase price and closing costs.

(2) Represents payment of the purchase price, closing costs, and related costs of acquiring the properties.

(3) Represents notes payable assumed in the acquisitions of four properties since December 31, 2003 including two properties currently under firm purchase contracts.

(4) Represents 106,675 limited partnership units of the Company s operating partnership issued in connection with the acquisition of four properties since December 31, 2003 including two properties currently under firm purchase contracts.

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ASHFORD HOSPITALITY TRUST, INC.

CONSOLIDATED PRO FORMA STATEMENT OF OPERATIONS

For the Year Ended December 31, 2003
(Unaudited)

	Historical December 31, 2003	(a) Pro Forma Adjustments	(b) Pro Forma Adjustments	(c) Pro Forma Adjustments	(d) Pro Forma Adjustments	(e) Pro Forma Adjustments	(f) Pro Forma Adjustments	Adjusted Pro Forma December 31, 2003
Revenue								
Rooms	$34,682,916		16,903,815(10)	8,481,820(10)	20,274,283(10)			$ 80,342,834
Food and beverage	6,158,916		2,000,382(10)	193,408(10)	6,214,127(10)			14,566,833
Other	1,189,450		902,865(10)	169,248(10)	1,329,955(10)			3,591,518
Total hotel revenue	42,031,282		19,807,062	8,844,476	27,818,365			98,501,185
Interest income from mezzanine loans	110,000					8,034,001		8,144,001
Asset management fees	137,319							137,319
Total Revenue	42,278,601		19,807,062	8,844,476	27,818,365	8,034,001		106,782,505
Expenses								
Rooms	8,113,097		4,009,914(10)	1,906,659(10)	4,306,535(10)			18,336,205
Food and beverage	4,702,780		1,863,416(10)	160,677(10)	4,400,336(10)			11,127,209
Other direct	900,621		803,714(10)	93,203(10)	680,186(10)			2,477,724
Indirect	14,823,432		7,182,638(12)	2,626,606(10)	8,150,486(10)			32,783,162
Management fees	1,369,888		447,156(10)	356,151(10)	887,694(10)			3,060,889
Property taxes, insurance, and other	2,858,050		1,186,956(10)	480,617(10)	1,214,622(10)			5,740,245
Depreciation & amortization	4,932,676	140,284(6)	1,383,821(11)	950,548(11)	2,939,014(11)			10,346,343
Corporate general and administrative	4,002,950	4,823,917(5)						10,518,539
		1,622,922(4)						
		68,750(8)						
Total Operating Expenses	41,703,494	6,655,873	16,877,615	6,574,461	22,578,873			94,390,316
Operating Income (Loss)	575,107	(6,655,873)	2,929,447	2,270,015	5,239,492	8,034,001		12,392,189
Interest income	289,133							289,133
	(5,000,206)	3,173,010(1)		(419,222)(13)	(1,445,610)(13)		(420,000)	(3,828,028)

Interest expense		284,000(2)						
Net Income (Loss) before Minority Interest and Income Taxes	(4,135,966)	(3,198,863)	2,929,447	1,850,793	3,793,882	8,034,001	(420,000)	8,853,294
Income tax expense	(142,178)	(3)	(110,004)(3)	(74,024)(3)	(181,324)(3)	(3)	(3)	(507,530)
Minority interest	357,943	745,663(9)	(416,150)(9)	(262,251)(9)	(533,214)(9)	(1,185,818)(9)	61,992(9)	(1,231,835)
Net Income (Loss)	$ (3,920,201)	(2,453,200)	2,403,293	1,514,518	3,079,344	6,848,183	(358,008)	$ 7,113,929
Earnings (Loss) Per Share:								
Basic								$ 0.22
Diluted								$ 0.22
Weighted Average Shares Outstanding:								
Basic								32,793,969(7)
Diluted								38,566,712(7)

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The accompanying notes and management s assumptions are an integral part of this consolidated pro forma statement of operations.

Explanation of pro forma adjustments:

(a) Represents pro forma adjustments to reflect the Company s formation transactions and its initial public offering on August 29, 2003, as well as the issuance of 70,400 shares of restricted stock to employees on March 15, 2004.

(b) Represents pro forma adjustments to reflect the acquisition of FelCor properties on October 8, 2003.

(c) Represents pro forma adjustments to reflect the acquisition of Noble properties on November 24, 2003.

(d) Represents pro forma adjustments to reflect the acquisition of four properties since December 31, 2003, including two properties currently under firm purchase contracts, on various dates in 2004.

(e) Represents pro forma adjustments to reflect interest income related to mezzanine loans receivable acquired or originated during 2003 or subsequent to December 31, 2003.

(f) Represents pro forma adjustments to reflect additional interest expense related to the pro-forma increase in indebtedness.

Footnotes to pro forma adjustments:

(1) Represents the interest expense reduction due to payoff of mortgage notes.

(2) Represents elimination of deferred loan costs amortization due to payoff of mortgage notes.

(3) Represents income tax expense related to these transactions.

(4) Represents restricted shares issued to officers, employees, and employees of affiliates vesting one-third annually. Pro forma compensation expense is calculated as follows: 689,317 shares valued at $9.00 per share offering price for total compensation cost of $6,203,853, of which one third vests annually to generate an eight-month cost of $1,378,634 for the period preceding the Company s formation plus 70,400 shares valued at $10.41 per share at the date of grant for a total compensation cost of $732,864, of which one third vests annually to generate an annual cost of $244,288.

(5) Represents additional general and administrative expenses associated with the operations of the Company, which includes projected compensation and benefit expenses, along with related overhead and administration expense calculated on an historical basis, as well as property-level general and administrative expenses.

(6) Represents additional depreciation expense resulting from step-up of net carrying value due to acquisition of minority interests.

(7) Common shares issuable include:

Shares issued in the initial public offering	22,500,000
Shares issued upon exercise of underwriters over-allotment	1,734,072
Shares sold to Archie and Montgomery Bennett	500,000
Shares conveyed to a limited partnership owned by Archie and Montgomery Bennett	216,634
Restricted shares issuable to Company directors assumed to be fully vested	25,000
Shares issued to Company underwriters	65,024
Restricted shares issued to executives and employees (759,717 shares issued, of which one-third are assumed to be fully-vested)	253,239
Shares issued in this offering	7,500,000
Total basic shares	32,793,969

Shares issuable upon conversion of limited partnership units issued upon formation	5,657,917
Shares issuable upon conversion of limited partnership units issued upon acquisition of Acquired Properties	106,675
Incremental diluted shares issuable for unvested restricted shares	8,151
Total diluted shares	38,566,712

(8) Represents restricted shares issued to directors that vest after three months. Pro forma compensation expense is calculated as follows: 25,000 shares valued at $9.00 per share offering price for total compensation cost of $225,000.

(9) Minority interest represents 14.76% of the net income (loss) before minority interest after considering the impact of this offering.

(10) Represents FelCor, Noble, and four properties since December 31, 2003, including two properties currently under firm purchase contracts, estimated unaudited statements of operations for the periods preceding their acquisitions.

(11) Represents estimated depreciation expense associated with the acquired FelCor, Noble, and four properties since December 31, 2003, including two properties currently under firm purchase contracts, based on preliminary purchase price allocations.

(12) Represents FelCor, Noble, and four properties since December 31, 2003, including two properties currently under firm purchase contracts, estimated unaudited statements of operations for the periods preceding their acquisitions plus additional franchise fees of $313,500 related to FelCor.

(13) Represents estimated interest expense associated with the mortgage debt assumed from Noble and four properties since December 31, 2003, including two properties currently under firm purchase contracts.

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of financial condition, results of operations, liquidity and capital resources in conjunction with the consolidated historical financial statements and the combined financial statements of the predecessor and the related notes. The notes to the consolidated and combined financial statements provide information about us and the basis of presentation used in this prospectus.

Overview

We are a real estate investment trust for federal income tax purposes that commenced operations upon completion of our initial public offering and related formation transactions on August 29, 2003. As of December 31, 2003, we owned 15 hotels, eight asset management and consulting contracts and one mezzanine loan. Five of these hotels were acquired October 8, 2003, and four of these hotels were acquired November 24, 2003. These nine acquired properties contributed approximately \$6.1 million and \$559,000 to our total revenue and net income (loss), respectively, for our year ended December 31, 2003.

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

- acquiring hotels in unique locations where further large-scale development is limited for prospective competitors, including hotels located in urban and resort/ convention locations;
- acquiring hotels with good current yield with an opportunity for appreciation;
- implementing selective capital improvements designed to increase profitability and directing our managers to minimize operating costs and increase revenues;
- originating or acquiring mezzanine loans; and
- making other investments that our board deems appropriate.

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

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The following table illustrates the key performance indicators for the years ended December 31, 2003, 2002, and 2001, for our initial properties, which represents the six hotels we have owned throughout the three years presented. For purposes of our discussion of results of operations, these six properties are referred to collectively as the comparable hotels.

	Year Ended December 31,		
	2003	2002	2001
Consolidated (initial properties)			
Hotel revenues	$35,914,158	$35,357,781	$36,215,646
RevPAR	$ 73.61	$ 71.45	$ 73.78
Occupancy	70.87%	65.98%	61.51%
ADR	$ 103.86	$ 108.29	$ 119.94
Embassy Suites (initial properties)			
Hotel revenues	$24,743,446	$24,824,677	$25,028,323
RevPAR	$ 88.31	$ 87.52	$ 88.13
Occupancy	76.31%	73.55%	70.31%
ADR	$ 115.73	$ 119.00	$ 125.35
Radisson Hotels (initial properties)			
Hotel revenues	$11,170,712	$10,533,104	$11,187,323
RevPAR	$ 50.37	$ 46.04	$ 50.48
Occupancy	62.28%	54.01%	47.23%
ADR	$ 80.87	$ 85.24	$ 106.88

Results of Operations

We believe the lodging industry was negatively affected in 2003 by low levels of business travel resulting from a weak economy (predominantly in the first half of the year), the war in Iraq, continued changes in terrorist threat levels, and travel reductions and restrictions related to severe acute respiratory syndrome, or SARS. Strong economic growth in the United States economy in the second half of 2003 helped improve lodging demand, but generally not enough to offset the weak lodging demand in the first half.

Our industry outlook for 2004 is more optimistic. Historically, we have seen that lodging demand in the United States correlates to U.S. Gross Domestic Product (GDP) growth, with typically a one to two quarter lag period. Therefore, given the relatively strong U.S. GDP growth in the second half of 2003 and the forecasts for 2004, we are optimistic about improvement in lodging demand in 2004. In addition, based on these GDP forecasts, as well as the anticipated strengthening of corporate profits and capital investment, we expect an increase in business-related travel and improvement in the pace of group bookings.

The consolidated financial information presented in this prospectus includes all of our accounts beginning with our commencement of operations on August 29, 2003. Prior to that time, these financial statements include the combined financial information of certain affiliates of Remington Hotel Corporation that owned our initial assets prior to August 29, 2003. We will collectively refer to these entities throughout this discussion as our predecessor. When we discuss operations and cash flows for the year ended December 31, 2003 we are referring to our results since commencement of operations on August 29, 2003 aggregated with the results of our predecessor from January 1, 2003 to August 28, 2003.

Comparison of Year Ended December 31, 2003 to Year Ended December 31, 2002

Revenue. Total revenue for the year ended December 31, 2003 increased approximately $6.9 million or 19.6% from total revenue for the year ended December 31, 2002, primarily due to approximately

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$6.1 million in revenues attributable to the acquisitions of five hotel properties on October 8, 2003 and four hotel properties on November 24, 2003, as well as approximately $110,000 of interest earned on our $10 million mezzanine loan receivable, which was acquired November 26, 2003. In addition, revenues for comparable hotels increased due to increased room revenues, partially offset by decreased food and beverage revenues and decreased other revenues. Room revenues at comparable hotels increased 3.0% due to an increase in RevPAR to $73.61 for the year ended December 31, 2003 compared to $71.45 for 2002, which consisted of a 7.4% increase in occupancy and a 4.1% decrease in ADR.

Room revenues at comparable hotels for the year ended December 31, 2003 increased approximately $862,000 or 3.0% compared to 2002, primarily due to the aforementioned increase in occupancy offset somewhat by a decrease in ADR. Both the Covington Radisson and Las Vegas Embassy Suites experienced increases in occupancy due to an enhanced focus on weekend group sales. In addition, occupancy increased at the Dulles Embassy Suites due to a recovery in that marketplace, which had suffered a downturn following the September 11, 2001 terrorist events. The Holtsville Radisson also experienced an increase in occupancy, somewhat offset by a decrease in ADR, as a result of significant military business utilizing discounted rates in the latter half of the year. These occupancy increases were offset by a decrease in occupancy and ADR at both the Dallas and Austin Embassy Suites due to a downturn in the Texas economy, which is heavily dependent on business in the high-tech and telecom sectors.

Food and beverage revenues at comparable hotels for the year ended December 31, 2003 decreased approximately $130,000 or 2.3% compared to 2002. Food and beverage revenues decreased at both the Dulles Embassy Suites and Dallas Embassy Suites due to higher than usual banquet revenues experienced in 2002 that did not recur in 2003. In addition, food and beverage revenues were down at both the Dallas and Austin Embassy Suites due to the aforementioned decreases in occupancy. Food and beverage revenues also decreased at the Covington Radisson due to a shift in customer mix toward airline crews, who utilize food and beverage facilities to a lesser extent than other business travelers.

Other revenues at comparable hotels for the year ended December 31, 2003 decreased approximately $175,000 or 15.5% compared to 2002, primarily due to a decrease in telephone revenues as customers shifted from in-room phones to cellular phones.

Asset management fees increased to approximately $137,000 for the year ended December 31, 2003, compared to zero for 2002 due to the eight asset management and consulting contracts acquired from an affiliate upon our formation on August 29, 2003. On October 16, 2003, we exercised our option to reassign our rights under our eight asset management and consulting contracts back to the affiliate until January 1, 2004 in order to meet REIT eligible-income thresholds in 2003. As a result, we did not collect related asset management fee income in 2003 of approximately $250,000. However, the related guarantee of payment associated with these fees was extended for a like period.

Hotel Operating Expenses. Hotel operating expenses, which consist of room expense, food and beverage expense, other direct expenses, indirect expenses (such as property level general and administrative, marketing, energy, repairs and maintenance expenses), and management fees, increased approximately $5.2 million or 21.1% for the year ended December 31, 2003 compared to 2002, primarily due to approximately $4.5 million of expenses associated with the nine hotel properties acquired in the fourth quarter of 2003. In addition, hotel operating expenses at comparable hotels experienced increases in room expense, food and beverage expense, other direct expenses, and indirect expenses for the year ended December 31, 2003 compared to 2002.

Room expense at comparable hotels increased approximately 4.8% for the year ended December 31, 2003 compared to 2002 primarily due to variable costs associated with the aforementioned overall increase in occupancy as well as increased payroll costs. Over the same comparative period, food and beverage expense at comparable hotels increased approximately 1.0% due to rising food and payroll costs. Other direct expenses at comparable hotels increased approximately 25.8% for the year ended December 31, 2003 compared to 2002 primarily due to increased payroll and the rates we are charged for telephone usage.

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Indirect expenses at comparable hotels increased approximately $155,000 or 1.3% for the year ended December 31, 2003 compared to 2002. Indirect expenses increased due to:

- increased repairs and maintenance expense at the Dallas Embassy Suites and Austin Embassy Suites due to improvements in 2003 that did not occur in 2002, offset by decreased repairs and maintenance expense at the Las Vegas Embassy Suites, Covington Radisson, and Holtsville Radisson due to improvement programs in effect in 2002 that did not recur in 2003;

- increased energy costs due to the air conditioning system running inefficiently during a portion of 2003 at the Austin Embassy Suites, increased usage at the Covington Radisson due to increased occupancy, and a colder 2003 winter at the Holtsville Radisson;

- increased general and administrative fees due to increased payroll in 2003; and

- increased franchise fees due to increased room revenues at the Dulles Embassy Suites, Las Vegas Embassy Suites, Covington Radisson, and Holtsville Radisson, as well as increased rates at certain hotels.

Property taxes, insurance, and other. Property taxes, insurance, and other increased approximately $421,000 or 17.3% for the year ended December 31, 2003 compared to 2002, due to approximately $461,000 of expenses associated with the nine hotel properties acquired in the fourth quarter of 2003. Aside from the additional hotels acquired, property taxes, insurance, and other incurred in 2003 was consistent with 2002.

Depreciation and amortization. Depreciation and amortization increased approximately $99,000 or 2.1% for the year ended December 31, 2003 compared to 2002, due to approximately $593,000 of depreciation associated with the nine hotel properties acquired in the fourth quarter of 2003. Aside from the additional hotels acquired, depreciation and amortization decreased in 2003 compared to 2002 as a result of certain assets becoming fully depreciated.

Corporate general and administrative. Corporate general and administrative expense increased to approximately $4.0 million for the year ended December 31, 2003 compared to zero for 2002 as a result of expenses associated with being a newly-formed, publicly-traded company, including salaries, payroll taxes, benefits, insurance, stock-based compensation related to employee stock grants, audit fees, and directors fees. For 2003, the total includes approximately $864,000 of non-cash expenses associated with the amortization of employee stock grants.

Operating Income. Operating income decreased approximately $2.8 million from $3.4 million for the year ended December 31, 2002 to approximately $575,000 for the year ended December 31, 2003 as a result of the operating results discussed above.

Interest Income. Interest income increased approximately $236,000 from approximately $53,000 for the year ended December 31, 2002 to approximately $289,000 for the year ended December 31, 2003, primarily due to interest earned on funds received from our initial public offering.

Interest Expense. Interest expense decreased approximately $1.5 million from approximately $6.5 million for the year ended December 31, 2002 to approximately $5.0 million for the year ended December 31, 2003. Upon completion of our initial public offering and related formation transactions on August 29, 2003, we repaid the majority of our mortgage notes payable. The decrease in interest expense is associated with the lower debt balance.

Provision for Income Taxes. As a REIT, we generally will not be subject to federal corporate income tax on that portion of our net income that does not relate to taxable REIT subsidiaries. However, we lease each of our hotel properties to Ashford TRS, which is treated as a taxable REIT subsidiary for federal income tax purposes. For the period from inception through December 31, 2003, we recognized a provision for income taxes of approximately $142,000 related to Ashford TRS.

Minority Interest. Minority interest increased to approximately $358,000 for the year ended December 31, 2003 compared to zero for 2002. Upon our formation on August 29, 2003, minority interest

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in the operating partnership was established to represent the limited partners actual proportionate share of the equity in the operating partnership. Net income (loss) is allocated to minority interest based on the weighted average limited partnership percentage ownership throughout the period.

Net Loss. Net loss was approximately $3.9 million for the year ended December 31, 2003 and approximately $3.1 million for the year ended December 31, 2002, which represents a net loss increase of approximately $827,000 or 26.7% as a result of the operating results discussed above.

Comparison of Year Ended December 31, 2002 to Year Ended December 31, 2001

Revenue. Room revenues decreased $635,875, or 2.2% from 2001 to 2002. In spite of the 5.2% decline in market RevPAR for all the properties combined, the Embassy Suites hotels in Dallas, Austin, Dulles, and Las Vegas and the Radisson hotel in Covington all continued to experience positive market yield penetration with the Embassy Suites hotel in Las Vegas experiencing the largest market yield increase of over 11.4%. Market yield penetration is a percentage of a property s RevPAR (average daily rate or ADR multiplied by occupancy rate) to the RevPAR of a particular competitive set. A competitive set consists of properties that compete for business directly with a particular property. The competitive set properties have similar physical facilities, locations, and room rates and compete for the same customers. Overall our occupancy increased by 7.3% from 61.5% for the year ended December 31, 2001 to 66.0% for the same period in 2002. The Radisson hotel in Covington experienced the largest gain, increasing occupancy 41.0% from 2001 to 2002. The only occupancy decline occurred at the Radisson hotel in Holtsville, declining over 8.0% mainly due to construction activity during 2002. Our average daily rate declined by 9.7% from $119.94 for the year ended December 31, 2001 to $108.29 for the same period in 2002. All the hotels except Las Vegas experienced declines in average daily rates. Food and beverage revenue stayed almost constant, growing $6,127 from 2001 to 2002. Total revenues decreased $857,865, or 2.4%, from 2001 to 2002. Almost $300,000 of the revenue decline was due to energy surcharges that were eliminated due to franchise limitations. The decreasing hotel revenues at the Austin Embassy Suites, Dallas Embassy Suites, Dulles Embassy Suites, and the Holtsville Radisson can be attributed to the general softening in the economy and the continued impact on the travel industry from the aftermath of the September 11, 2001 terrorist attacks.

Expenses. Hotel operating expenses declined by $487,130 or 1.9% from 2001 to 2002 due to effective cost controls in the food and beverage area as well as a reduction in the management fee in the Embassy Suites properties from 4.5% to 3.0%. Included in the hotel operating expenses were sales and marketing expenses, which increased 12.2% from 2001 to 2002 as a result of additional staffing at the Radisson properties in Holtsville and Covington in order to drive revenues.

Total operating expenses increased by $140,013 or 0.4% from the year ended December 31, 2001 to December 31, 2002. The majority of this increase was due to an increase in depreciation of $387,065 from 2001 to 2002 resulting from the purchases of the Radisson Holtsville property in November 2000 and the Radisson Covington property in January 2001; an increase of $363,724 or 60.3% for insurance costs over the same periods due to the increasing costs of insurance; and the write-off of an insurance claim that occurred at the Las Vegas Embassy Suites hotel in August 2000. Property taxes actually declined by $123,646 or 7.8% for the same period mainly due to the successful property tax appeal for the Austin Embassy Suites hotel where the valuation declined by approximately $5.5 million.

Operating Income. Operating income declined by $997,878 from $4.4 million in 2001 to $3.4 million in 2002.

Interest Expense. Interest expense declined by $984,499 from 2001 to 2002 due to a reduction in interest rates.

Net Loss. Net loss increased from $2.9 million to $3.1 million from 2001 to 2002.

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Liquidity and Capital Resources

Our principal source of funds to meet our cash requirements, including distributions to stockholders, is our share of the operating partnership s cash flow. The operating partnership s principal sources of revenue will include (i) cash flow from hotel operations, (ii) interest income from mortgages we own, and (iii) to the extent that we may engage in sale-leaseback transactions in the future, rental income from third parties in those asset transactions. To date, however, cash flow has been generated primarily from hotel operations and management fees related to the eight asset management and consulting contracts with an affiliate.

Cash flow from hotel operations is subject to all operating risks common to the hotel industry, including:

- Competition for guests from other hotels;
- Adverse effects of general and local economic conditions;
- Dependence on demand from business and leisure travelers, which may fluctuate and be seasonal;
- Increases in energy costs, airline fares, and other expenses related to travel, which may deter traveling;
- Increases in operating costs related to inflation and other factors, including wages, benefits, insurance, and energy;
- Overbuilding in the hotel industry, especially in particular markets; and
- Actual or threatened acts of terrorism and actions taken against terrorists, which often cause public concern about travel safety.

Upon completion of the initial public offering and related formation transactions, we had approximately $116.6 million in cash to invest in lodging-related assets and for general corporate purposes. We also had $16.0 million of outstanding mortgage debt related to one of the hotels. Shortly thereafter, we received additional net proceeds of approximately $14.5 million related to the underwriters exercise of their over-allotment option.

On October 8, 2003, we acquired five hotel properties from FelCor Lodging Limited Partnership for approximately $50.0 million in cash. We used a portion of the proceeds from our initial public offering as the source of funds for the acquisition of these properties. We have earmarked an additional $8.2 million in capital improvements for these properties, which will be funded through the $36.0 million non-recourse loan discussed below.

On October 16, 2003, we exercised our option to reassign our rights under the eight asset management and consulting contracts back to an affiliate until January 1, 2004 in order to meet REIT eligible-income thresholds in 2003. As a result, we did not collect related asset management fees income over this period of approximately $250,000. However, the related guarantee of payment associated with these fees was extended for a like period.

On November 24, 2003, we acquired four hotel properties from Noble Investment Group for approximately $33.9 million, which included approximately $27.5 million in cash and approximately $6.4 million in assumed mortgage debt. We have earmarked an additional $1.0 million in capital improvements for these properties.

On November 26, 2003, we acquired a $10.0 million mezzanine loan receivable related to a hotel property in New York, New York. The mezzanine loan bears interest at LIBOR plus 9% with a 2% LIBOR floor, matures in August 2006, and provides for two one-year extension options subject to certain conditions. In accordance with the loan agreement, we will receive interest-only payments through August 2004, with principal and interest paid thereafter through maturity based on a twenty-five-year amortization schedule. Prepayments of the loan are prohibited through August 13, 2004, require decreasing prepayment premiums through February 13, 2006, and require no prepayment premiums thereafter.

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On December 24, 2003, we closed on a $36.0 million non-recourse loan secured by the five hotel properties acquired from FelCor Lodging Limited Partnership. The loan, which includes a holdback provision for the previously earmarked $8.2 million in targeted capital expenditures related to these properties, bears interest at a rate of LIBOR plus 3.25% with a 4.75% total floor, matures in four years, requires interest-only payments for the first two years, and contains a one-year extension option upon maturity, subject to an extension fee of 0.5% of the outstanding principal balance of the loan as of the extension date.

On January 23, 2004, we acquired a $15.0 million subordinated first mortgage loan receivable related to a hotel property in Denver, Colorado. The loan bears interest at LIBOR plus 9%, matures in February 2006, and provides for three one-year extension options subject to certain conditions. In accordance with the loan agreement, we will receive interest-only payments through maturity, with principal and interest paid through the extension periods based on a twenty-five year amortization schedule. Prepayments of the loan are prohibited through December 8, 2004, require decreasing prepayment premiums through August 31, 2005, and require no prepayment premiums thereafter.

On February 5, 2004, we completed a $60.0 million secured credit facility, at an interest rate of the prime rate plus 2.0% or LIBOR plus 3.25%, at our election, of which approximately $49.8 million of the proceeds were funded March 24, 2004. The credit facility matures in three years, is collateralized by seven hotel properties, is subject to certain financial and other covenants, requires an annual commitment fee of 0.45% to 0.55% on the unused portion of the line, which is payable quarterly, and allows for an increase to $75.0 million subject to certain conditions.

On March 4, 2004, we acquired a $25.0 million mezzanine loan receivable secured by 17 hotel properties. The mezzanine loan bears interest at LIBOR plus 8.7% with a 2.5% LIBOR floor, matures in July 2005, and provides for three one-year extension options subject to certain conditions. In accordance with the loan agreement, we will receive principal and interest payments through the extension periods based on a twenty-five-year amortization schedule. Prepayments of the loan are prohibited through maturity subject to certain provisions.

On March 15, 2004, we declared a cash dividend of approximately $0.06 per fully-diluted share, for stockholders of record on March 31, 2004, to be paid on April 15, 2004.

On March 19, 2004, we originated a $15.0 million mezzanine loan receivable related to a hotel property in Boston, Massachusetts. The mezzanine loan bears interest at LIBOR plus 10.25% with a 1.75% LIBOR floor, matures in April 2007, and provides for two one-year extension options subject to certain conditions. In accordance with the loan agreement, we will receive interest-only payments through maturity. Prepayments of the loan are prohibited through September 2005.

On March 24, 2004, we acquired a $6.6 million mezzanine loan receivable related to a hotel property in Brooklyn Park, Minnesota. The mezzanine loan bears interest at LIBOR plus 10% with a 2% LIBOR floor and matures in January 2006. In accordance with the loan agreement, we will receive interest-only payments through maturity. At maturity, an additional interest payment will be due to reflect an accrual rate that is the greater of 15% or LIBOR plus 1300 basis points.

On March 24, 2004, we acquired a hotel property in Lake Buena Vista, Florida from JHM Ruby Lake Hotel, Ltd. for approximately $25.3 million in cash.

On April 1, 2004, we acquired a hotel property in Atlantic Beach, Florida from Huron Jacksonville Limited Partnership for approximately $23.1 million, which consisted of approximately $6.3 million in cash, approximately $15.7 million in assumed mortgage debt, and approximately $1.1 million in limited partnership units, based on the market price of our common stock.

Following the completion of this offering, we expect to acquire the following two additional hotel properties:

- the Sheraton Bucks County hotel and adjacent office building complex in Langhorne, Pennsylvania, for an acquisition price of approximately $16.7 million in cash; and

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the SpringHill Suites by Marriott in Baltimore, Maryland, for an acquisition price of approximately $15.9 million, which will include approximately $9.1 million in cash and approximately $6.8 million in assumed mortgage debt.

We are focused exclusively on investing in the hospitality industry across all segments, including direct hotel investments, first mortgages, mezzanine loans, and sale-leaseback transactions. We intend to acquire and, in the appropriate market conditions, develop additional hotels and provide structured financings to owners of lodging properties. We may incur indebtedness to fund any such acquisitions, developments, or financings. We may also incur indebtedness to meet distribution requirements imposed on REITs under the Internal Revenue Code to the extent that working capital and cash flow from our investments are insufficient to make the required distributions.

We are currently in negotiations with certain financial institutions to obtain a mezzanine loan warehouse facility. However, no assurances can be given that we will obtain such 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 on our business strategy.

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

Our existing hotels and hotels underlying our mezzanine loan receivables are located in developed areas that contain competing hotel properties. The future occupancy, ADR, and RevPAR of any individual hotel could be materially and adversely affected by an increase in the number or quality of the competitive hotel properties in its market area. Competition could also affect the quality and quantity of future investment opportunities. In addition, the downturn in the national economy, the aftermath of the terrorist attacks against the United States, and the impact of the war in Iraq have had a negative impact on our operating cash flows.

Inflation

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

Seasonality

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

Interest Rate Risk

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates.

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As of March 31, 2004, we had approximately $109.3 million of outstanding variable-rate debt. The impact to our annual results of operations of a 100 basis point change in interest rate on the outstanding balance of variable-rate debt as of March 31, 2004, would be approximately $1.1 million. We also had approximately $6.4 million of 7.08% fixed-rate debt outstanding at March 31, 2004. We had no other outstanding debt as of March 31, 2004.

As of March 31, 2004, we owned $71.6 million of mezzanine variable-rate loans receivable. The impact to our annual results of operations of a 100 basis point change in interest rate on the outstanding balance of variable-rate loans receivable as of March 31, 2004, would be approximately $716,000. We had no other outstanding loans receivable as of March 31, 2004.

The above amounts were determined based on the impact of hypothetical interest rates on our borrowing cost, and assume no changes in our capital structure. As the information presented above includes only those exposures that exist as of March 31, 2004, it does not consider those exposures or positions which could arise after that date. Thus, the information represented herein has limited predictive value. As a result, the ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, the hedging strategies at the time, and the related interest rates.

Critical Accounting Policies

Our accounting policies are more fully described in note 3 to our consolidated financial statements. As disclosed in note 3, the preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ significantly from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management s most difficult, subjective and complex judgments.

Investment in Hotel Properties. Our initial six hotel properties are stated at our predecessor s historical cost, net of any impairment charges, plus an approximate $8.1 million minority interest partial step-up recorded upon our formation on August 29, 2003, related to the acquisition of minority interest from unaffiliated parties related to four of the initial properties. Hotel properties acquired subsequent to our formation are stated at cost. Improvements and additions which extend the life of the property are capitalized.

Impairment of Investment in Hotel Properties. Hotel properties are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of the hotel properties may not be recoverable (*i.e.*, the future undiscounted cash flows for the hotel are projected to be less than the net book value of the hotel). We test for impairment in several situations, including when current or projected cash flows are less than historical cash flows, when it becomes more likely than not that a hotel will be sold before the end of its previously estimated useful life, and when events or changes in circumstances indicate that a hotel s net book value may not be recoverable. In the evaluation of the impairment of our hotels, we make many assumptions and estimates, including projected cash flows, holding period, expected useful life, future capital expenditures and fair values, including consideration of capitalization rates, discount rates and comparable selling prices. To date, no such impairment charges have been recognized. If an asset were deemed to be impaired, we would record an impairment charge for the amount the property s net book value exceeds its fair value.

Depreciation and Amortization Expense. Depreciation expense is based on the estimated useful life of our assets, while amortization expense for leasehold improvements is based on the shorter of the lease term or the estimated useful life of the related assets. The lives of the assets are based on a number of assumptions, including cost and timing of capital expenditures to maintain and refurbish the assets, as well as specific market and economic conditions. Presently, hotel properties are depreciated using the straight-line method over lives which range from 15 to 39 years for buildings and improvements and three to five

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years for furniture, fixtures and equipment. While we believe our estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income (loss) or the gain or loss on the potential sale of any of our hotels.

Recent Accounting Pronouncements. In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146). SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force (EITF) Issue No. 94-3. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company s commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amount recognized. The adoption of SFAS No. 146 in the first quarter of 2003 did not have any immediate effect on our results of operations, financial position, or cash flows.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN No. 45). FIN No. 45 requires that a guarantor recognize a liability for certain guarantees and enhance disclosures for such guarantees. The recognition provisions of FIN No. 45 are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN No. 45 are effective for financial statements for periods ending after December 15, 2002. The adoption of FIN No. 45 did not have a material impact on our results of operations, financial position, or cash flows.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, Consolidation of Variable Interest Entities (as revised, FIN No. 46). FIN No. 46 requires existing unconsolidated variable interest entities, as defined, to be consolidated by their primary beneficiaries if the variable interest entities do not effectively disperse risks among parties involved. FIN No. 46 is effective immediately for variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. FIN No. 46 applies to financial statements for periods ending after March 15, 2004, related to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. On November 26, 2003, we acquired a $10.0 million mezzanine loan receivable secured by a hotel property in New York, New York, which is subordinate to a primary loan related to this hotel. The mezzanine loan is considered to be a variable interest in the entity that owns the hotel, which is a variable interest entity. However, we are not considered to be the primary beneficiary. Therefore, we will not consolidate the hotel for which we have provided financing. Hence, the adoption of FIN No. 46 did not have a material impact on our results of operations, financial position, or cash flows. However, interests in entities acquired or created after December 31, 2003 will be evaluated based on FIN No. 46 criteria and such entities will be consolidated, if required.

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS No. 149). SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on our results of operations, financial position, or cash flows.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS No. 150). SFAS No. 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of these financial instruments were classified as equity. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31,

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2003 and is otherwise effective at the beginning of the first interim period after June 15, 2003. However, in November 2003, the Financial Accounting Standards Board elected to indefinitely defer implementation of certain standards of SFAS No. 150 relating to limited-life subsidiaries. The adoption of SFAS No. 150 is not expected to have a material impact on our results of operations, financial position, or cash flows.

Contractual Obligations and Commitments

As of December 31, 2003, our contractual obligations and commitments are as follows:

	Payments Due by Period				
	<1 Year	**2-3 Years**	**4-5 Years**	**>5 Years**	**Total**
Mortgage notes payable	$ 96,335	$22,989,444	$27,116,000	$	$50,201,779
Capital leases payable	136,605	282,303	37,961		456,869
Operating leases	545,713	956,853	851,420	13,889,712	16,243,698
Interest payments	2,504,879	4,922,165	1,377,088		8,804,132
Total contractual obligations	$3,283,532	$29,150,765	$29,382,469	$13,889,712	$75,706,478

In addition, at December 31, 2003, our capital commitments were approximately $355,000, which relate to general capital improvements.

Also, in August 2003, we entered into employment agreements with our Chief Executive Officer and certain other executive officers, all of which expire on December 31, 2006 except the employment agreement with our Chief Executive Officer which expires on December 31, 2007. Each of these agreements has an automatic one-year renewal option unless either party provides at least six months notice of non-renewal.

OUR COMPANY

Overview

We are a Maryland corporation that was formed in May 2003 to take advantage of the existing and developing investment opportunities in the lodging industry. These diverse lodging investment opportunities may result from inefficiencies related to market illiquidity, supply/demand imbalances and general business cycles. We target specific opportunities created by the current recovering lodging market while retaining the flexibility to invest in the most attractive risk-reward opportunities as they develop in the lodging business cycle. To our knowledge, we are one of the few publicly traded REITs exclusively focused on investing in the hospitality industry at all levels of the capital structure and across all segments where pricing, yield and capital appreciation advantages may exist.

We completed an initial public offering, or IPO, of our common stock in August 2003. In connection with our IPO, we acquired six hotels and eight asset management and consulting agreements for a total cash and equity consideration of $137.6 million, including $65.7 million to repay mortgage indebtedness related to our initial assets. Upon completion of the initial public offering and related formation transaction, we had approximately $131.1 million in cash to invest in lodging-related assets and for general corporate purposes.

Since then, we have acquired $203.8 million in lodging-related assets, including 11 additional hotel properties and five mezzanine loans. Additionally, we currently have two properties under firm purchase contracts, and we intend to acquire these properties for a total purchase price of approximately $32.6 million.

Our current investment strategy is intended to take advantage of strengthening lodging fundamentals. We believe that the U.S. economy is beginning a recovery in the current business cycle and that the underlying cash flows of hotels will improve as the recently distressed lodging industry rebounds from its cyclical low point. We believe that our current investment policies will allow us to participate in future improvements in performance within the lodging industry. However, we also believe that as supply, demand and capital market cycles change, we will be able to quickly shift our investment strategies to take advantage of newly-created lodging investment opportunities as they develop. Currently, we do not focus our acquisitions on any specific geographical market. While our current investment strategies are well defined, our board of directors may change our investment policies at any time without stockholder approval.

Our management team has substantial experience in sourcing, underwriting, operating, repositioning, developing, selling and financing a wide variety of lodging investments. We are self-advised and own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. We currently own an 81.7% interest in our operating partnership. The remaining 18.3% is owned by limited partners who received units in exchange for the contribution of certain of our assets. The substantial majority of these limited partnership units are owned by certain of our executives, employees and employees of our affiliates. Following completion of this offering, we expect to own 85.2% and have a 14.8% minority interest (of which less than 0.3% will be held by persons other than certain of our directors, executives, employees and employees of our affiliates. We are the sole general partner of our operating partnership.

We have elected to be treated as a REIT for federal income tax purposes. Because of limitations imposed on REITs in operating hotel properties, third-party managers manage each of our hotel properties. Remington Lodging is our primary property manager, managing 13 of our 17 hotel properties. Remington Lodging is wholly owned by Mr. Archie Bennett, our Chairman, and Mr. Montgomery J. Bennett, our President and Chief Executive Officer. Messrs. Archie and Montgomery Bennett also own 100% of Remington Hotel Corporation, which is one of the largest privately-owned independent hotel management companies in the country and has managed over $1 billion of hotels in 28 states. Our remaining four hotel properties are managed by Noble Management Group, a management company unaffiliated with us.

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Additionally, if we acquire both of the acquisition properties we currently have under firm purchase contracts, one will be managed by Remington Lodging and one will be managed by PM Hospitality Strategies, a management company unaffiliated with us.

Our Team

We believe that we will continue to capitalize on the experience of our senior management in sourcing, underwriting, operating, repositioning, developing, selling and financing lodging-related assets. Our roots in the hotel industry trace back to 1968 when our Chairman, Archie Bennett, Jr., built his first hotel. Prior to our IPO, Mr. Bennett and certain members of our senior management team have been involved in the investment in, or management of, 190 hotels or mortgage loans secured by hotels, totaling approximately 31,119 rooms in 33 states and in the development of 35 hotels, totaling approximately 9,201 rooms in 11 states.

Historically, our management team s business strategy has been threefold: first, to identify attractive investment opportunities in the lodging industry; second, to match such opportunities with appropriate institutional investors; and third, to manage such investments, including providing development, management and construction services, for the institutional owners.

We believe our management s historical background in the hotel industry will allow us to continue to successfully execute our business strategy. Together with our Chairman, the members of our senior management team have an average of 19 years experience in the hotel industry. With the exception of Mr. Douglas Kessler, our Chief Operating Officer, all members of our senior management team worked together at Remington Hotel Corporation and affiliated entities since 1992. Our management s experience prior to our IPO includes:

- purchasing over $1 billion in hotels and mortgages secured by hotels;
- building seven hotels at a cost of $125 million;
- managing $1 billion of hotels, ranging from economy to upper up-scale, in 28 states;
- effectively asset managing over 145 predominantly non-performing hospitality loans (with a book value of approximately $500 million) acquired from third parties, substantially all of which were either recovered at par or foreclosed upon, with the assets sold for an amount in excess of the initial investment (approximately two-thirds of which we also operated as managers); and
- co-investing with major institutional investors, including, among others, G. Soros Realty Inc., Gordon Getty Trust, The Fisher Brothers, Olympus Real Estate Partners and Goldman Sachs Whitehall Real Estate Funds.

In addition, before Mr. Kessler, our Chief Operating Officer, joined Remington Hotel Corporation in July 2002, he assisted in overseeing the investment management, acquisition, sale and financing of more than $11 billion in real estate assets for Goldman Sachs Whitehall Real Estate Funds, including over $6 billion of lodging-related assets. During his nine years at Whitehall, Mr. Kessler served on the boards or executive committees of several lodging companies, including Westin Hotels and Resorts and Strategic Hotel Capital.

The Chairman of our board of directors, Archie Bennett, Jr., also serves as the Chairman of the board of directors of Remington Hotel Corporation, and our President and Chief Executive Officer, Montgomery Bennett, also serves as President and Chief Executive Officer of Remington Hotel Corporation. Remington Lodging, which is an affiliate of Remington Hotel and which is owned 100% by Messrs. Archie and Montgomery Bennett, provides management and other related services for some of our hotel properties.

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Our Business Strategy

We intend to continue to invest in a variety of lodging-related assets based upon our evaluation of diverse market conditions. These investments may include: (i) direct hotel investments; (ii) mezzanine financing through origination or through acquisition in secondary markets; (iii) first lien mortgage financing through origination or through acquisition in secondary markets; and (iv) sale-leaseback transactions.

Our strategy is designed to take advantage of current lodging industry conditions and adjust to changes in market conditions over time. In the current market, we believe we can continue to purchase assets at discounts to previous trading ranges or replacement costs and acquire or originate debt positions with yields at higher than recent historical interest rate ranges. Over time, our assessment of market conditions will determine asset reallocation strategies. While we seek to capitalize on the following favorable market fundamentals, conditions beyond our control may have an impact on overall profitability and on the investment returns.

As the current lodging market begins its recovery, new debt origination and acquisition opportunities continue to be available as hotel owners are faced with refinancing issues, defaults and opportunities to capitalize on historically low interest rates. As pools of commercial mortgage-backed security loans mature, hotel owners are faced with refinancing based on lower asset values than those values used in the prior financings, which provides us an opportunity to offer mezzanine financing to these borrowers at loan-to-value levels previously held by the first mortgage holders.

Our investment policies, which we utilize to implement our business strategies, may be amended or revised from time to time at the discretion of our board of directors, without a vote of our stockholders. Any change to any of these policies by our board of directors, however, would be made only after a review and analysis of that change, in light of then-existing business and other circumstances, and then only if, in the exercise of its business judgment, our board of directors believes that it is advisable to do so in our best interests. We cannot assure you that our investment objectives will be attained.

Our primary business objective is to maximize stockholder value by achieving attractive risk-adjusted returns throughout the business cycles of the lodging industry. Our strategy is to selectively invest capital in a variety of lodging-related assets based on our evaluation of diverse market conditions. By investing in diversified lodging assets, at different levels of a given hotel s capital structure, we plan to take advantage of changes in the capital markets.

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

- maximize economic benefits from an industry that has suffered significant reductions in value and operating performance and appears to be at the beginning stages of a recovery;

- capitalize on both current yield and price appreciation, while simultaneously offering diversification of types of assets within the hospitality industry;

- vary investments across an array of hospitality assets to take advantage of market cycles for each asset class; and

- offer an attractive liquidity alternative to asset sales (through structure and tax deferral) and traditional financing (due to rate, structure, loan-to-value and asset class).

Our investment strategy primarily targets limited and full service hotels in primary, secondary and resort markets throughout the United States. To take full advantage of current and future investment opportunities in the lodging industry, we will invest according to the asset allocation strategies described below. Due to ongoing changes in market conditions we will continually evaluate the appropriateness of our investment strategies, and our board of directors may change any or all of these strategies at any time. In addition to our investment activities, we will also perform certain asset management and consulting services for other management companies affiliated with Remington Hotel.

We evaluate our portfolio on a regular basis to determine if it continues to satisfy our investment criteria. Subject to certain restrictions applicable to REITs and subject to the relative illiquidity of real estate assets, we may sell investments opportunistically. Our decision to sell a hotel often will be predicated upon, among other things: projected cash flow; size of the hotel; strength of the franchise; property condition and related costs to renovate the property; strength of market demand; projected supply of hotel rooms in the market; probability of increased valuation; and geographic profile of the hotel. Our decision to sell other lodging-related assets will depend upon, among other things: management s forecast and review of the performance of our overall portfolio and management s assessment of changing conditions in the investment and capital markets.

Investments in Real Estate or Interests in Real Estate

Direct Hotel Investments. In connection with our initial public offering, we acquired six hotel properties. Since then, we have acquired 11 additional hotel properties and contracted to acquire an additional two hotel properties. In selecting the hotels that we have acquired since our initial public offering, we have targeted hotels that either offer a high current return or have the opportunity to increase in value through brand repositioning, capital investments, market based recovery or improved management practices. We intend to continue acquiring existing hotels and, under appropriate market conditions, to develop new hotels. Our direct hotel acquisition strategy will follow similar investment criteria and will seek to achieve both current income and income from appreciation. We believe that values for, and operating performances of, lodging properties are currently below historical levels, making this an attractive time for acquisitions. Our direct hotel investments represent approximately 77.3% of our total investments made to date.

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. Our sale-leaseback strategy will target, among other things, hotel owners that want the ability to realize the value of their investments while maintaining operating control of their hotels. We will seek to structure the transactions as net leases with participation features, terms ranging up to 20 years plus extension options, and with the operating responsibility for the property assumed by the lessee. We believe these transactions will provide us current income and growth through contractual rental increases or cash flow participations.

As with our direct hotel investments, we will seek opportunities on limited and full service hotels in primary, secondary and resort markets throughout the United States. We will consider both major franchises and select independents. All terms of our sale-leaseback transactions will be subject to the acceptable creditworthiness of the prospective lessee. We expect to receive a base lease payment that provides an adequate risk-adjusted return, with growth based on contractual rent growth or cash flow participations.

Investments in Financial Assets

Mezzanine Financing. Since the date of our initial public offering, we have acquired or originated five subordinated loans, also known as mezzanine loans, secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels and, in one instance, by a junior participation in a first mortgage. We expect the current yield, on a risk-adjusted basis, on each of these mezzanine loans to provide attractive returns. The loans we have acquired or originated relate to upscale or first class hotels that we believe require no significant near-term capital expenditures, have reputable managers and are located in good or emerging sub-markets.

We intend to continue to acquire or originate mezzanine loans. Mezzanine loans that we may acquire in the future may be secured by individual assets as well as cross-collateralized portfolios of assets. Although these types of loans generally have greater repayment risks than first mortgages due to the subordinated nature of the loans, we believe that a strong need for lodging mezzanine loans currently exists

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on behalf of hotel managers. We believe that the recent slowdown in the travel industry has caused the value of hotel properties to decline below the values at which they were acquired or last refinanced. This decline in market value, coupled with more stringent underwriting criteria by senior hotel lenders, has caused a gap to develop in the loan-to-value ratio of these properties, making it increasingly difficult for owners to refinance their properties. We believe that mezzanine capital provides a solution for these owners by providing loans to cover the loan-to-value shortfalls. We expect this asset class to provide us with attractive yields and potentially allow us to participate in the improving economics of the underlying hotel. In addition, subject to restrictions applicable to REITs, we may acquire or originate corporate-level mezzanine loans on an unsecured basis. Our mezzanine loans currently represent approximately 22.7% of our total investments made to date.

These types of mortgage loans are considered to involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property due to a variety of factors, including the loan being entirely unsecured or, if secured, becoming unsecured as a result of foreclosure by the senior lender. If a property that secures a mezzanine financing is foreclosed by the senior lender, we may not recover some or all of our investment in these loans.

First Mortgage Financing. To date, we have not originated or purchased any first mortgages other than one junior participation in a first mortgage, which we refer to as a mezzanine loan throughout this prospectus. However, as interest rates increase and the dynamics in the hotel industry make first mortgage investments more attractive, we intend to acquire, potentially at a discount to par, or originate loans secured by first priority mortgages on hotels. 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 the state and federal regulatory constraints imposed on such entities. Also, because we do not currently intend to securitize our assets, we expect to be able to offer more flexible terms than commercial lenders who contribute loans to securitized mortgage pools. We anticipate that this asset class will provide us with stable, attractive current yields.

Operating Procedures

In implementing our business strategy through investments that satisfy the applicable investment policies described above, we consider each of the following:

Asset Review. In making future hotel investment decisions, we will consider several criteria, including:

Number of Rooms We anticipate acquiring or investing in hotels with at least 75 rooms.

Ownership Structure We prefer properties with a fee simple title.

Management We prefer that the property is unencumbered by long-term management contracts.

Franchise Affiliations We will consider both major franchises as well as independents.

Competition We intend to seek properties in areas that lack a substantial new supply of hotel rooms, appear resilient to down markets and either have an existing broad demand or a growing demand base.

Physical Condition The condition of the property that is acceptable to us will depend on the pricing structure. Major product improvement plans or renovations are acceptable if the pricing adequately reflects such renovations.

Available Financing To the extent we utilize financing in our investments, we will seek non-recourse financing.

Amenities We prefer properties that have amenities (food and beverage, meeting space, fitness equipment, parking, etc.) consistent with the needs of its targeted customer.

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- Operating Performance We intend to seek hotels that have shown a solid operating performance or alternatively seek assets where strategic changes in operations or its market positioning will generate improved revenue and operating margins.

- New Supply We invest in markets where the effects of future growth in new rooms are understood and factored in value considerations.

- Room Demand Generators We will seek hotels that have a diversified base of room demand generators or alternatively seek to reposition hotels to capitalize on shifting the hotel s guest mix in ways to improve operating performance.

However, none of these criteria alone is considered determinative.

Underwriting Review. After we identify a potential investment, a due diligence team, consisting of in-house and third parties, will conduct detailed due diligence to assess the potential investment. This due diligence team will follow underwriting guidelines and review a list of property-level issues, including, but not limited to:

- property financials;
- property condition;
- environmental issues;
- ADA compliance;
- title surveys;
- competitive position;
- brand;
- market assessment;
- advance booking reports; and
- marketing plans.

Market Assessments. Our market assessment analysis will entail in-depth evaluation of macro and micro market forces affecting the lodging industry in a given market and the specific sub-market. We usually process data obtained from numerous industry sources that focus on new supply, changes in demand patterns, brand expansion plans, performance of key corporations, government initiatives and essential hotel performance data (e.g., average daily rate, or ADR, occupancy and RevPAR). We will analyze this information to make near-term and long-term investment and sales decisions within each market and further within specific sub-markets.

Capital Markets Evaluation. We monitor the capital markets to determine trends in lodging investment patterns and debt-to-equity pricing. We typically maintain a debt and equity transaction database encompassing recently closed transactions and suggested pricing for new transactions. This information will assist us in the formulation of competitive pricing trends and may serve as a good indicator of when liquidity gaps or pricing inefficiencies may exist in the market. We intend to use this pricing knowledge to optimally allocate our assets across our four targeted lodging-related investment classes to maximize our risk-adjusted returns.

Value Optimization Strategies. We intend to regularly evaluate the incremental performance and resulting investment actions for each asset in our portfolio as part of our budget review process. Because of our fluid asset allocation strategy, it will be imperative that the relative merits of holding a particular property or investment demonstrate benefits in terms of accretion and portfolio diversification. Our objective in such an evaluation is to confirm that an existing asset adds to stockholder value. The methodology consists of a re-buy analysis that determines if continuing to hold a particular investment, using forward-looking market growth assumptions, is a valid strategy. By consistently applying this policy

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across all investments, we seek to maximize our investment returns by reallocating funds into more productive asset classes.

Asset Management and Consulting Services

To comply with the REIT rules, various property managers perform the day-to-day management activities related to the operations of our properties. However, we provide certain asset management services to other entities affiliated with Remington Hotel. Specifically, our assets include eight asset management and consulting agreements under which we provide various services to eight property managers affiliated with Remington Hotel in exchange for a fee. In performing these services, we either provide or supervise specific asset management services, including risk management and insurance procurement; assistance with preparation of tax returns and monitoring of the payment of taxes; negotiation of hotel franchise agreements and monitoring compliance with franchise requirements; negotiation of property financings and monitoring compliance with loan covenants; negotiation and closing of equipment leases; property litigation management; assistance with preparation of annual operating and capital budgets for the hotels; and monitoring compliance with the management agreements. We also provide additional services to these property managers such as market and feasibility analysis, capital improvement assistance, financial planning and franchise support. To the extent permitted by REIT rules, we perform similar functions with respect to our own properties.

Further, we have the option to reassign our rights under these eight asset management and consulting contracts back to Ashford Financial Corporation to meet REIT eligible-income thresholds. On October 16, 2003, we exercised this option and reassigned our rights under these asset management and consulting contracts back to Ashford Financial Corporation until January 1, 2004 in order to meet REIT eligible-income thresholds in 2003. As a result, we did not collect related asset management fee income in 2003 of approximately $250,000. However, the related guarantee of payment associated with these fees was extended for a like period. We may have to make a similar reassignment in the future to satisfy REIT eligible-income thresholds and, as a result, forego future asset management fee income.

We do not intend to actively pursue additional asset management and consulting contracts in the future.

Financing

At December 31, 2003, we had approximately $50.2 million of outstanding mortgage notes payable which includes a $16.0 million mortgage note secured by the Embassy Suites in Las Vegas, Nevada and a $6.4 million mortgage note assumed in connection with our acquisition of the Hilton Garden Inn in Jacksonville, Florida. In addition, on December 24, 2003, we closed on a $36.0 million non-recourse loan, of which approximately $27.8 million was outstanding at December 31, 2003, secured by the five hotel properties we acquired from FelCor Lodging Limited Partnership. The loan bears interest at a rate of LIBOR plus 3.25% with a 4.75% total floor, matures in four years, requires interest-only payments for the first two years, and contains a one-year extension option upon maturity, subject to an extension fee of 0.5% of the outstanding principal balance of the loan as of the extension date. On February 5, 2004, we completed a $60.0 million secured credit facility, at an interest rate equal to the prime rate plus 2.0% or LIBOR plus 3.25%, at our election, of which $49.8 million of the proceeds were funded on March 24, 2004. The credit facility matures in three years, is collateralized by seven hotel properties, is subject to certain financial and other covenants, requires an annual commitment fee of 0.45% to 0.55% on the unused portion of the facility, which is payable quarterly, and allows for an increase to $75.0 million subject to certain conditions. In addition, on April 1, 2004 we assumed a $15.7 million mortgage note in connection with our acquisition of the Sea Turtle Inn located in Jacksonville, Florida. We may continue to selectively pursue mortgage financing on individual properties and our mortgage investments. Our current policy is to limit consolidated indebtedness to no more than 60% of the aggregate investment in the hotels and debt instruments which we own. However, our board of directors may change the financing policy at any time without the approval of our stockholders.

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Legal Proceedings

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

BUSINESS AND PROPERTIES

Our Existing Properties

As of December 31, 2003, we owned fifteen properties, consisting of seven Embassy Suites, two Radisson Hotels, two Doubletree Guest Suites, one Hilton Garden Inn, one SpringHill Suites by Marriott, one Homewood Suites and one Hampton Inn. Additionally, we acquired the Marriott Residence Inn in Lake Buena Vista, Florida on March 24, 2004 and the Sea Turtle Inn in Jacksonville, Florida on April 1, 2004. We own each of these hotels in fee simple, except for the Radisson Hotel Cincinnati Riverfront, which we own part in fee simple and part pursuant to a ground lease which expires in 2070 (including all extensions) and the Doubletree Guest Suites in Columbus, Ohio, which has been built on an air rights lease above the parking garage with 42 years remaining. These properties are held for investment purposes and operated by property managers. We believe that each of these properties is adequately covered by insurance. For the 12 months ended December 31, 2003, the aggregate EBIDTA for the 11 hotels we have acquired since the completion of our initial public offering was approximately $13.9 million, and the weighted average EBITDA acquisition multiple for the 12 months ended December 31, 2003, based on the aggregate acquisition price for the 11 properties, was approximately 9.5x. For a reconciliation of EBITDA to net income, see Selected Financial Information in this prospectus.

Presented in the table below is certain descriptive information regarding our existing portfolio as of, and for the year ending, December 31, 2003 and information regarding the two properties that we have acquired since December 31, 2003.

Hotel Property	Location	Year Built/ Renovated	Rooms	Average Occupancy[1]	Average Daily Rate[2]	Revenue per Available Room[3]
Properties Acquired upon Completion of our IPO:						
Embassy Suites	Austin, TX	1998	150	70.3%	$114.58	$ 80.55
Embassy Suites	Dallas, TX	1998	150	65.2	108.10	70.48
Embassy Suites	Herndon, VA	1998	150	80.9	135.71	109.79
Embassy Suites	Las Vegas, NV	1999	220	84.8	107.37	91.05
Radisson Hotel	Covington, KY	1972/2000	236	59.3	67.25	39.88
Radisson Hotel	Holtsville, NY	1989/2001	188	66.0	96.24	63.52
Properties Acquired since Completion of our IPO:						
Doubletree Guest Suites	Columbus, OH	1985	194	70.8%	$ 97.43	$ 68.98
Doubletree Guest Suites	Dayton, OH	1987	137	67.8	83.02	56.29
Embassy Suites	Flagstaff, AZ	1988	119	68.7	92.10	63.27
Embassy Suites	Phoenix, AZ	1981	229	68.6	96.47	66.18
Embassy Suites	Syracuse, NY	1990	215	71.3	106.34	75.82
Hampton Inn	Lawrenceville, GA	1997	86	67.1	69.54	46.66
Hilton Garden Inn	Jacksonville, FL	1999	119	76.3	91.38	69.72
Homewood Suites	Mobile, AL	1998	86	82.1	87.00	71.43
Marriott Residence Inn[4]	Lake Buena Vista, FL	2001	210	71.5	101.67	72.69
Sea Turtle Inn[4]	Atlantic Beach, FL	1972/2000	193	75.2	111.86	84.12
SpringHill Suites by Marriott	Jacksonville, FL	2000	102	84.3	76.37	64.38
Total/ Weighted Average			2,784	71.8%	$ 98.65	$ 70.80

(1) Average occupancy represents the number of occupied rooms during the period divided by the total number of rooms available during that period.

(2) Average daily rate represents the total room revenue for the applicable period divided by the number of occupied rooms.

(3) Revenue per available room represents the total room revenue per total available rooms for the applicable period and is calculated by multiplying average occupancy by the average daily rate.

(4) The financial information for these properties, which we acquired after December 31, 2003, is derived from historical financial statements as of, and for the year ended, December 31, 2003.

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Properties Acquired upon Completion of our IPO

Embassy Suites, Austin, Texas. The Embassy Suites Hotel Austin, Texas features 150 all-suite guestrooms, one restaurant and lounge, 2,800 square feet of meeting space, one heated indoor pool and jacuzzi, and exercise facilities. The hotel is six stories high, has three elevators, fire safety sprinklers and 169 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as an Embassy Suites under a franchise license agreement with Promus Hotels, Inc.

The majority of demand for the hotel is commercial in nature as the hotel is located in the Arboretum Shopping and Business District, an area with varied commercial uses. The hotel is located between two major highways (the MoPac Expressway and Capital of Texas Highway) in the Northwest portion of the city of Austin. Competitors include the Renaissance Hotel, Courtyard by Marriott Northwest, Embassy Suites Northwest, Residence Inn by Marriott Northwest and Holiday Inn Northwest. Major demand generators in the area are Apple, IBM, Applied Materials, Motorola, Emerson Electric and Dell Computers.

Embassy Suites, Dallas, Texas. The Embassy Suites Hotel Dallas features 150 all-suite guestrooms, one restaurant and lounge, 2,800 square feet of meeting space, one heated indoor pool and jacuzzi, and exercise facilities. The hotel is six stories high, has three elevators, fire safety sprinklers and 174 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as an Embassy Suites under a franchise license agreement with Promus Hotels, Inc.

Most demand for the hotel is commercial in nature as the hotel is located in an area with varied commercial uses and high-end retail outlets known as the Dallas Galleria. The hotel is located near two major highways (I-635/LBJ Freeway and the North Dallas Tollway) in the northern section of the city of Dallas. Competitors include the Westin Galleria Hotel, the Marriott Quorum Hotel, the Hotel Intercontinental, the Hilton Inn & Suites, and the Wyndham Hotel. Major demand generators in the area are Accenture, AT&T, Cap Gemini, JP Morgan, Tenet Healthcare and Kinko s.

Embassy Suites-Dulles Airport, Herndon, Virginia. The Embassy Suites Hotel Dulles Airport features 150 all-suite guestrooms, one restaurant and lounge, 2,800 square feet of meeting space, one heated indoor pool and jacuzzi, and exercise facilities. The hotel is six stories high, has three elevators, fire safety sprinklers and 167 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as an Embassy Suites under a franchise license agreement with Promus Hotels, Inc.

The hotel is located in the Dulles/ Herndon Corridor, twenty-one miles from downtown Washington, D.C., three miles from Dulles International Airport and near numerous business parks and retail centers. The hotel is located near the Dulles Tollroad (Rte. 267). Competitors include Hilton Hotel, Marriott Suites, Homewood Suites, Hyatt and Summerfield Suites. Major demand generators in the area are the Dulles International Airport, Northrop Grumman, Sprint Telecommunications, Computer Associates, Cisco Systems and AOL Time Warner.

Embassy Suites, Las Vegas, Nevada. The Embassy Suites Hotel, Las Vegas features 220 all-suite guestrooms, one restaurant and lounge, 6,000 square feet of meeting space, one heated outdoor pool and jacuzzi, and exercise facilities. The hotel is six stories high, has three elevators, fire safety sprinklers and 180 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as an Embassy Suites under a franchise license agreement with Promus Hotels, Inc.

The majority of demand for the hotel is both commercial and leisure in nature as the hotel is located in a varied commercial and entertainment area and is centrally located between the McCarran Airport, the University of Las Vegas (UNLV) and the Las Vegas Convention Center. The hotel is located on Swenson Street near Paradise Road. Competitors include Courtyard by Marriott Convention Center, Marriott Suites, Residence Inn Convention Center and Crowne Plaza. Major demand generators in the area are

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Bechtel, Sprint Telecommunications, Boeing, Citigroup, KPMG, Ford Motor Company, UNLV and PricewaterhouseCoopers.

The Embassy Suites Las Vegas is subject to a mortgage loan having an outstanding balance as of March 31, 2004, of approximately $16.0 million, monthly interest-only payments of $73,333, effective interest rate of the greater of LIBOR plus 3.5%, or 5.5%, and monthly installments of principal of $20,000 commencing January 1, 2005. Prepayment of the loan following January 1, 2003 is subject to an exit fee of $160,000. The loan matures on December 31, 2006 unless the one-year extension option is exercised by the payment of an extension fee of $80,000 and certain conditions are met.

Radisson Hotel Cincinnati Riverfront, Covington, Kentucky. The Radisson Hotel Cincinnati Riverfront features 236 guestrooms, a revolving river view restaurant on the 18th floor, a casual first-floor dining area and lobby bar, over 10,000 square feet of meeting space, one indoor pool with a retractable roof, a fitness center and a tanning salon. The hotel is 18 stories high, has four elevators, fire safety sprinklers and 120 parking spaces in a two-level underground parking garage. The hotel is currently managed by Remington Lodging under a management agreement and is operated as a Radisson hotel under a franchise license agreement with Radisson Hotels International, Inc.

The majority of demand for the hotel is both commercial and group in nature as the hotel is located in the heart of the riverfront area in Covington, Kentucky, which houses a diversified business and residential community. Competitors include the Marriott Rivercenter Hotel, Courtyard by Marriott, Embassy Suites, Hampton Inn and Holiday Inn. Major demand generators in the area are Procter and Gamble, Fidelity Investments, Net Jets, Givaudan (a Switzerland-based global fragrance and flavor manufacturer), Sara Lee and Accenture.

Radisson Hotel MacArthur Airport, Holtsville, New York. The Radisson Hotel MacArthur Airport features 188 guestrooms, one restaurant and lounge, 5,000 square feet of meeting space, one heated indoor pool and jacuzzi, and exercise facilities. The hotel is three stories high, has three elevators, fire safety sprinklers and approximately 200 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as a Radisson hotel under a franchise license agreement with Radisson Hotels International, Inc.

The majority of demand for the hotel is both commercial and group in nature as the hotel is located in an area with varied commercial uses and residential neighborhoods within five miles of the Long Island MacArthur Airport (LIMA), a major regional hub servicing major commercial flights for the greater New York metropolitan area and Long Island. The hotel is located on the South Service Road of the Long Island Expressway (Route 495) at Exit 63. Competitors include the Marriott Hotel, the Wyndham Windwatch, the Holiday Inn and the Holiday Inn Express. Major demand generators in the area are LIMA, Computer Associates, Forest Laboratories, Symbol Technologies, Brookhaven National Laboratory and Stony Brook University.

Properties Acquired since Completion of our IPO

Doubletree Guest Suites, Columbus, Ohio. The Doubletree Guest Suites features 194 suites, 2,600 square feet of meeting space, one restaurant, and an exercise facility. The property has the largest room product in the market, is 10 stories high, and has five elevators, fire safety sprinklers and 100 dedicated parking spaces within a parking garage. The hotel is on an air rights lease above the parking garage with 42 years remaining. The hotel is currently managed by Remington Lodging under a management agreement and is operated as a Doubletree Guest Suites under a franchise license agreement with Doubletree Hotel Systems, Inc.

The property is located in Downtown Columbus in an excellent location on Front Street, directly across from the Scioto River. Competitors include: Hyatt, Courtyard, Crowne Plaza, Westin, Holiday Inn, and Adams Mark. Demand generators include: Accenture, AEP, Deloitte & Touche, Huntington Bank, IBM, NCR, and SBC Communications.

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This hotel is located in an urban center and provides an attractive initial yield with a potential for increased returns through improved operating margins. We acquired this hotel at below estimated replacement cost.

Doubletree Guest Suites, Dayton, Ohio. The Doubletree Guest Suites features 137 suites, 2,639 square feet of meeting space, one swimming pool, exercise facilities, and a restaurant. The hotel is three stories high, has two elevators, fire safety sprinklers and 151 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as a Doubletree Guest Suites under a franchise license agreement with Doubletree Hotel Systems, Inc.

The majority of demand for this property is corporate in nature, as the hotel is located approximately nine miles south of downtown Dayton in a business park. The hotel is located adjacent to the 160-store Dayton mall and is the only full-service hotel in the trade area. Competitors include: Holiday Inn, Courtyard, Residence Inn, and Homewood Suites. Demand generators include: NCR, Motoman, Lexis Nexis, General Motors, and Standard Register.

We acquired this well-located hotel at below estimated replacement cost and at a price providing an attractive initial yield. Furthermore, we expect to improve our return on this investment through planned capital improvements and improved operating margins.

Embassy Suites, Flagstaff, Arizona. The Embassy Suites Hotel, Flagstaff features 119 all-suite guestrooms, one restaurant, 1,376 square feet of meeting space, a swimming pool, and an exercise facility. The hotel is three stories high, has three elevators, fire safety sprinklers, and 131 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as an Embassy Suites under a franchise license agreement with Promus Hotels, Inc.

The demand for the hotel is both commercial and leisure in nature. The Flagstaff market enjoys demand from leisure guests utilizing the surrounding landscape including the Grand Canyon, university demand from University of Northern Arizona, and corporate demand. The Embassy Suites is currently the only hotel in Flagstaff offering spacious two-room suites. Major demand generators in the market include: Perot Systems, HASTC, ITEP, Northern Arizona University, and Flagstaff Medical Hospital. Competitors include: Little America, Radisson, Hilton Garden, Amerisuites, Residence Inn, and Hampton Inn & Suites.

We acquired this hotel at a discount to estimated replacement cost, and we believe the hotel has the best location in its market. We expect that this hotel will penetrate its competitive set after planned renovations and maintain its competitive advantage as the only product in the market with two room suites.

Embassy Suites, Phoenix, Arizona. The Embassy Suites Hotel, Phoenix features 229 all-suite guestrooms, one restaurant, 9,209 square feet of meeting space, one swimming pool, and exercise facilities. The hotel is four stories high, has five elevators, and has 240 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as an Embassy Suites under a franchise license agreement with Promus Hotels, Inc.

The majority of demand for the hotel is both commercial and leisure in nature as the hotel is located 1.5 miles north of the Phoenix Airport at the corner of 44th Street and McDowell Road. Competitors include Marriott, Doubletree, Holiday Inn Select, Wyndham, and Residence Inn. Major demand generators in the market include: Honeywell, Raytheon, Boeing, and IBM.

This hotel is located near the airport and was acquired at a per key cost equal to a significant discount to estimated replacement cost. We expect to improve operating results through additional capital improvements and improved operating margins.

Embassy Suites, Syracuse, New York. The Embassy Suites, Syracuse, New York features 215 suites, 3,252 square feet of meeting space, one restaurant, an indoor swimming pool, and an exercise facility. The hotel is five stories high on 4.3 acres, has three elevators, fire safety sprinklers and 211 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as an Embassy Suites under a franchise license agreement with Promus Hotels, Inc.

The majority of demand for the hotel is commercial in nature as the hotel is located in Carrier Circle, a primary business destination in Syracuse. The hotel is only minutes away from downtown Syracuse, Syracuse University, the Carrier Dome, Carousal Center Mall, and the Empire State Expo Center. Demand generators in the market area include: Carrier Corporation, Daimler Chrysler, Lockheed Martin, and Verizon. Competitors include: Sheraton University, Holiday Inn, Residence Inn, Wyndham, and Courtyard.

This hotel is located in a strategic site near the airport and was acquired at a per key cost well below estimated replacement cost. We believe that the relatively stable performance of this hotel prior to our acquisition reflects the opportunity for significant upside with room renovations, because the market in which this hotel is located has a significant drive-to component. We also expect to improve operating margins at this property.

Hampton Inn, Lawrenceville, Georgia. The Hampton Inn, Lawrenceville has 86 rooms, 600 square feet of meeting space, a swimming pool, and an exercise facility. The property is three stories high, has one elevator, fire safety sprinklers and 96 surface parking spaces. The hotel is currently managed by Noble Management Group under a management agreement and is operated as a Hampton Inn under a franchise license agreement with Promus Hotels, Inc.

The hotel sits adjacent to an office park in fast growing Gwinnett County in Northeast Atlanta. Demand for the hotel is both corporate and leisure, as area business and weekend social business take advantage of the asset. Competitors include: Comfort Suites, Holiday Inn Express & Suites, Hampton Inn & Suites, Microtel Inn & Suites, and Country Inn & Suites. Demand Generators include: Motorola, Wika Industries, Orbis, Publix-Distribution Center, and William Byrd.

The Hampton Inn is a quality branded, well-located asset that we acquired at an attractive yield. We believe operating results at this hotel can be improved through a planned renovation of the property.

Hilton Garden Inn, Jacksonville, Florida. The Hilton Garden Inn, Jacksonville features 119 guest rooms, 1,885 square feet of meeting space, on restaurant, an exercise facility, and a swimming pool. The hotel is five stories, has two elevators, fire safety sprinklers and 124 surface parking spaces. The hotel is currently managed by Noble Management Group under a management agreement and operated as a Hilton Garden Inn under a franchise license agreement with Hilton Inns, Inc.

Demand for the hotel is both corporate and leisure, as the hotel sits in the heart of Deerwood Business Park off I-95 and J.T. Butler Boulevard. Competitors include: Marriott, Embassy Suites, Courtyard, Holiday Inn Express & Suites, Southpoint Hotel, Best Western, and La Quinta Inn & Suites. Demand generators include: Merrill Lynch, Blue Cross Blue Shield, Vistakon/ Johnson & Johnson, International Paper, and JP Morganchase.

The Hilton Garden Inn is a well-located asset that we acquired at an attractive per-key cost and initial yield. We expect to increase our yield through continued market strength, renovation and continued penetration of its competitive set.

Homewood Suites, Mobile, Alabama. The Homewood Suites, Mobile features 86 suites each equipped with a full kitchen, 500 square feet of meeting space, a swimming pool, and exercise facility. The property is three stories high, two elevators, fire safety sprinklers and 100 surface parking spaces. The hotel is currently managed by Noble Management Group under a management agreement and is operated as a Homewood Suites under a franchise license agreement with Promus Hotels, Inc.

Demand for the hotel comes from area businesses and the adjacent Providence Hospital. The hotel is 12 miles from Downtown Mobile, and six miles from I-65 and is the only extended stay hotel near the hospital, which caters primarily to long term stays of seven days or longer. Competitors include: Residence Inn, Marriott, Hampton Inn, Courtyard, and Ramada. Demand generators include: CPSI, Providence

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Hospital, Day Trading Training Office, University of South Alabama, and Integrity Music. The hotel is currently managed by Noble Management Group under a license agreement with Hilton Hotels, Inc.

The Homewood Suites is a quality branded asset that we acquired at below estimated replacement cost. It has an attractive initial yield and additional upside potential through continued market growth.

Marriott Residence Inn, Lake Buena Vista, Florida. The Residence Inn, Lake Buena Vista features 210 suites with full kitchens, 3,400 square feet of meeting space, one swimming pool, and an exercise facility. The five story hotel sits on 4.5 acres, has three elevators, fire safety sprinklers, and 185 surface parking spaces. The hotel is currently managed by Remington Lodging under a management agreement and is operated as a Marriott Residence Inn under a franchise license agreement with Marriott International, Inc.

Demand for the hotel is primarily leisure, as the asset sits one mile from the entrance to Disney World. The hotel has excellent highway visibility, and its large suites are attractive to families visiting Disney World. Competitors include: Staybridge Suites, Sierra Suites, Embassy Suites, Homewood Suites, and Hawthorn Suites. Demand Generators include Tour & Travel Groups, Employees relocating to the Orlando Area, and Disney World visitors.

The Residence Inn is located in a premiere leisure destination with all suite rooms. We believe this hotel can improve its operating performance through operating efficiencies and increased penetration of its competitive set.

Sea Turtle Inn, Atlantic Beach, Florida. The Sea Turtle Inn features 193 guest rooms, 8,500 square feet of meeting space, one restaurant, one swimming pool, a gift shop, and an exercise facility. The hotel sits on three acres of beach front property in Atlantic Beach, has eight stories, two elevators, fire safety sprinklers and 212 surface parking spaces. The hotel is currently managed by Remington Lodging.

Demand for the hotel is corporate, group, and leisure. The hotel is the only full-service hotel in the immediate trade area, and benefits from its beach location and area amenities. Competitors include: Days Inn, Comfort Inn, Best Western, Quality Suites, Holiday Inn Sunspree, and Marriott Sawgrass. Demand generators include: Norfolk Navy Group, U.S. Bureau of Immigration and Customs, AHL, CSXT/ AREMA, and Venus Swimwear.

The Sea Turtle Inn is a quality asset that we purchased at an attractive per key cost less than estimated replacement cost. Through management efficiencies, we expect to increase our return on investment.

SpringHill Suites by Marriott, Jacksonville, Florida. The SpringHill Suites, Jacksonville has 102 suites, 450 square feet of meeting space, a swimming pool, and exercise facility. The property is five stories high, has two elevators, fire safety sprinklers and 104 surface parking spaces. The hotel is currently managed by Noble Management Group under a management agreement and is operated as a SpringHill Suites under a franchise license agreement with Marriott International, Inc.

Demand for the hotel is both corporate and leisure, as the hotel sits in the heart of Deerwood Business Park off I-95 and J.T. Butler Boulevard. Competitors Include: Candlewood Suites, Holiday Inn Express, Courtyard, La Quinta Inn & Suites, Wellesley Inn & Suites, and Hampton Inn. Demand generators include: IPTM-Police Training, Caterpillar, Kemper/ Unitrin, Seastar Lines, and Mayo Clinic.

The SpringHill Suites is a quality branded asset located in a business park. We acquired this property at an attractive per key cost, and we believe that the strong sub-market of this hotel will improve.

Mortgage Debt

We have a $36.0 million non-recourse loan, with a current outstanding balance of $27.8 million, which is secured by mortgages on the Doubletree Columbus, Doubletree Dayton, Embassy Suites Flagstaff, Embassy Suites Syracuse and Embassy Suites Phoenix. The loan bears interest at LIBOR plus

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3.25%, but no less than 4.75%. The loan matures December 31, 2007 with one 12-month extension for a fee of 0.5% of the outstanding principal balance of the loan as of the date of the extension notice.

We also have a $60.0 million secured revolving credit facility, with a current outstanding balance of $49.8 million, which is secured by mortgages on the Embassy Suites Austin, Embassy Suites Dallas, Embassy Suites Dulles, Radisson Hotel MacArthur Airport Holtsville, Hampton Inn Lawrenceville, Homewood Suites Mobile and SpringHill Suites by Marriott in Jacksonville.

The Hilton Garden, Jacksonville is subject to a mortgage loan having an outstanding balance as of January 2004 of approximately $6.4 million, monthly principal and interest payments of $46,273, and an effective interest rate of 7.08%. The loan matures January 1, 2006, with no prepayment permitted prior to July 1, 2005 and with a 4% prepayment penalty for involuntary prepayment due to borrower default. On or after July 1, 2005, but prior to October 1, 2005, there is a 0.05% prepayment penalty.

The Sea Turtle Inn, Atlantic Beach is subject to a mortgage loan having an outstanding balance as of April 1, 2004 of $15.7 million and an effective interest rate of 7.25%. The loan matures December 1, 2005, with prepayment prohibited prior to December 1, 2004, with a 0.5% prepayment penalty from December 1, 2004 to May 31, 2005, and with no prepayment penalty after June 1, 2005.

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Our Existing Loan Assets

As of December 31, 2003, we owned one $10.0 million mezzanine loan, secured by the Hilton Times Square in New York City. Since then, we have acquired four additional mezzanine loans totaling $61.6 million secured by first or subordinate liens on 20 hotels located in 15 states.

Presented in the table below is certain descriptive information regarding our existing loan portfolio as of March 31, 2004.

Property	Location	Origination or Acquisition Date	Loan Amount	Interest Rate	Maturity Date
Hilton Times Square	New York, NY	November 26, 2003	$10,000,000	LIBOR + 900 bps 2% LIBOR floor	August 2006, with two one-year extension options (1)
Adam s Mark	Denver, CO	January 23, 2004	15,000,000	LIBOR + 900 bps	February 2006, with three one-year extension options(2)
17 Wyndham-owned hotels(3)	12 states	March 4, 2004	25,000,000	LIBOR + 870 bps 2.5% LIBOR floor	July 2005, with three one-year extension options (4)
Embassy Suites	Boston, MA	March 19, 2004	15,000,000	LIBOR + 1025 bps 1.75% LIBOR floor	April 2007, with two one-year extension options (5)
Northland Inn & Conference Center	Brooklyn Park, MN	March 24, 2004	6,600,000	greater of 12% or LIBOR + 1000 bps 2% LIBOR floor	January 2006(6)
Total					