

ASHFORD HOSPITALITY TRUST INC

Form 424B3

January 10, 2005

Table of Contents

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-114283

SUBJECT TO COMPLETION, DATED JANUARY 7, 2005

PROSPECTUS SUPPLEMENT

(To Prospectus dated September 15, 2004)

Shares

Common Stock

We are offering _____ shares of our common stock. 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 January 7, 2005 was \$10.16 per share.

We will receive all of the net proceeds from the sale of our common stock.

Our common stock is subject to certain restrictions on ownership designed to preserve our qualification as a real estate investment trust for federal income tax purposes. See Description of our Capital Stock Restrictions on Ownership and Transfer on page 19 of the accompanying prospectus.

Investing in our common stock involves risks. See Risk Factors beginning on page S-4 of this prospectus supplement and on page 2 of the accompanying prospectus.

	Per Share	Total
Public Offering Price	\$	\$
Underwriting Discounts and Commissions	\$	\$
Proceeds, before Expenses, to Us	\$	\$

The underwriters expect to deliver the common stock to purchasers on or about January _____, 2005.

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.

We have granted to the underwriters the right to purchase within 30 days from the date of this prospectus supplement up to an additional _____ shares of common stock at the public offering price per share, less discounts and commissions, to cover over-allotments.

Wachovia Securities

A.G. Edwards

Calyon Securities
(USA) Inc.

JMP Securities

Friedman Billings Ramsey

Legg Mason Wood Walker
Incorporated

Stifel, Nicolaus & Company
Incorporated

The date of this prospectus supplement is January , 2005.

TABLE OF CONTENTS

Prospectus Supplement

<u>A Warning About Forward-Looking Statements</u>	S-ii
<u>Prospectus Supplement Summary</u>	S-1
<u>Risk Factors</u>	S-4
<u>Use of Proceeds</u>	S-5
<u>Capitalization</u>	S-6
<u>Our Company</u>	S-7
<u>Additional Federal Income Tax Consequences of our Status as a REIT</u>	S-14
<u>Underwriting</u>	S-16
<u>Legal Matters</u>	S-18
<u>Experts</u>	S-18

Prospectus

About This Prospectus	ii
Where You Can Find More Information	ii
Incorporation of Information by Reference	ii
A Warning About Forward-Looking Statements	iii
Our Company	1
Risk Factors	2
Use of Proceeds	18
Ratio of Earnings to Fixed Charges	18
Description of Our Capital Stock	19
Description of Our Common Stock	21
Description of Our Preferred Stock	22
Description of Our Debt Securities	26
Description of Our Warrants	30
Book-Entry Securities	31
Material Provisions of Maryland Law and of our Charter and Bylaws	33
Partnership Agreement	36
Federal Income Tax Consequences of our Status as a REIT	40
Plan of Distribution	59
Experts	61
Legal Matters	61

You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone else to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. An offer to sell these securities will not be made in any jurisdiction where the offer and sale is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as information we previously filed with the Securities and Exchange Commission and incorporated by reference, is only accurate as of the date on the front cover of this prospectus supplement or accompanying prospectus, as applicable. Our business, financial condition, results of operations and prospects may have changed since that date.

Table of Contents

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus supplement and the accompanying prospectus, and in the information incorporated by reference into this prospectus supplement and the accompanying 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; and
- the impact of technology on our operations and business.

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, results of operations, plans and objectives 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 supplement and the accompanying prospectus, and in the information incorporated by reference into this prospectus supplement and the accompanying prospectus, including those set forth under the sections titled **Risk Factors** in this prospectus supplement and the accompanying prospectus;
- general volatility of the capital markets and the market price of our securities;
- 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 intend to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. It may not contain all of the information that is important to you. Before making a decision to invest in our common stock, you should read carefully this entire prospectus supplement and the accompanying prospectus, including the sections entitled "Risk Factors" beginning on page S-4 of this prospectus supplement and on page 2 of the accompanying prospectus and the section entitled "Where You Can Find More Information" on page ii of the accompanying prospectus, as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. This summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. All references to we, our and us in this prospectus supplement means Ashford Hospitality Trust, Inc. and all entities owned or controlled by us except where it is made clear that the term means only the parent company. The term you refers to a prospective investor. Unless otherwise indicated, the information in this prospectus supplement assumes that the underwriters' over-allotment option is not exercised.

The Company

We are a Maryland corporation that was formed in May 2003 to invest in the hospitality industry at all levels of the capital structure. Since our initial public offering in August 2003, we have acquired or committed to acquire over \$850 million of hotel assets. Our portfolio, assuming the acquisition of the 21-property, 4,094-room hotel portfolio transaction described below, will include 54 hotel properties containing 9,189 rooms and \$79 million of debt investments. Our hotel investments are currently focused on the upscale and upper upscale lodging segments and are concentrated among Marriott, Hilton, Hyatt and Starwood brands.

Our business strategy is to target specific opportunities created by the current strengthening lodging market while retaining the flexibility to invest in the most attractive risk-reward opportunities as they develop in the lodging business cycle. Our target investments 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.

We are self-advised and own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. 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. 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 supplement or the accompanying prospectus. Our shares of common stock are traded on the New York Stock Exchange, or the NYSE, under the symbol AHT.

Recent Developments

Announced Acquisition of 21-Hotel Portfolio

On December 27, 2004, we announced that we signed a definitive agreement to acquire a 21-property, 4,094-room hotel portfolio from entities controlled by affiliates of the Fisher Brothers, the Gordon Getty Trust and George Soros, collectively as majority partners, and certain members of our senior management team, as minority partners. The total consideration for this portfolio is \$250.0 million, consisting of \$35.0 million in cash, \$50.3 million in units of limited partnership interest in our operating partnership and the assumption of \$164.7 million in debt. We will use a portion of the proceeds of this offering to (i) pay the cash portion of the purchase price for these properties, (ii) repay certain of the debt

Table of Contents

assumed in connection with the acquisition of these properties and (iii) pay certain of the expenses associated with the transaction. We currently are evaluating strategic alternatives for eight of the smaller hotels, which we refer to as non-core hotels, that contribute a relatively small portion of the net operating income to the portfolio. The remaining 13 hotel assets in the portfolio, which we refer to as the core hotels, are full service, upscale and upper-upscale hotels located in key markets across the United States.

Series B Cumulative Convertible Redeemable Preferred Stock Purchase Agreement

Additionally, on December 27, 2004, we announced that we entered into a purchase agreement with Security Capital Preferred Growth Incorporated for the private placement of up to \$75 million of our Series B cumulative convertible redeemable preferred stock consisting of two tranches of \$20.0 million and \$55.0 million. Under the first tranche, we sold \$10.0 million, or 993,049 shares, to Security Capital on December 30, 2004. We may sell the remaining \$10.0 million, or 993,049 shares, to Security Capital on or before June 30, 2005. The availability of the second tranche of \$55.0 million, or 5,461,767 shares, is conditioned upon the 21-property acquisition described above closing on or before March 31, 2005. If the closing occurs by March 31, 2005, we may request the funding of any or all of the \$55.0 million on or before December 23, 2005. To the extent these shares remain unsold as of certain dates, Security Capital may require us to sell specified amounts of the shares to them on such dates. Specifically, Security Capital may purchase \$14.7 million, or 1,459,782 shares, on the closing date of the 21-property portfolio acquisition, and may purchase \$20.0 million, or 1,986,097 shares, on June 30, 2005.

The first 5,162,000 shares issued pursuant to this agreement will be Series B-1 Preferred Stock, which is convertible, at the option of the holder, at any time into the number of shares of our common stock obtained by dividing \$10.07 by the conversion price then in effect. The initial conversion price is \$10.07 and is subject to certain specified adjustments. The remaining shares will be Series B-2 Preferred Stock, which will automatically convert into Series B-1 Preferred Stock upon stockholder approval as required by the applicable rules of the NYSE or board determination that such stockholder vote is not required. The preferred dividend for the Series B preferred stock is set at the greater of \$0.14 per share or the prevailing common stock dividend plus, in the case of the Series B-2 Preferred Stock, an additional dividend of \$0.05015 per share beginning January 1, 2009.

Dividend Declarations

On December 15, 2004, we announced a quarterly cash dividend of \$0.15 per fully diluted share of our common stock for the fourth quarter ending December 31, 2004. The dividend is payable on January 18, 2005, to stockholders of record as of December 31, 2004, and represents a 7% increase from the common stock dividend payment for the third quarter of 2004. Investors in this offering will not receive this dividend.

On December 17, 2004, we announced a quarterly cash dividend of \$0.5878 per fully diluted share of our 8.55% Series A Cumulative Preferred Stock for the fourth quarter ending December 31, 2004. The dividend is payable on January 18, 2005, to Series A preferred stockholders of record as of December 31, 2004, and represents a partial dividend of \$0.0534 per fully diluted share of Series A Preferred Stock for the period from September 22 to September 30, 2004, and the regular quarterly preferred dividend of \$0.5344 per fully diluted share of Series A Preferred Stock.

Sale of Hotel Teatro Mortgage Loan

On December 9, 2004, we sold a \$10.0 million first-mortgage note receivable, secured by The Hotel Teatro in Denver, Colorado, at par. We retained a \$5.0 million mezzanine note receivable on the property which bears an interest rate of LIBOR plus 11.35%, and matures in October 2006.

Table of Contents

Acquisition of Hyatt Anaheim

On October 1, 2004, we acquired the 654 room Hyatt Regency Orange County, in Anaheim, California for a purchase price of \$81.0 million in cash, inclusive of the seller's commitment to fund a \$6.0 million renovation which was completed in November 2004.

This Offering

Issuer	Ashford Hospitality Trust, Inc.
Common Stock to be Offered	shares(1)
Common Stock to be outstanding after this offering	shares
New York Stock Exchange symbol	AHT
Use of Proceeds	We intend to use the net proceeds from the sale of the common stock to pay the cash portion of the purchase price and certain expenses related to the acquisition of the 21-hotel portfolio we currently have under contract, for the repayment of certain indebtedness and for general corporate purposes which may include the acquisition of additional hotel investments.

(1) Excludes up to shares of our common stock that we may issue and sell upon the exercise of the underwriters' over-allotment option.

Table of Contents

RISK FACTORS

An investment in our common stock involves various risks, including those described below and in the accompanying prospectus. Prospective investors should carefully consider such risk factors, together with all of the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus, in determining whether to purchase the common stock offered hereby.

We may not complete the acquisition of the 21-property portfolio that we currently have under contract.

Although we have identified a 21-hotel portfolio for acquisition, we cannot assure you that this transaction will be consummated. Consummation of this potential transaction is subject to closing conditions, including receipt of third party consents and the waiver of a right of first refusal for one of the properties included in the portfolio. Accordingly, we can give no assurance that all or part of the transaction will be consummated or that, if consummated, it would follow all of the terms set forth in the contribution and purchase and sale agreement entered into between the sellers, the contributors and us.

We may be unable to invest the net proceeds raised in this offering on acceptable terms or at all, which would harm our financial conditions and operating results.

We will receive approximately \$ million of net proceeds from this offering, which will be available for the acquisition of the 21-hotel portfolio we currently have under contract, for future real estate investments that satisfy our investment criteria, for repayment of debt and for general corporate purposes. Until we identify real estate investments consistent with our investment criteria, we intend to invest that portion of the net offering proceeds in money market funds. 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 using the net proceeds of this offering will produce a return on our investment. Moreover, because we have identified only a limited number of future investments at the time of this offering, we will have broad authority to invest the excess net proceeds of this offering in any real estate investments that we may identify in the future.

Table of Contents

USE OF PROCEEDS

We expect that the net proceeds to us from this offering (after deducting underwriting discounts and commissions and estimated offering expenses) will be approximately \$ million (\$ million if the underwriters over-allotment option is exercised in full). We intend to use the net proceeds from this offering for

(i) the payment of the \$35.0 million cash portion of the purchase price and certain expenses related to the acquisition of the 21-hotel portfolio we currently have under contract;

(ii) the repayment of certain indebtedness including:

the repayment of approximately \$14.7 million of debt we will assume in connection with our acquisition of the 21-hotel portfolio we currently have under contract, which bears an interest rate of LIBOR plus 9.0% and is scheduled to mature in September 2008, and

the repayment of the \$18.0 million outstanding balance of our credit facility, which includes affiliates of Wachovia Capital Markets, LLC and Calyon Securities (USA) Inc. as participating lenders, and which bears an interest rate ranging from 200 to 230 basis points over LIBOR and is scheduled to mature in August 2007, the proceeds of which were used to take advantage of multiple investment opportunities and for general corporate purposes throughout the year; and

(iii) general corporate purposes, which may include additional hotel investments.

In the ordinary course of our business, we continually evaluate hotel properties for possible acquisition by us or in regard to the possibility of our making mezzanine loans relating to hotel properties. At any given time, we may be a party to one or more non-binding letters of intent or conditional purchase agreements with respect to these possible acquisitions or loans and may be in various stages of due diligence and underwriting as part of our evaluations. Consummation of any potential transaction is necessarily subject to significant outstanding conditions, including satisfactory completion of our due diligence. As a result, we can make no assurance that any such transaction will be completed, or, if completed, what the terms or timing of the transaction will be.

Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2004 on a historical basis and as adjusted to give effect to (i) the acquisition of the one hotel property we have acquired since September 30, 2004; (ii) the consummation of this offering at an assumed offering price of \$ per share; (iii) the sale of 993,049 shares of Series B-1 Preferred Stock to Security Capital; and (iv) the completion of the acquisition of the 21-property portfolio we currently have under contract, using a portion of the net proceeds of this offering for the cash portion of the acquisition price.

	September 30, 2004 (unaudited)		
	Actual	Pro Forma Adjustments	Pro Forma As Adjusted
Debt:			
Mortgage notes payable	\$ 286,422,168	\$ 15,000,000(1)	\$ 433,173,139
		(213,952)(2)	
		(271,032)(3)	
		(17,764,045)(4)	
		150,000,000(5)	
Capital leases payable	369,927		369,927
Redeemable Preferred Stock:			
Series B-1 Cumulative Convertible Redeemable Preferred Stock, 993,049 shares issued and outstanding		10,000,000(6)	10,000,000
Series B-2 Cumulative Convertible Redeemable Preferred Stock, no shares issued or outstanding			
Stockholders equity:			
Common Stock, \$.01 par value per share 200,000,000 shares authorized, 25,810,447 issued and outstanding, issued and outstanding as adjusted	\$ 258,104		258,104
8.55% Series A Cumulative Preferred Stock, 2,300,000 shares issued and outstanding	23,000		23,000
Additional paid in capital	235,124,140		235,124,140
Unearned compensation and accumulated deficit	(4,542,279)		(4,542,279)
Accumulated other comprehensive loss	(102,831)		(102,831)
Accumulated deficit	(8,511,813)		(8,511,813)
Total capitalization	\$ 509,040,416	\$ 156,750,971	\$ 665,791,387

- (1) On October 1, 2004, we borrowed an additional \$15.0 million under our credit facility and added one hotel to the borrowing base.
- (2) On December 21, 2004, we received a paydown of \$794,154 on one of our mezzanine loan receivables, which was partially used to paydown one of our mortgage notes payable by \$213,952.
- (3) On January 5, 2005, we received a paydown of \$614,706 on one of our mezzanine loan receivables, which was partially used to paydown one of our mortgage notes payable by \$271,032.
- (4) Payoff of credit facility with proceeds of this offering.
- (5) \$164.7 million of debt to be assumed upon completion of acquisition of 21-property portfolio, net of \$14.7 million pay down.

(6) On December 30, 2004, we issued 993,049 shares of Series B-1 Preferred Stock at \$10.07 per share.

S-6

Table of Contents

OUR COMPANY

Overview

We are a Maryland corporation that was formed in May 2003 to invest in the hospitality industry at all levels of the capital structure. Since our initial public offering in August 2003, we have acquired or committed to acquire over \$850 million of hotel assets. Our portfolio, assuming the acquisition of the 21-hotel portfolio we recently agreed to acquire, will include 54 hotel properties containing 9,189 rooms and \$79 million of debt investments. Our hotel investments are currently focused on the upscale and upper upscale lodging segments and are concentrated among Marriott, Hilton, Hyatt and Starwood brands.

Our current investment strategy is to target specific opportunities created by the current strengthening lodging market, while retaining the flexibility to invest in the most attractive risk-reward opportunities as they develop in the lodging business cycle. We believe that the U.S. economy is currently in an expansion phase and that the underlying cash flows of hotels will continue to improve due to favorable supply/demand dynamics. We believe that our current investment policies, particularly our current focus on the upscale and upper-upscale lodging segments, will allow us to participate in the continued improvement in performance within the lodging industry. However, we also believe that as supply, demand and capital market cycles change, we will be able to 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.

We are self-advised and own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. 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 14 of our 33 existing hotel properties, as well as all of the 21 hotel properties in the portfolio currently under contract. Our remaining 19 hotel properties are managed by management companies unaffiliated with us. Remington Lodging is wholly owned by Mr. Archie Bennett, our Chairman, and Mr. Montgomery J. Bennett, our President and Chief Executive Officer. With the exception of Douglas Kessler, our Chief Operating Officer, all members of our senior management team worked together at Remington Hotel Corporation, an affiliate of Remington Lodging, and related entities, since 1992.

We currently have 27 full-time employees. The employees perform directly or through our operating partnership various acquisition, development, redevelopment, and corporate management functions. All persons employed in the day-to-day operation of our hotels are employees of the management companies engaged by our lessees, and are not our employees.

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 to 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 attractive relative yields. Over time, our assessment of market conditions will determine asset

Table of Contents

reallocation strategies. While we seek to capitalize on favorable market fundamentals, conditions beyond our control may have an impact on overall profitability and on the investment returns.

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

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

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.

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 27 additional hotel properties and committed to acquire 21 additional hotel properties, which represents a total investment, assuming the acquisition of the 21-hotel portfolio, of approximately \$769 million. 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 repositioning, capital investments, market based recovery or improved management practices. We intend to continue acquiring existing hotels and, under appropriate market conditions, may 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. Our direct hotel investments will represent approximately 91% of our total investments, assuming completion of the acquisition of the 21-hotel portfolio we currently have under contract.

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.

Investments in Financial Assets

Mezzanine Financing. Since the date of our initial public offering, we have acquired or originated seven subordinated loans, also known as mezzanine loans, representing a total investment of approximately \$79.0 million. These loans are 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 full service 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 have a disciplined approach in underwriting the value of the asset. 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

Table of Contents

may acquire or originate corporate-level mezzanine loans on an unsecured basis. Our mezzanine loans will represent approximately 9% of our total investments, assuming completion of the acquisition of the 21-hotel portfolio we currently have under contract.

First Mortgage Financing. We have originated one first mortgage which was subsequently sold and one junior participation in a first mortgage, which we refer to as a mezzanine loan throughout this prospectus supplement. 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.

Table of Contents**Our Existing Assets**

Presented in the table below is certain information regarding our existing hotel portfolio.

Hotel Property	Location	Year Built/ Renovated	Rooms
<i>Properties Acquired upon Completion of our IPO:</i>			
Embassy Suites	Austin, TX	1998	150
Embassy Suites	Dallas, TX	1998	150
Embassy Suites	Herndon, VA	1998	150
Embassy Suites	Las Vegas, NV	1999	220
Radisson Hotel	Covington, KY	1972/2000	236
Radisson Hotel	Holtsville, NY	1989/2001	188
<i>Properties Acquired since Completion of our IPO:</i>			
Courtyard by Marriott	Bloomington, IN	1996	117
Courtyard by Marriott	Columbus, IN	1998	90
Courtyard by Marriott	Louisville, KY	2002	150
Doubletree Guest Suites	Columbus, OH	1985	194
Doubletree Guest Suites	Dayton, OH	1987	137
Embassy Suites	Flagstaff, AZ	1988	119
Embassy Suites	Phoenix, AZ	1981	229
Embassy Suites	Syracuse, NY	1990	215
Fairfield Inn & Suites	Kennesaw, GA	1996	87
Fairfield Inn by Marriott	Evansville, IN	1995	110
Fairfield Inn by Marriott	Princeton, IN	1998	73
Hampton Inn	Lawrenceville, GA	1997	86
Hampton Inn	Evansville, IN	1991	141
Hampton Inn	Terre Haute, IN	2000	112
Hampton Inn	Horse Cave, KY	1998	101
Hampton Inn Mall of Georgia	Buford, GA	2000	92
Hilton Garden Inn	Jacksonville, FL	1999	119
Homewood Suites	Mobile, AL	1998	86
Hyatt Regency	Anaheim, CA	1984/2001	654
Marriott Residence Inn	Lake Buena Vista, FL	2001	210
Residence Inn	Evansville, IN	1998	78
Sea Turtle Inn	Atlantic Beach, FL	1972/2000	193
Sheraton Bucks County	Langhorne, PA	1986	187
SpringHill Suites by Marriott	Baltimore, MD	2001	133
SpringHill Suites by Marriott	Kennesaw, GA	2001	90
SpringHill Suites by Marriott	Buford, GA	2001	96
SpringHill Suites by Marriott	Jacksonville, FL	2000	102
Total			5,095

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.

Table of Contents

Presented in the table below is selected unaudited information related to our existing hotel portfolio for the three and nine months ended September 30, 2004.

	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Consolidated (Pro Forma)		
Room revenues	\$ 29,414,869	\$ 84,763,854
RevPar	\$ 71.99	\$ 69.68
Occupancy	74.17%	72.16%
ADR	\$ 97.06	\$ 96.56

Presented in the table below is certain information regarding our existing loan portfolio as of the date of this prospectus supplement.

Property	Location	Origination or Acquisition Date	Loan Balance	Interest Rate	Maturity Date
Hilton Times Square				LIBOR + 900 bps	August 2006, with two one-year extension options(1)
Adam s Mark	New York, NY	November 26, 2003	\$ 9,936,033	2% LIBOR floor	February 2006, with three one-year extension options(2)
13 Wyndham-owned hotels(3)	Denver, CO	January 23, 2004	15,000,000	LIBOR + 900 bps	
Embassy Suites	10 states	March 4, 2004	16,299,303	LIBOR + 870 bps	July 2005, with three one-year extension options(4)
	Boston, MA	March 19, 2004	15,000,000	2.5% LIBOR floor	
				LIBOR + 1025 bps	
				1.75% LIBOR floor	402 361
Total liabilities	\$ 712		\$ 696		

Additionally, accumulated other comprehensive loss includes income of \$3 million at March 31, 2007 and a loss of \$6 million at December 31, 2006 related to discontinued operations.

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Investment in Equistar Chemicals, LP**

Equistar Chemicals, LP (together with its consolidated subsidiaries, collectively, Equistar) is owned 70.5% by Lyondell and 29.5% by Millennium. Millennium and Equistar are wholly owned subsidiaries of Lyondell. Millennium accounts for its investment in Equistar using the equity method. As a partnership, Equistar is not subject to federal income taxes.

Summarized financial information for Equistar follows:

<u>Millions of dollars</u>	March 31, 2007	December 31, 2006
BALANCE SHEETS		
Total current assets	\$ 2,049	\$ 2,158
Property, plant and equipment, net	2,821	2,846
Investments and other assets, net	344	355
Total assets	\$ 5,214	\$ 5,359
Current liabilities	\$ 1,159	\$ 1,217
Long-term debt	2,159	2,160
Other liabilities and deferred revenues	381	378
Partners' capital	1,515	1,604
Total liabilities and partners' capital	\$ 5,214	\$ 5,359
	For the three months ended March 31,	
<u>Millions of dollars</u>	2007	2006
STATEMENTS OF INCOME		
Sales and other operating revenues	\$ 2,869	\$ 3,036
Cost of sales	2,738	2,670
Selling, general and administrative expenses	59	48
Research and development expenses	9	8
Operating income	63	310
Interest expense, net	(53)	(53)
Other income (expense), net	1	(1)
Net income	\$ 11	\$ 256

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Inventories**

Inventories consisted of the following:

<u>Millions of dollars</u>	March 31, 2007	December 31, 2006
Finished goods	\$ 67	\$ 63
Work-in-process	16	15
Raw materials	5	4
Materials and supplies	6	5
Total inventories	\$ 94	\$ 87

7. Property, Plant and Equipment

The components of property, plant and equipment, at cost, and the related accumulated depreciation were as follows:

<u>Millions of dollars</u>	March 31, 2007	December 31, 2006
Land	\$ 2	\$ 2
Manufacturing facilities and equipment	344	342
Construction in progress	18	16
Total property, plant and equipment	364	360
Less accumulated depreciation	(235)	(231)
Property, plant and equipment, net	\$ 129	\$ 129

Depreciation and amortization expense is summarized as follows:

<u>Millions of dollars</u>	For the three months ended March 31,	
	2007	2006
Property, plant and equipment	\$ 4	\$ 5
Other	2	2
Total depreciation and amortization	\$ 6	\$ 7

8. Accounts Payable

Accounts payable at March 31, 2007 and December 31, 2006 included liabilities in the amounts of \$2 million and \$1 million, respectively, for checks issued in excess of associated bank balances but not yet presented for collection.

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Long-Term Debt**

Long-term debt consisted of the following:

<u>Millions of dollars</u>	March 31, 2007	December 31, 2006
Senior Notes due 2008, 9.25% (\$2 million of premium)	\$ 374	\$ 375
Senior Debentures due 2026, 7.625%	241	245
Convertible Senior Debentures due 2023, 4%	150	150
Other	(2)	(3)
Total	763	767
Less current maturities		
Total long-term debt, net	\$ 763	\$ 767

During the three months ended March 31, 2007, Millennium repaid \$4 million principal amount of its 7.625% Senior Debentures due 2026.

As of March 31, 2007, based on a quarterly test related to the price of Lyondell common stock, Millennium's 4% Convertible Senior Debentures were convertible into Lyondell common stock at a conversion rate of 74.758 Lyondell shares per one thousand dollar principal amount of the Debentures. The principal amount of Debentures that had been converted into shares of Lyondell common stock as of March 31, 2007 was not significant.

Amortization of debt issuance costs of less than \$1 million for each of the three-month periods ended March 31, 2007 and 2006 is included in interest expense in the Consolidated Statements of Income.

10. Pension and Other Postretirement Benefits

Net periodic pension benefits, which are provided to U.S. employees, included the following cost components:

<u>Millions of dollars</u>	For the three months ended March 31,	
	2007	2006
Service cost	\$ 1	\$ 1
Interest cost	8	8
Recognized return on plan assets	(9)	(9)
Amortization	3	4
Net periodic pension benefit cost	\$ 3	\$ 4

Net periodic other postretirement benefits, which are provided to U.S. employees, were a net credit of \$1 million in each of the three month periods ended March 31, 2007 and 2006. A reduction of benefits in 2004 resulted in a net prior service benefit that is amortized to income as a credit of \$4 million annually.

Table of Contents

MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Income Taxes

Certain income tax returns of Millennium and various of its subsidiaries are under examination by the Internal Revenue Service (IRS) and various non-U.S. and state tax authorities. In many cases, these audits may result in proposed assessments by the tax authorities. Millennium believes that its tax positions comply with applicable tax law and intends to defend its positions through appropriate administrative and judicial processes.

Tax benefits totaling \$173 million relating to uncertain tax positions taken in prior years are unrecognized as of January 1, 2007 (see Note 3). No event occurred during the quarter ended March 31, 2007 that materially changed the amount of unrecognized benefits.

A substantial portion of these uncertainties relate to passive foreign income for the years 1997 to 2001 and related capital loss benefits that were subsequently recognized. IRS audit examination of the matter has been completed, and it is now in the administrative appeals process. It is reasonably possible that the matter may be settled in 2007 and result in a significant reduction of the amount of unrecognized tax benefits. With the exception of the preceding issue, Millennium is no longer subject to any significant income tax examinations by tax authorities for years prior to 2002.

Millennium recognizes interest accrued related to uncertain income tax positions in interest expense. Millennium's accrued liability for interest as of January 1, 2007 was \$86 million. The noncurrent portion of liabilities for uncertain income tax positions and related interest are classified as Other liabilities in the consolidated balance sheets.

In the first quarter 2006, Millennium's continuing operations showed a \$7 million benefit from income taxes and \$25 million of income before taxes. The tax benefit reflected the effect of a reduction in estimates for prior year items.

12. Commitments and Contingencies

Asset Retirement Obligation Millennium believes that there are asset retirement obligations associated with some of its facilities, but that the present value of those obligations normally is not material in the context of an indefinite expected life of the facilities. Millennium continually reviews the optimal future alternatives for its facilities. The amount and timing of costs, if any, that may be incurred as a result of such reviews are not known, and no decisions have been reached, but if a decision were reached, in accordance with local laws and customs, to retire one or more facilities in the foreseeable future, the asset retirement costs could range from \$0 to \$30 million, depending upon the scope of the required work and other factors. At March 31, 2007, no liability had been recognized for asset retirement obligations. Any decision to retire a facility would result in costs, including employment related costs.

Environmental Remediation Millennium's accrued liability for future environmental remediation costs at current and former plant sites and other remediation sites totaled \$145 million and \$148 million as of March 31, 2007 and December 31, 2006, respectively. The remediation expenditures are expected to occur over a number of years, and not to be concentrated in any single year. In the opinion of management, there is no material estimable range of reasonably possible loss in excess of the liabilities recorded for environmental remediation. However, it is possible that new information about the sites for which the accrual has been established, new technology or future developments such as involvement in investigations by regulatory agencies, could require Millennium to reassess its potential exposure related to environmental matters.

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Commitments and Contingencies (Continued)**

The following table summarizes the activity in Millennium's accrued environmental liability for the three-month periods ended March 31:

<u>Millions of dollars</u>	2007	2006
Balance at January 1	\$ 148	\$ 145
Additional provisions		4
Amounts paid	(3)	(2)
Balance at March 31	\$ 145	\$ 147

The liabilities for individual sites range from less than \$1 million to \$105 million. The \$105 million liability relates to the Kalamazoo River Superfund Site.

A Millennium subsidiary has been identified as a Potential Responsible Party (PRP) with respect to the Kalamazoo River Superfund Site. The site involves cleanup of river sediments and floodplain soils contaminated with polychlorinated biphenyls, cleanup of former paper mill operations, and cleanup and closure of landfills associated with the former paper mill operations. In 2000, the Kalamazoo River Study Group (the KRSG), of which the Millennium subsidiary and other PRPs are members, submitted to the State of Michigan a Draft Remedial Investigation and Draft Feasibility Study, which evaluated a number of remedial options for the river. The estimated costs for these remedial options ranged from \$0 to \$2.5 billion.

At the end of 2001, the U.S. Environmental Protection Agency (EPA) took lead responsibility for the river portion of the site at the request of the State of Michigan. In 2004, the EPA initiated a confidential process to facilitate discussions among the agency, the Millennium subsidiary, other PRPs, the Michigan Departments of Environmental Quality and Natural Resources, and certain federal natural resource trustees about the need for additional investigation activities and different possible approaches for addressing the contamination in and along the Kalamazoo River. These discussions are continuing.

As of March 31, 2007, the probable future remediation spending associated with the river cannot be determined with certainty. Although the KRSG study identified a broad range of remedial options, not all of those options would represent reasonably possible outcomes. Management does not believe that it can identify a single remedy among those options that would represent the highest-cost reasonably possible outcome. However, in 2004, Millennium recognized a liability representing Millennium's interim allocation of 55% of the \$73 million total of estimated cost of riverbank stabilization, recommended as the preferred remedy in 2000 by the KRSG study, and of certain other costs. At March 31, 2007, the balance of this liability was \$57 million.

In addition, in 2004, Millennium recognized a liability primarily related to Millennium's estimated share of remediation costs for two former paper mill sites and associated landfills, which are also part of the Kalamazoo River Superfund Site. At March 31, 2007, the balance of the liability was \$48 million. Although no final agreement has been reached as to the ultimate remedy for these locations, Millennium has begun remediation activity related to these sites.

Millennium's ultimate liability for the Kalamazoo River Superfund Site will depend on many factors that have not yet been determined, including the ultimate remedy selected, the determination of natural resource damages, the number and financial viability of the other PRPs, and the determination of the final allocation among the PRPs.

At March 31, 2007, the balance of remediation liabilities related to Millennium sites other than the Kalamazoo River Superfund Site was \$40 million.

Table of Contents

MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Commitments and Contingencies (Continued)

Litigation Together with alleged past manufacturers of lead-based paint and lead pigments for use in paint, Millennium has been named as a defendant in various legal proceedings alleging personal injury, property damage, and remediation costs allegedly associated with the use of these products. The majority of these legal proceedings assert unspecified monetary damages in excess of the statutory minimum and, in certain cases, equitable relief such as abatement of lead-based paint in buildings. Legal proceedings relating to lead pigment or paint are in various trial stages and post-dismissal settings, some of which are on appeal.

One legal proceeding relating to lead pigment or paint was tried in 2002. On October 29, 2002, the judge in that case declared a mistrial after the jury declared itself deadlocked. The sole issue before the jury was whether lead pigment in paint in and on Rhode Island buildings constituted a public nuisance. The re-trial of this case began on November 1, 2005. On February 22, 2006, a jury returned a verdict in favor of the State of Rhode Island finding that the cumulative presence of lead pigments in paints and coatings on buildings in the state constitutes a public nuisance; that a Millennium subsidiary, Millennium Holdings LLC, and other defendants either caused or substantially contributed to the creation of the public nuisance; and that those defendants, including the Millennium subsidiary, should be ordered to abate the public nuisance. On February 28, 2006, the judge held that the state could not proceed with its claim for punitive damages. On February 26, 2007, the court issued its decision denying the post-verdict motions of the defendants, including Millennium, for a mistrial or a new trial. The court concluded that it would enter an order of abatement and appoint a special master to assist the court in determining the scope of the abatement remedy. On March 16, 2007, the court entered a final judgment on the jury's verdict. On March 20, 2007, Millennium filed its notice of appeal with the Rhode Island Supreme Court.

Millennium's defense costs to date for lead-based paint and lead pigment litigation largely have been covered by insurance. Millennium has insurance policies that potentially provide approximately \$1 billion in indemnity coverage for lead-based paint and lead pigment litigation. Millennium's ability to collect under the indemnity coverage would depend upon, among other things, the resolution of certain potential coverage defenses that the insurers are likely to assert and the solvency of the various insurance carriers that are part of the coverage block at the time of such a request.

While Millennium believes that it has valid defenses to all the lead-based paint and lead pigment proceedings and is vigorously defending them, litigation is inherently subject to many uncertainties. Any liability that Millennium may ultimately incur, net of any insurance or other recoveries, cannot be estimated at this time.

Indemnification Millennium and its joint ventures are parties to various indemnification arrangements, including arrangements entered into in connection with acquisitions, divestitures and the formation of joint ventures. For example, Millennium entered into indemnification arrangements in connection with its demerger from Hanson plc, and Equistar and its owner companies (including Millennium) entered into indemnification arrangements in connection with the formation of Equistar. Pursuant to these arrangements, Millennium and its joint ventures provide indemnification to and/or receive indemnification from other parties in connection with liabilities that may arise in connection with the transactions and in connection with activities prior to completion of the transactions. These indemnification arrangements typically include provisions pertaining to third party claims relating to environmental and tax matters and various types of litigation. As of March 31, 2007, Millennium has not accrued any significant amounts for such indemnification obligations and is not aware of other circumstances that would be likely to lead to significant future indemnification claims against Millennium. Millennium cannot determine with certainty the potential amount of future payments under the indemnification arrangements until events arise that would trigger a liability under the arrangements.

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Commitments and Contingencies (Continued)**

Other Millennium and its joint ventures are, from time to time, defendants in lawsuits and other commercial disputes, some of which are not covered by insurance. Many of these suits make no specific claim for relief. Although final determination of any liability and resulting financial impact with respect to any such matters cannot be ascertained with any degree of certainty, management does not believe that any ultimate uninsured liability resulting from these matters in which it, its subsidiaries or its joint ventures currently are involved will, individually or in the aggregate, have a material adverse effect on the financial position, liquidity or results of operations of Millennium.

General In the opinion of management, the matters discussed in this note, other than potential future liabilities for environmental remediation which amounts cannot be estimated, are not expected to have a material adverse effect on the financial position or liquidity of Millennium. However, the adverse resolution in any reporting period of one or more of the matters discussed in this note could have a material impact on Millennium's results of operations for that period, which may be mitigated by contribution or indemnification obligations of others, or by any insurance coverage that may be available.

13. Comprehensive Income

The components of comprehensive income were as follows:

<u>Millions of dollars</u>	For the three months ended	
	2007	March 31, 2006
Net income	\$ 15	\$ 33
Other comprehensive income:		
Continuing operations		
Discontinued operations foreign currency translation	9	15
Total other comprehensive income	9	15
Comprehensive income	\$ 24	\$ 48

14. Segment and Related Information

Millennium, a wholly owned subsidiary of Lyondell, operates in two reportable segments:

Ethylene, co-products and derivatives (EC&D), including Millennium's acetyls business, which produces vinyl acetate monomer (VAM), acetic acid and methanol; and Millennium's equity investment in Equistar, which produces primarily ethylene, co-products such as propylene, butadiene and aromatics, and derivatives such as ethylene oxide, ethylene glycol and polyethylene; and

Fragrance and flavors chemicals, which includes terpene-based fragrance ingredients and flavor ingredients.

On February 23, 2007, Millennium signed an agreement for a pending sale of Millennium's worldwide inorganic chemicals business (see Note 4) and substantially all of the inorganic chemicals segment was reclassified as a discontinued operation.

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 424B3

Summarized financial information concerning reportable segments is shown in the following table for the three months ended:

<u>Millions of dollars</u>	EC&D	Fragrance & Flavors	Other	Total
<u>March 31, 2007</u>				
Sales and other operating revenues	\$ 122	\$ 28	\$ 2	\$ 152
Operating income (loss)	21	3	(7)	17
Income from equity investment	3			3
<u>March 31, 2006</u>				
Sales and other operating revenues	\$ 116	\$ 26	\$ 2	\$ 144
Operating income (loss)	(8)	1	(7)	(14)
Income from equity investment	75			75

Table of Contents

MILLENNIUM CHEMICALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Segment and Related Information (Continued)

Operating income (loss) in the Other column above includes a business that is not a reportable segment and costs not allocated to Millennium's business segments, including costs from predecessor businesses.

15. Supplemental Guarantor Information

Millennium America Inc., a 100% owned indirect subsidiary of Millennium (Millennium America), is a holding company for all of Millennium's continuing and discontinued operating subsidiaries other than its discontinued operations in the United Kingdom, France, Brazil and Australia. Millennium America is the issuer of the 7.625% Senior Debentures, and the 9.25% Senior Notes. Millennium is the issuer of the 4% Convertible Senior Debentures. Millennium America fully and unconditionally guarantees all obligations under the 4% Convertible Senior Debentures. The 7.625% Senior Debentures and the 9.25% Senior Notes are fully and unconditionally guaranteed by Millennium. The following condensed consolidating financial information present supplemental information for Millennium Chemicals Inc., the parent, and Millennium America as of March 31, 2007 and December 31, 2006 and for the three-month periods ended March 31, 2007 and 2006.

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING FINANCIAL INFORMATION****BALANCE SHEET**

As of March 31, 2007

<u>Millions of dollars</u>	Millennium Chemicals Inc.	Millennium America Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Inventories	\$	\$	\$ 94	\$	\$ 94
Other current assets		40	194		234
Current assets held for sale			694		694
Property, plant and equipment, net			129		129
Investment in Equistar Chemicals, LP			444		444
Investment in subsidiaries	303	641		(944)	
Goodwill, net			48		48
Other assets, net	1	2	57		60
Due from parent and affiliates, net		407		(407)	
Long-term assets held for sale			719		719
Total assets	\$ 304	\$ 1,090	\$ 2,379	\$ (1,351)	\$ 2,422
Current liabilities	\$ 2	\$ 17	\$ 288	\$	\$ 307
Current liabilities associated with assets held for sale			310		310
Long-term debt	150	613			763
Other liabilities		2	277		279
Deferred income taxes			232		232
Due to parent and affiliates, net	28		379	(407)	
Long-term liabilities associated with assets held for sale			402		402
Total liabilities	180	632	1,888	(407)	2,293
Minority interest			5		5
Stockholder's equity	124	458	486	(944)	124
Total liabilities and stockholder's equity	\$ 304	\$ 1,090	\$ 2,379	\$ (1,351)	\$ 2,422

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING FINANCIAL INFORMATION****BALANCE SHEET****As of December 31, 2006**

Millions of dollars	Millennium Chemicals Inc.	Millennium America Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Inventories	\$	\$	\$ 87	\$	\$ 87
Other current assets		62	200		262
Current assets held for sale			661		661
Property, plant and equipment, net			129		129
Investment in Equistar Chemicals, LP			470		470
Investment in subsidiaries	310	497		(807)	
Goodwill, net			48		48
Other assets, net	(2)	(2)	67		63
Due from parent and affiliates, net		368		(368)	
Long-term assets held for sale			694		694
Total assets	\$ 308	\$ 925	\$ 2,356	\$ (1,175)	\$ 2,414
Current liabilities	\$ 1	\$ 4	\$ 169	\$	\$ 174
Current liabilities associated with assets held for sale			335		335
Long-term debt	150	617			767
Other liabilities		3	378		381
Deferred income taxes			248		248
Due to parent and affiliates, net	14		354	(368)	
Long-term liabilities associated with assets held for sale			361		361
Total liabilities	165	624	1,845	(368)	2,266
Minority interest			5		5
Stockholder's equity	143	301	506	(807)	143
Total liabilities and stockholder's equity	\$ 308	\$ 925	\$ 2,356	\$ (1,175)	\$ 2,414

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING FINANCIAL INFORMATION****STATEMENT OF INCOME****For the Three Months Ended March 31, 2007**

<u>Millions of dollars</u>	Millennium Chemicals Inc.	Millennium America Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Sales and other operating revenues	\$	\$	\$ 152	\$	\$ 152
Cost of sales			122		122
Selling, general and administrative expenses			12		12
Research and development expenses			1		1
Operating income			17		17
Interest expense, net	(4)	(13)	(1)		(18)
Intercompany interest income (expense), net		28	(28)		
Income from equity investment in Equistar Chemicals, LP			3		3
Equity in income of subsidiaries	19			(19)	
Benefit from (provision for) income taxes		(6)	5		(1)
Income from discontinued operations, net of tax			14		14
Net income	\$ 15	\$ 9	\$ 10	\$ (19)	\$ 15

STATEMENT OF INCOME**For the Three Months Ended March 31, 2006**

<u>Millions of dollars</u>	Millennium Chemicals Inc.	Millennium America Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Sales and other operating revenues	\$	\$	\$ 144	\$	\$ 144
Cost of sales			146		146
Selling, general and administrative expenses			11		11
Research and development expenses			1		1
Operating loss			(14)		(14)
Interest expense, net	(2)	(9)			(11)
Intercompany interest income (expense), net		28	(28)		
Income from equity investment in Equistar Chemicals, LP			75		75
Equity in income of subsidiaries	35	52		(87)	
Other income (expense), net		12	(37)		(25)
Benefit from (provision for) income taxes		(2)	9		7

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 424B3

Income from discontinued operations, net of tax				1				1		
Net income	\$	33	\$	81	\$	6	\$	(87)	\$	33

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING FINANCIAL INFORMATION****STATEMENT OF CASH FLOWS****For the Three Months Ended March 31, 2007**

Millions of dollars	Millennium Chemicals Inc.	Millennium America Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Net cash provided by (used in) operating activities continuing operations	\$ (12)	\$ 20	\$ (44)	\$	\$ (36)
Net cash used in operating activities discontinued operations			(13)		(13)
Net cash provided by (used in) operating activities	(12)	20	(57)		(49)
Expenditures for property, plant and equipment			(4)		(4)
Distributions from affiliates in excess of earnings			27		27
Net cash provided by investing activities continuing operations			23		23
Net cash used in investing activities discontinued operations			(8)		(8)
Net cash provided by investing activities			15		15
Repayment of long-term debt		(4)			(4)
Intercompany	12	(38)	26		
Other			1		1
Net cash provided by (used in) financing activities continuing operations	12	(42)	27		(3)
Net cash provided by financing activities discontinued operations			24		24
Net cash provided by (used in) financing activities	12	(42)	51		21
Effect of exchange rate changes on cash			1		1
Increase (decrease) in cash and cash equivalents		(22)	10		(12)
Cash and cash equivalents at beginning of period		62	59		121
Cash and cash equivalents at end of period		40	69		109
			48		48

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 424B3

Less: Cash and cash equivalents at end of period
discontinued operations

Cash and cash equivalents at end of period continuing operations	\$	\$ 40	\$ 21	\$	\$ 61
---	----	-------	-------	----	-------

Table of Contents**MILLENNIUM CHEMICALS INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING FINANCIAL INFORMATION****STATEMENT OF CASH FLOWS****For the Three Months Ended March 31, 2006**

<u>Millions of dollars</u>	Millennium Chemicals Inc.	Millennium America Inc.	Non-Guarantor Subsidiaries	Eliminations	Millennium Chemicals Inc. and Subsidiaries
Net cash provided by (used in) operating activities continuing operations	\$ (1)	\$ 21	\$ 52	\$	\$ 72
Net cash provided by (used in) operating activities discontinued operations					
Net cash provided by (used in) operating activities	(1)	21	52		72
Expenditures for property, plant and equipment			(1)		(1)
Net cash used in investing activities continuing operations			(1)		(1)
Net cash used in investing activities discontinued operations			(10)		(10)
Net cash used in investing activities			(11)		(11)
Repayment of long-term debt		(241)			(241)
Intercompany	1	48	(49)		
Other			1		1
Net cash provided by (used in) financing activities continuing operations	1	(193)	(48)		(240)
Net cash used in financing activities discontinued operations			(2)		(2)
Net cash provided by (used in) financing activities	1	(193)	(50)		(242)
Effect of exchange rate changes on cash			1		1
Decrease in cash and cash equivalents		(172)	(8)		(180)
Cash and cash equivalents at beginning of period		211	68		279
Cash and cash equivalents at end of period		39	60		99
Less: Cash and cash equivalents at end of period discontinued operations			38		38

Cash and cash equivalents at end of period continuing operations	\$	\$	39	\$	22	\$	\$	61
---	----	----	----	----	----	----	----	----

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with information contained in the Consolidated Financial Statements of Millennium Chemicals Inc., together with its consolidated subsidiaries (collectively, Millennium), and the notes thereto.

In addition to comparisons of current operating results with the same period in the prior year, Millennium has included, as additional disclosure, certain trailing quarter comparisons of first quarter 2007 operating results to fourth quarter 2006 operating results. Millennium's acetyls business and its joint ventures' businesses are highly cyclical, in addition to experiencing some less significant seasonal effects. Trailing quarter comparisons may offer important insight into current business directions.

References to industry benchmark prices or costs, including the weighted average cost of ethylene production, are generally to industry prices and costs reported by Chemical Marketing Associates, Incorporated (CMAI), except that crude oil and natural gas benchmark price references are to industry prices reported by Platts, a reporting service of The McGraw-Hill Companies.

OVERVIEW

Millennium, a manufacturer and marketer of chemicals, is a wholly owned subsidiary of Lyondell Chemical Company (Lyondell). Millennium's continuing operations include two reportable segments: ethylene, co-products and derivatives (EC&D) and fragrance and flavors chemicals (F&F). The EC&D segment includes Millennium's acetyls business and Millennium's 29.5% interest in Equistar Chemicals, LP (together with its consolidated subsidiaries, Equistar), which is accounted for by Millennium using the equity method. Other subsidiaries of Lyondell hold the remaining interest in Equistar.

On February 23, 2007, Millennium signed an agreement for a pending sale of Millennium's worldwide inorganic chemicals business for cash of \$1.05 billion plus the assumption of specified liabilities. Closing is anticipated in the second quarter 2007 (see Note 4 to the Consolidated Financial Statements). As a result, substantially all of the inorganic chemicals business segment is being reported as a discontinued operation, including comparative periods presented. Unless otherwise indicated, the following discussion of Millennium's operating results relates only to Millennium's continuing operations.

In the first quarter 2007, compared to the first quarter 2006, the acetyls business benefited from lower raw material and energy costs, higher sales prices for methanol and higher sales volumes for acetic acid and methanol. The lower raw material and energy costs reflected lower prices for ethylene and natural gas. Equistar's operating results were lower as a result of lower prices and resulting lower product margins.

The business environment for the fragrance and flavors chemicals segment in the first quarter 2007 was comparable to the first quarter 2006.

RESULTS OF OPERATIONS

Revenues Millennium's revenues of \$152 million in the first quarter 2007 were 6% higher compared to revenues of \$144 million in the first quarter 2006 primarily due to the higher sales volumes for acetyls and the effect of higher average sales prices, particularly for methanol.

Cost of Sales Cost of sales of \$122 million were 16% lower in the first quarter 2007 compared to \$146 million in the first quarter 2006, primarily due to the lower raw material and energy costs.

Operating Income Millennium had operating income of \$17 million in the first quarter 2007 compared to an operating loss of \$14 million in the first quarter 2006. The improvement was primarily due to lower raw material and energy costs and the effects of the higher sales volumes and higher average sales prices, all of which were attributable to the acetyls business. Fragrance and flavor operating results were higher in the first quarter 2007 compared to first quarter 2006 reflecting the effect of higher sales volumes in the first quarter 2007.

Table of Contents

Interest Expense Interest expense was \$19 million in the first quarter 2007 compared to \$12 million in the first quarter 2006. Interest expense in 2006 reflected the effects of favorable adjustments, including gains related to terminated interest rate swaps.

Other Expense, Net Millennium had other expense, net, of \$25 million in the first quarter 2006, reflecting an \$18 million charge related to prior year income tax issues and \$7 million of charges related to the prepayment of \$234 million of debt.

Income from Equity Investment in Equistar Millennium's equity investment in Equistar resulted in income of \$3 million in the first quarter 2007 and \$75 million in the first quarter 2006. The \$72 million decrease was primarily due to the lower product margins at Equistar in the first quarter 2007 compared to the first quarter 2006. Equistar's operating results are reviewed further in the discussion of the EC&D segment below.

Income Tax The estimated annual effective income tax rate for the first quarter 2007 was 34% compared to the first quarter 2006 when Millennium recognized a \$7 million benefit from income taxes and \$25 million of pretax income. The rate for 2007 is lower than the statutory rate due primarily to deductions for qualified production activities under the American Jobs Creation Act of 2004. The first quarter 2006 reflected the effect of a reduction in estimates for prior year items that reduced the tax provision to a net benefit.

Income from Continuing Operations Millennium's income from continuing operations was \$1 million in the first quarter 2007 compared to \$32 million in the first quarter 2006. The decrease of \$31 million was primarily the result of an after-tax decrease of \$47 million from Millennium's equity investment in Equistar, partly offset by an after-tax increase of \$20 million in Millennium's operating income.

Income from Discontinued Operations, Net of Taxes Millennium's income from discontinued operations, net of taxes, was \$14 million in the first quarter 2007 compared to \$1 million in the first quarter 2006. The increase was primarily the result of an increase in operating income, a \$6 million favorable effect of lower tax rates in the first quarter 2007 and an after-tax increase of \$3 million related to foreign currency translation net gains. The increase in operating income in the first quarter 2007 reflected the absence of depreciation and amortization expense as a result of the business being classified as held for sale in the first quarter 2007, partly offset by lower product margins as a result of higher costs, including the lingering effects of production problems experienced in the fourth quarter 2006 and slightly lower product sales prices. See Note 4 to the Consolidated Financial Statements for additional information related to the pending sale of Millennium's inorganic chemicals business.

First Quarter 2007 versus Fourth Quarter 2006

Millennium's first quarter 2007 income from continuing operations of \$1 million compares to \$21 million in the fourth quarter 2006. The decrease was primarily due to an after-tax decrease of \$27 million from Millennium's equity investment in Equistar, partly offset by an after-tax increase of \$5 million related to lower accruals in the first quarter 2007 for estimated environmental remediation costs. Operating results for Millennium's acetyls and fragrance and flavors chemicals businesses in the first quarter 2007 and fourth quarter 2006 were comparable. The decrease in Equistar's first quarter 2007 results compared to the fourth quarter 2006 was primarily due to lower product margins, partially offset by the effect of higher sales volumes.

Income from discontinued operations, net of tax, was \$14 million in the first quarter 2007 compared to a loss of \$26 million in the fourth quarter 2006. The improvement was primarily due to an after-tax increase of \$33 million in operating income, reflecting the absence of depreciation and amortization expense as a result of the business being classified as held for sale in the first quarter 2007 and higher plant utilization and lower plant costs as fourth quarter 2006 production problems were resolved during the first quarter 2007.

Table of Contents**Segment Analysis**

Millennium's continuing operations are primarily in two reportable segments: EC&D and F&F. As a result of the February 23, 2007 agreement for a pending sale of Millennium's inorganic chemicals business, substantially all of the inorganic chemicals business segment is being reported as a discontinued operation, including comparative periods presented, and the fragrance and flavors chemicals business is being reported as a segment. The following tables reflect selected sales volume data, including intersegment sales volumes, and summarized financial information for Millennium's continuing operations.

<u>Millions of dollars</u>	For the three months ended	
	2007	2006
Revenues:		
EC&D segment acetyls business	\$ 122	\$ 116
Fragrance and flavors chemicals	28	26
Operating income (loss):		
EC&D segment acetyls business	21	(8)
Fragrance and flavors chemicals	3	1
Other operating loss	(7)	(7)
Income from equity investment in Equistar Chemicals, LP	3	75
Sales volumes, in millions		
EC&D Acetyls:		
Vinyl Acetate Monomer (VAM) (pounds)	146	158
Acetic acid (pounds)	159	135
Methanol (gallons)	10	9
Fragrance and flavors chemicals (pounds)	12	11

Ethylene, Co-products and Derivatives Segment

Millennium's EC&D segment comprises its wholly owned acetyls business and its equity investment in Equistar.

Acetyls Business

Revenues Acetyls revenues of \$122 million in the first quarter 2007 were 5% higher compared to revenues of \$116 million in the first quarter 2006, reflecting higher sales volumes and higher average sales prices for methanol and acetic acid. Compared to the first quarter 2006, overall sales volumes in the first quarter 2007 increased primarily due to 18% higher acetic acid sales volumes.

Operating Income The acetyls business had operating income of \$21 million in the first quarter 2007 compared to an operating loss of \$8 million in the first quarter 2006. The \$29 million improvement was primarily due to lower manufacturing and other costs of \$19 million, reflecting lower raw material and energy costs, the \$7 million effect of higher average sales prices and the \$3 million effect of higher sales volumes.

Table of Contents**Equity Investment in Equistar**

Equistar manufactures and markets ethylene and its co-products, primarily propylene, butadiene and aromatics, which include benzene and toluene. Equistar also manufactures and markets ethylene derivatives, primarily polyethylene (including high density polyethylene (HDPE), low density polyethylene (LDPE) and linear-low density polyethylene (LLDPE)), ethylene glycol, ethylene oxide (EO) and other EO derivatives, and ethanol. Equistar also manufactures and markets fuel products, such as methyl tertiary butyl ether (MTBE) and alkylate, as well as polypropylene. Equistar is a wholly owned subsidiary of Lyondell. Millennium continues to hold a 29.5% equity interest in Equistar. The following discussion of Equistar s operations is on a 100% basis.

During the first quarter 2007 compared to the first quarter 2006, crude oil and natural gas prices averaged lower, resulting in lower average raw material and energy costs. However, ethylene product margins were lower as the benefit of lower costs was not sufficient to offset lower ethylene and polyethylene product prices for most of the first quarter 2007. The first quarter 2006 benefited from the positive effect of hurricane-related shortages. U.S. market demand for ethylene increased an estimated 3% in the first three months of 2007, compared to the same period in 2006.

Benchmark Indicators Benchmark crude oil and natural gas prices generally have been indicators of the level and direction of movement of raw material and energy costs for Equistar. Ethylene and its co-products are produced from two major raw material groups:

crude oil-based liquids (liquids or heavy liquids), including naphthas, condensates, and gas oils, the prices of which are generally related to crude oil prices; and

natural gas liquids (NGLs), principally ethane and propane, the prices of which are generally affected by natural gas prices. Equistar has the ability to shift its ratio of raw materials used in the production of ethylene and co-products to take advantage of the relative costs of liquids and NGLs.

The following table shows the average U.S. benchmark prices for crude oil and natural gas for the applicable three-month period, as well as benchmark U.S. sales prices for ethylene, propylene, benzene and HDPE, which Equistar produces and sells. The benchmark weighted average cost of ethylene production, which is reduced by co-product revenues, is based on CMAI s estimated ratio of heavy liquid raw materials and NGLs used in U.S. ethylene production and is subject to revision.

	Average Benchmark Price and Percent Change Versus Prior Year Period Average For the three months ended		
	March 31,		
	2007	2006	Change
Crude oil dollars per barrel	58.00	63.30	(8)%
Natural gas dollars per million BTUs	6.57	7.52	(13)%
Weighted average cost of ethylene production cents per pound	28.90	29.52	(2)%
Ethylene cents per pound	40.00	50.33	(21)%
Propylene cents per pound	43.13	43.50	(1)%
Benzene cents per gallon	353.00	268.33	32%
HDPE cents per pound	64.00	75.00	(15)%

As indicated in the table above, average benchmark crude oil and natural gas prices decreased, resulting in lower raw material and energy costs in the first quarter 2007 compared to the first quarter 2006.

Table of Contents

Revenues Equistar's revenues of \$2,869 million in the first quarter 2007 were 6% lower compared to revenues of \$3,036 million in the first quarter 2006, reflecting lower average sales prices, partially offset by the effect of higher sales volumes. As noted in the table above, with the exception of benzene, benchmark sales prices in the first quarter 2007 averaged lower compared to the first quarter 2006. Ethylene and derivative sales volumes in the first quarter 2007 were 3% higher compared to the first quarter 2006.

Net Income Equistar's net income was \$11 million in the first quarter 2007 compared to \$256 million in the first quarter 2006. The decrease of \$245 million was primarily due to lower operating income in the first quarter 2007 compared to the first quarter 2006. The decrease in operating income was primarily due to lower product margins reflecting lower average sales prices, particularly for ethylene and polyethylene products, and higher operating costs, which were partially offset by the favorable effect of higher sales volumes.

Fragrance and Flavors Chemicals

Revenues Fragrance and flavors chemicals' revenues of \$28 million in the first quarter 2007 were 8% higher compared to revenues of \$26 million in the first quarter 2006, reflecting higher sales volumes and higher average sales prices. Sales volumes in the first quarter 2007 were 9% higher compared to the same period in 2006.

Operating Income Fragrance and flavors chemicals' operating income was \$3 million in the first quarter 2007 compared to \$1 million in the first quarter 2006, reflecting the effect of higher sales volumes in the 2007 period.

Other

Other operations include Millennium's sodium silicate business, and unallocated operating expenses that are not identified with the reportable business segments.

Other operating losses were \$7 million in the first quarter 2007 and 2006. Other operating losses in the first quarter 2007 included \$4 million of higher legal costs, while the first quarter 2006 included \$4 million of accruals for estimated environmental remediation costs.

FINANCIAL CONDITION

Operating Activities Operating activities of continuing operations used cash of \$36 million in the first quarter 2007 and provided cash of \$72 million in the first quarter 2006. The \$108 million change primarily reflected \$56 million of lower distributions of earnings from Equistar and \$30 million of income tax refunds in the first quarter 2006.

Discontinued operations used cash of \$13 million in the first quarter 2007 primarily due to increases in receivables and inventory, which reflected higher sales volumes and production levels following resolution of fourth quarter 2006 production issues.

Investing Activities Investing activities of continuing operations provided cash of \$23 million in the first quarter 2007 and used \$1 million in the first quarter 2006. The cash provided in the first quarter 2007 reflected Equistar distributions in excess of earnings of \$27 million offset by \$4 million of capital expenditures.

Investing activities of discontinued operations used cash of \$8 million in the first quarter 2007 and \$10 million in the first quarter 2006 primarily for capital expenditures.

Financing Activities Financing activities of continuing operations used cash of \$3 million in the first quarter 2007 and \$240 million in the first quarter 2006 primarily for debt repayment. During the first quarter 2007, Millennium repaid \$4 million principal amount of its 7.625% Senior Debentures due 2026.

Table of Contents

In the first quarter 2006, Millennium purchased \$149 million principal amount of its 7% Senior Notes due 2006, paying a premium of \$2 million and \$85 million principal amount of its 9.25% Senior Notes due 2008, paying a premium of \$5 million. Millennium intends to continue to reduce debt as market conditions permit. See Liquidity and Capital Resources below.

Financing activities of discontinued operations provided cash of \$24 million in the first quarter 2007 and used cash of \$2 million in the first quarter 2006. In the first quarter 2007, Millennium borrowed 28 million, or \$38 million, under its U.K. 60 million revolving credit facility and repaid \$10 million of debt, including \$7 million of the Australian term loan.

Liquidity and Capital Resources Millennium's balance sheet remains highly leveraged. As of March 31, 2007, total debt of continuing operations was \$763 million, or approximately 86% of total capitalization. At March 31, 2007, Millennium's continuing operations had \$61 million of cash on hand.

On February 23, 2007, Millennium signed an agreement for a pending sale of Millennium's worldwide inorganic chemicals business for cash of \$1.05 billion plus the assumption of specified liabilities. Closing is anticipated in the second quarter of 2007.

Millennium's revolving credit facilities of \$125 million in the U.S., \$25 million in Australia and €60 million in the U.K. and term loan in Australia are variously secured by equity interests in and assets of Millennium's worldwide inorganic chemicals business, and contain covenants as described in Note 13 to Millennium's Consolidated Financial Statements in Millennium's Annual Report on Form 10-K for the year ended December 31, 2006. These facilities will be repaid and terminated by Millennium, using proceeds of the sale of the inorganic chemicals business. At March 31, 2007, the outstanding amounts under the U.K. revolving credit facility and the Australian term loan were \$38 million and \$63 million, respectively. Under the U.S. and Australian revolving credit facilities, outstanding letters of credit totaled \$23 million and there were no outstanding borrowings at March 31, 2007.

Historically, Millennium has financed its operations primarily through cash generated from its operations, cash distributions from Equistar, and debt financing. Cash generated by operations is, to a large extent, dependent on economic, financial, competitive and other factors affecting Millennium's businesses and the timing and amount of cash distributions from Equistar. With the pending sale of the inorganic chemicals business, Millennium could become more reliant on cash distributions from Equistar. The amount of cash distributions received from Equistar is affected by Equistar's results of operations and current and expected future cash flow requirements. Some of Equistar's indentures require additional interest payments to the note holders if Equistar makes distributions when its Fixed Charge Coverage Ratio, as defined, is less than 1.75 to 1. Millennium received \$30 million of distributions from Equistar in the first quarter 2007 and \$59 million in the first quarter 2006.

Millennium's ability to pay or refinance its debt also may depend on future operating performance of Millennium and Equistar, which could be affected by general economic, financial, competitive, legislative, regulatory, business and other factors, many of which are beyond its control. However, Millennium believes that conditions will be such that cash balances, cash generated from operating activities, cash distributions from Equistar, proceeds from the pending sale of the inorganic chemicals business and funds from lines of credit will be adequate to meet anticipated future cash requirements, including scheduled debt repayments, necessary capital expenditures and ongoing operations.

Millennium's indentures contain restrictive covenants. Pursuant to these provisions, Millennium is currently prohibited from making restricted payments, including paying certain dividends. Millennium's indentures also contain covenants that require the maintenance of specified financial ratios. These covenants, as well as debt guarantees, are described in Note 13 to Millennium's Consolidated Financial Statements included in Millennium's Annual Report on Form 10-K for the year ended December 31, 2006. The potential impact of a breach of these covenants is discussed in Liquidity and Capital Resources under Item 7 of Millennium's Annual Report on Form 10-K for the year ended December 31, 2006. There have been no changes in the terms of the covenants or the guarantees in the quarter ended March 31, 2007.

Table of Contents

Millennium has outstanding \$150 million aggregate principal amount of 4% Convertible Senior Debentures, which are due in 2023, unless earlier redeemed, converted or repurchased. As a result of Lyondell's acquisition of Millennium, the Debentures are convertible into shares of Lyondell's common stock or, at Lyondell's discretion, equivalent cash or a combination thereof. The Debenture redemption terms are described in

Note 13 to Millennium's Consolidated Financial Statements included in Millennium's Annual Report on Form 10-K for the year ended December 31, 2006. There were no changes in the redemption terms in the quarter ended March 31, 2007. As of March 31, 2007, based on a quarterly test related to the price of Lyondell common stock, the Debentures were convertible at a conversion rate of 74.758 Lyondell shares per one thousand dollar principal amount of the Debentures. As of March 31, 2007, the amount of the Debentures that had been converted into shares of Lyondell common stock was not significant.

Off-Balance Sheet Arrangements Millennium is not a party to any contractual arrangements that fall within the Securities and Exchange Commission's definition of off-balance sheet arrangements.

Equistar Liquidity and Capital Resources At March 31, 2007, Equistar's long-term debt totaled \$2.2 billion, or 59% of its total capitalization, and there were no current maturities. At March 31, 2007, Equistar had cash on hand of \$27 million, and the total amount available under both the \$400 million inventory-based revolving credit facility and the \$600 million accounts receivable sales facility totaled approximately \$938 million, giving effect to the borrowing base net of a \$50 million unused availability requirement, no outstanding amount sold under the accounts receivable sales facility, and \$12 million of outstanding letters of credit under the revolving credit facility. The borrowing base is determined using a formula applied to accounts receivable and inventory balances. The revolving credit facility requires that the unused available amounts under that facility and the \$600 million accounts receivable sales facility equal or exceed \$50 million, or \$100 million if the Interest Coverage Ratio, as defined, at the end of any period of four consecutive fiscal quarters is less than 2:1. There was no outstanding borrowing under the revolving credit facility at March 31, 2007.

Equistar's ability to continue to pay or refinance its debt will depend on future operating performance, which could be affected by general economic, financial, competitive, legislative, regulatory, business and other factors, many of which are beyond its control. However, Equistar believes that conditions will be such that cash balances, cash generated from operating activities and funding under the credit facility and other potential lending arrangements will be adequate to meet anticipated future cash requirements, including scheduled debt repayments, necessary capital expenditures and ongoing operations.

Equistar's inventory-based revolving credit facility, accounts receivable sales facility and indentures contain restrictive covenants. These covenants are described in Notes 6 and 12 to Equistar's Consolidated Financial Statements included in Equistar's Annual Report on Form 10-K for the year ended December 31, 2006. The potential impact of a breach of these covenants is discussed in Liquidity and Capital Resources under Item 7 of Equistar's Annual Report on Form 10-K for the year ended December 31, 2006. There have been no changes in the terms of the covenants in the quarter ended March 31, 2007. Some of Equistar's indentures require additional interest payments to the note holders if Equistar makes distributions when its Fixed Charge Coverage Ratio, as defined, is less than 1.75 to 1.

Table of Contents

CURRENT BUSINESS OUTLOOK

In Millennium's EC&D segment, Equistar's products are benefiting from positive price momentum going into the second quarter 2007. While high and volatile crude oil prices continue to present a challenge, Equistar's outlook continues to be very positive. The acetyls business expects stronger sales volumes, but results are subject to the effects of higher ethylene prices and the volatility in natural gas prices. The fragrance and flavors chemicals segment should continue to show steady performance. The pending sale of the inorganic chemicals business should result in significant reductions in Millennium's debt and interest expense.

ACCOUNTING AND REPORTING CHANGES

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115*, which permits election of fair value to measure many financial instruments and certain other items. SFAS No. 159 is effective for Millennium beginning in 2008. Millennium is currently evaluating whether it will elect the fair value option for any of its eligible financial instruments and other items.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. The new standard defines fair value, establishes a framework for its measurement and expands disclosures about such measurements. For Millennium, the standard will be effective beginning in 2008. Millennium does not expect the application of SFAS No. 157 to have a material effect on its consolidated financial statements.

Millennium adopted the provisions of FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. As a result of the implementation of FIN No. 48, Millennium recognized a \$47 million increase in the liability related to uncertain income tax positions, a \$4 million increase in deferred tax assets and a \$43 million increase of the January 1, 2007 balance of retained deficit (see Note 11).

Item 3. Disclosure of Market Risk

Millennium's exposure to market risk is described in Item 7A of its Annual Report on Form 10-K for the year ended December 31, 2006. Millennium's exposure to market risk has not changed materially in the quarter ended March 31, 2007.

Item 4. Controls and Procedures

Millennium performed an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer (principal executive officer) and Senior Vice President and Chief Financial Officer (principal financial officer), of the effectiveness of Millennium's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of March 31, 2007. Based upon that evaluation, the Chief Executive Officer and the Senior Vice President and Chief Financial Officer concluded that Millennium's disclosure controls and procedures are effective.

There were no changes in Millennium's internal control over financial reporting that occurred during Millennium's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, Millennium's internal control over financial reporting.

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this report are forward-looking statements within the meaning of the federal securities laws. Forward-looking statements can be identified by words such as estimate, believe, expect, anticipate, plan, budget or other words that convey uncertainty of future events or outcomes. Many of these forward-looking statements have been based on expectations and assumptions about future events that may prove to be inaccurate. While management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond Millennium's control. Millennium's or its joint ventures' actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to:

the availability, cost and price volatility of raw materials and utilities,

the supply/demand balances for Millennium's and its joint ventures' products, and the related effects of industry production capacities and operating rates,

operating interruptions (including leaks, explosions, fires, weather-related incidents, mechanical failure, unscheduled downtime, supplier disruptions, labor shortages or other labor difficulties, transportation interruptions, spills and releases and other environmental risks),

legal, tax and environmental proceedings,

uncertainties associated with the U. S. and worldwide economies, including those due to political tensions in the Middle East and elsewhere,

the cyclical nature of the chemical industry,

Millennium's ability to implement its business strategies, including Millennium's ability to successfully complete the proposed sale of the inorganic chemicals business in the time period anticipated, and for the purchase price and on the other terms set forth in the transaction agreement,

current and potential governmental regulatory actions in the U. S. and in other countries,

terrorist acts and international political unrest,

risks of doing business outside the U.S., including foreign currency fluctuations,

access to capital markets,

competitive products and pricing pressures, and

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 424B3

technological developments.

Any of these factors, or a combination of these factors, could materially affect Millennium's or its joint ventures' future results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of Millennium's or its joint ventures' future performance, and Millennium's or its joint ventures' actual results and future developments may differ materially from those projected in the forward-looking statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels.

All forward-looking statements in this Form 10-Q are qualified in their entirety by the cautionary statements contained in this section, elsewhere in this report and in Millennium's Annual Report on Form 10-K for the year ended December 31, 2006. See Item 1. Legal Proceedings, Item 1A. Risk Factors and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. These factors are not necessarily all of the important factors that could affect Millennium and its joint ventures. Use caution and common sense when considering these forward-looking statements. Millennium does not intend to update these statements unless securities laws require it to do so.

In addition, this Form 10-Q contains summaries of contracts and other documents. These summaries may not contain all of the information that is important to an investor, and reference is made to the actual contract or document for a more complete understanding of the contract or document involved.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material developments with respect to Millennium's legal proceedings previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2006, except as described below:

Together with alleged past manufacturers of lead-based paint and lead pigments for use in paint, Millennium has been named as a defendant in various legal proceedings alleging personal injury, property damage, and remediation costs allegedly associated with the use of these products.

Millennium is currently named a defendant in 59 cases arising from Glidden's manufacture of lead pigments that are in various stages of the litigation process. Of these, four have been dismissed in favor of Millennium and its co-defendants by the trial court, of which three remain open and are on appeal and one is pending. There are three inactive cases which remain open pending administrative closure by the courts. The remainder of the cases are in various pre-trial stages. In addition, there are two personal injury cases filed in which Millennium has been named as a defendant, but has not been formally served. Of the 54 open and active cases, most seek damages for personal injury and are brought by individuals, and thirteen of the cases seek damages and abatement remedies based on public nuisance and are brought by states, cities and/or counties in five states (California, Missouri, New Jersey, Ohio and Rhode Island).

On October 29, 2002, after a trial in which the jury deadlocked, the court in *State of Rhode Island v. Lead Industries Association, Inc., et al.* (which commenced in the Superior Court of Providence, Rhode Island, on October 13, 1999) declared a mistrial. The sole issue before the jury was whether lead pigment in paint in and on public and private Rhode Island buildings constituted a public nuisance. The new trial in this case began on November 1, 2005. On February 22, 2006, a jury returned a verdict in favor of the State of Rhode Island finding that the cumulative presence of lead pigments in paints and coatings on buildings in the state constitutes a public nuisance; that a Millennium subsidiary and other defendants either caused or substantially contributed to the creation of the public nuisance; and that those defendants, including the Millennium subsidiary, should be ordered to abate the public nuisance. On February 28, 2006, the judge held that the state could not proceed with its claim for punitive damages. On February 26, 2007, the court issued its decision denying the post-verdict motions of the defendants, including Millennium, for a mistrial or a new trial. The court concluded that it would enter an order of abatement and appoint a special master to assist the court in determining the scope of the abatement remedy. On March 16, 2007, the court entered a final judgment on the jury's verdict. On March 20, 2007, Millennium filed its notice of appeal with the Rhode Island Supreme Court.

Item 1A. Risk Factors

There have been no material changes with respect to Millennium's risk factors previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2006, except as described below:

Costs of raw materials and energy, as well as reliability of supply, may result in increased operating expenses and reduced results of operations.

Millennium and its joint ventures purchase large amounts of raw materials and energy for their businesses. The cost of these raw materials and energy, in the aggregate, represents a substantial portion of their operating expenses. The costs of raw materials and energy used for acetyls and Equistar's products, and the energy costs for TiQ generally follow price trends of, and vary with the market conditions for, crude oil and natural gas, which may be highly volatile and cyclical. The costs of energy and certain raw materials remain at high levels. There have been in the past, and will likely be in the future, periods of time when Millennium and its joint ventures are unable to pass raw material and energy cost increases on to customers quickly enough to avoid adverse impacts on their results of operations. Customer consolidation also has made it more difficult to pass along cost increases to customers. The results of operations of Millennium and its joint ventures have been, and could be in the future, significantly affected by increases and volatility in these costs. Cost increases also may increase working capital needs, which could reduce liquidity and cash flow for Millennium and its joint ventures. In addition, when raw material and energy costs increase rapidly and are passed along to customers as product price increases, the credit risks associated with certain customers can be compounded. To the extent Millennium and its joint ventures increase their product sales prices to reflect rising raw material and energy costs, demand for products may decrease as customers reduce their consumption or use substitute products, which may have an adverse impact on Millennium's or its joint ventures' results of operations. See Millennium and its joint ventures sell commodity products in highly competitive global markets and face significant price pressures under Item 1A. Risk Factors in Millennium's Annual Report on Form 10-K for the year ended December 31, 2006.

In addition, higher North American and European natural gas prices relative to natural gas cost-advantaged regions, such as the Middle East, have diminished the ability of many chemical producers to compete internationally since natural gas prices affect a significant portion of the industry's raw materials and energy sources. This environment has in the past caused and may in the future cause a reduction in Millennium's or Equistar's exports, and has in the past reduced and may in the future reduce the competitiveness of U.S. and European producers. It also has in

Edgar Filing: ASHFORD HOSPITALITY TRUST INC - Form 424B3

the past increased the competition for sales of chemicals within North America and Europe, as production that would otherwise have been sold in other geographic regions was instead offered for sale in these regions, resulting in excess supply and lower margins in North America and Europe, and may do so in the future.

Furthermore, for Millennium and its joint ventures, there are a limited number of suppliers for some of their raw materials and utilities and, in some cases, the number of sources for and availability of raw materials and utilities is specific to the particular geographic region in which a facility is located. It is also common in the chemical industry for a facility to have a sole, dedicated source for its utilities, such as steam, electricity and gas. For some products of Millennium and its joint ventures, the facilities and/or distribution channels of raw material suppliers and utilities suppliers and Millennium and its joint ventures form an integrated system. This is especially true in the U.S. Gulf Coast where the infrastructure of the chemical and refining industries is tightly integrated such that a major disruption of supply of a given commodity or utility can negatively affect numerous participants, including suppliers of other raw materials. If one or more of Millennium's or its joint ventures' significant raw material or utility suppliers were unable to meet its obligations under present supply arrangements or supplies are otherwise disrupted, Millennium's or its joint ventures' businesses could suffer reduced supplies or be forced to incur increased costs for their raw materials or utilities, which would have a direct negative impact on plant operations. For example, Hurricanes Katrina and Rita negatively affected crude oil and natural gas supplies, as well as supplies of some of Millennium's and its joint ventures' other raw materials, contributing to increases in raw material prices during the second half of 2005 and, in some cases, disrupting production. In addition, hurricane-related disruption of rail and pipeline traffic in the U.S. Gulf Coast area negatively affected shipments of raw materials and product.

Proceedings related to the alleged exposure to lead-based paints and lead pigments could require Millennium to spend material amounts in litigation and settlement costs and judgments.

Together with alleged past manufacturers of lead-based paint and lead pigments for use in paint, Millennium has been named as a defendant in various legal proceedings alleging personal injury, property damage, and remediation costs allegedly associated with the use of these products. The plaintiffs include individuals and governmental entities, and seek recovery under a variety of theories, including negligence, failure to warn, breach of warranty, conspiracy, market share liability, fraud, misrepresentation and nuisance. The majority of these legal proceedings assert unspecified monetary damages in excess of the statutory minimum and, in certain cases, equitable relief such as abatement of lead-based paint in buildings. These legal proceedings are in various trial stages and post-dismissal settings, some of which are on appeal. One legal proceeding relating to lead pigment or paint was tried in 2002. On October 29, 2002, the judge in that case declared a mistrial after the jury declared itself deadlocked. The sole issue before the jury was whether lead pigment in paint in and on Rhode Island buildings constituted a public nuisance.

The re-trial of this case began on November 1, 2005. On February 22, 2006, a jury returned a verdict in favor of the State of Rhode Island finding that the cumulative presence of lead pigments in paints and coatings on buildings in

Table of Contents

the state constitutes a public nuisance; that a Millennium subsidiary, Millennium Holdings, LLC, and other defendants either caused or substantially contributed to the creation of the public nuisance; and that those defendants, including the Millennium subsidiary, should be ordered to abate the public nuisance. On February 28, 2006, the judge held that the state could not proceed with its claim for punitive damages. On February 26, 2007, the court issued its decision denying the post-verdict motions of the defendants, including Millennium, for a mistrial or a new trial. The court concluded that it would enter an order of abatement and appoint a special master to assist the court in determining the scope of the abatement remedy. On March 16, 2007, the court entered a final judgment on the jury's verdict. On March 20, 2007, Millennium filed its notice of appeal with the Rhode Island Supreme Court.

While Millennium believes that it has valid defenses to all the lead-based paint and lead pigment proceedings and is vigorously defending them, litigation is inherently subject to many uncertainties. Additional lead-based paint and lead pigment litigation may be filed against Millennium in the future asserting similar or different legal theories and seeking similar or different types of damages and relief, and any adverse court rulings or determinations of liability, among other factors, could affect this litigation by encouraging an increase in the number of future claims and proceedings. In addition, from time to time, legislation and administrative regulations have been enacted or proposed to impose obligations on present and former manufacturers of lead-based paint and lead pigment respecting asserted health concerns associated with such products or to overturn successful court decisions. Millennium is unable to predict the outcome of lead-based paint and lead pigment litigation, the number or nature of possible future claims and proceedings, and the effect that any legislation and/or administrative regulations may have on Millennium.

In addition, Millennium cannot reasonably estimate the scope or amount of the costs and potential liabilities related to such litigation, or any such legislation and regulations. Thus, any liability Millennium incurs with respect to pending or future lead-based paint or lead pigment litigation, or any legislation or regulations could, to the extent not covered or reduced by insurance or other recoveries, have a material impact on Millennium's results of operations. In addition, Millennium has not accrued any liabilities for judgments or settlements against Millennium resulting from lead-based paint and lead pigment litigation. Any liability that Millennium may ultimately incur with respect to lead-based paint and lead pigment litigation will not be affected by the proposed sale of the inorganic chemicals business, which is anticipated to close in the second quarter of 2007. See Item 1. Legal Proceedings for additional discussion regarding lead-based paint and lead pigment litigation.

Table of Contents

Item 6. Exhibits

- 10.7(d) Amendment No. 4 dated as of February 28, 2007 to Credit Agreement dated as of December 17, 2003 among Equistar Chemicals, LP, the subsidiaries of Equistar Chemicals, LP parties thereto, the lenders party thereto, Credit Suisse First Boston, JPMorgan Chase Bank, N.A. and Wachovia Bank, National Association as co-documentations agents, Citicorp USA, Inc. and Bank of America, N.A. as co-collateral agents, and Citicorp USA, Inc. as administrative agent (filed as an exhibit to Lyondell s Report on Form 10-Q for quarterly period ended March 31, 2007 and incorporated herein by reference)
- 10.11(a) Amendment No. 1 dated as of December 6, 2006 to Security Agreement dated as of December 17, 2003 among Equistar Chemicals, LP, the other borrowers and guarantors party thereto, and Citicorp USA, Inc. as Administrative Agent (filed as an exhibit to Lyondell s Report on Form 10-Q for quarterly period ended March 31, 2007 and incorporated herein by reference)
- 10.11(b) Amendment No. 2 dated as of March 20, 2007 to Security Agreement dated as of December 17, 2003 among Equistar Chemicals, LP, the other borrowers and guarantors party thereto, and Citicorp USA, Inc. as Administrative Agent (filed as an exhibit to Lyondell s Report on Form 10-Q for quarterly period ended March 31, 2007 and incorporated herein by reference)
- 31.1 Rule 13a 14(a)/15d 14(a) Certification of Principal Executive Officer
- 31.2 Rule 13a 14(a)/15d 14(a) Certification of Principal Financial Officer
- 32.1 Section 1350 Certification of Principal Executive Officer
- 32.2 Section 1350 Certification of Principal Financial Officer

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 8, 2007

Millennium Chemicals Inc.

/s/ Charles L. Hall
Charles L. Hall
Vice President and Controller

(Duly Authorized and
Principal Accounting Officer)