ASHFORD HOSPITALITY TRUST INC
Form 10-Q
November 07, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission file number: 001-31775

ASHFORD HOSPITALITY TRUST, INC.

(Exact name of registrant as specified in its charter)

| Maryland | 86-1062192 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS employer identification number) |

| 14185 Dallas Parkway, Suite 1100 | |
|---|---|
| Dallas, Texas | 75254 |
| (Address of principal executive offices) | (Zip code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

| Large accelerated filer | þ | Accelerated filer | ¨ |
|---|---|---|---|
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Common Stock, $0.01 par value per share | 89,444,134 |
| --- | --- |
| (Class) | Outstanding at November 5, 2014 |

ASHFORD HOSPITALITY TRUST, INC
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (Unaudited)

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $280,574 | $128,780 |
| Marketable securities | 44,273 | 29,601 |
| Total cash, cash equivalents and marketable securities | 324,847 | 158,381 |
| Investments in hotel properties, net | 2,143,642 | 2,164,389 |
| Restricted cash | 107,356 | 61,498 |
| Accounts receivable, net of allowance of $274 and $242, respectively | 29,153 | 21,791 |
| Inventories | 2,118 | 1,946 |
| Note receivable, net of allowance of $7,627 and $7,937, respectively | 3,509 | 3,384 |
| Investment in unconsolidated entities | 200,994 | 195,545 |
| Deferred costs, net | 14,453 | 10,155 |
| Prepaid expenses | 11,151 | 7,519 |
| Derivative assets, net | 413 | 19 |
| Other assets | 4,674 | 4,303 |
| Due from Ashford Prime OP, net | 3,815 | 13,042 |
| Due from affiliates | 1,748 | 1,302 |
| Due from related parties | 1,200 | — |
| Due from third-party hotel managers | 14,635 | 33,728 |
| Total assets | $2,863,708 | $2,677,002 |
| Liabilities and Equity | | |
| Liabilities: | | |
| Indebtedness | $1,959,608 | $1,818,929 |
| Capital leases payable | — | 28 |
| Accounts payable and accrued expenses | 93,536 | 70,683 |
| Dividends payable | 21,889 | 20,735 |
| Unfavorable management contract liabilities | 5,824 | 7,306 |
| Due to related party, net | 1,461 | 270 |
| Due to third-party hotel managers | 1,629 | 958 |
| Liabilities associated with marketable securities and other | 4,302 | 3,764 |
| Other liabilities | 5,103 | 1,286 |
| Total liabilities | 2,093,352 | 1,923,959 |
| Redeemable noncontrolling interests in operating partnership | 177,743 | 134,206 |
| Equity: | | |
| Preferred stock, $0.01 par value, 50,000,000 shares authorized: | | |
| Series A Cumulative Preferred Stock, 1,657,206 shares issued and outstanding at September 30, 2014 and December 31, 2013 | 17 | 17 |
| Series D Cumulative Preferred Stock, 9,468,706 shares issued and outstanding at September 30, 2014 and December 31, 2013 | 95 | 95 |
| | 46 | 46 |

| | | |
|---|---|---|
| Series E Cumulative Preferred Stock, 4,630,000 shares issued and outstanding at September 30, 2014 and December 31, 2013 | | |
| Common stock, $0.01 par value, 200,000,000 shares authorized, 124,896,765 shares issued, 89,449,342 and 80,565,563 shares outstanding at September 30, 2014 and December 31, 2013, respectively | 1,249 | 1,249 |
| Additional paid-in capital | 1,729,338 | 1,652,743 |
| Accumulated other comprehensive loss | (110 ) | (197 ) |
| Accumulated deficit | (1,013,529 ) | (896,110 ) |
| Treasury stock, at cost, 35,447,423 and 44,331,202 shares at September 30, 2014 and December 31, 2013, respectively | (125,700 ) | (140,054 ) |
| Total shareholders' equity of the Company | 591,406 | 617,789 |
| Noncontrolling interests in consolidated entities | 1,207 | 1,048 |
| Total equity | 592,613 | 618,837 |
| Total liabilities and equity | $2,863,708 | $2,677,002 |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| REVENUE | | | | |
| Rooms | $165,623 | $197,067 | $491,542 | $586,276 |
| Food and beverage | 25,268 | 34,444 | 82,521 | 117,328 |
| Other hotel revenue | 7,055 | 10,364 | 20,088 | 28,509 |
| Total hotel revenue | 197,946 | 241,875 | 594,151 | 732,113 |
| Advisory services | 3,127 | — | 9,266 | — |
| Other | 1,072 | 149 | 3,213 | 392 |
| Total Revenue | 202,145 | 242,024 | 606,630 | 732,505 |
| EXPENSES | | | | |
| Hotel operating expenses: | | | | |
| Rooms | 37,547 | 45,079 | 108,640 | 132,310 |
| Food and beverage | 18,628 | 25,860 | 57,330 | 80,651 |
| Other expenses | 64,349 | 74,275 | 195,469 | 215,923 |
| Management fees | 7,838 | 9,888 | 23,734 | 30,467 |
| Total hotel operating expenses | 128,362 | 155,102 | 385,173 | 459,351 |
| Property taxes, insurance, and other | 10,451 | 12,474 | 29,052 | 36,385 |
| Depreciation and amortization | 28,421 | 32,777 | 81,262 | 98,099 |
| Impairment charges | (105) | (101) | (310) | (296) |
| Transaction costs | 533 | 126 | 616 | 1,296 |
| Corporate, general, and administrative | 15,104 | 13,465 | 47,290 | 42,680 |
| Total Operating Expenses | 182,766 | 213,843 | 543,083 | 637,515 |
| OPERATING INCOME | 19,379 | 28,181 | 63,547 | 94,990 |
| Equity in earnings (loss) of unconsolidated entities | 2,831 | (10,105) | 6,794 | (14,626) |
| Interest income | 27 | 12 | 45 | 61 |
| Other income | 2,564 | 314 | 5,841 | 6,446 |
| Interest expense and amortization of loan costs | (29,449) | (36,625) | (85,896) | (108,031) |
| Write-off of loan costs and exit fees | (8,319) | — | (10,353) | (1,971) |
| Unrealized gain (loss) on marketable securities | (2,875) | 257 | (3,818) | 2,039 |
| Unrealized loss on derivatives | (70) | (817) | (680) | (7,177) |
| LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (15,912) | (18,783) | (24,520) | (28,269) |
| Income tax expense | (292) | (619) | (820) | (1,688) |
| LOSS FROM CONTINUING OPERATIONS | (16,204) | (19,402) | (25,340) | (29,957) |
| Gain on sale of hotel property, net of tax | — | — | 3,491 | — |
| NET LOSS | (16,204) | (19,402) | (21,849) | (29,957) |
| Loss from consolidated entities attributable to noncontrolling interests | 124 | 175 | 146 | 890 |
| Net loss attributable to redeemable noncontrolling interests in operating partnership | 2,585 | 2,892 | 4,234 | 5,152 |
| NET LOSS ATTRIBUTABLE TO THE COMPANY | (13,495) | (16,335) | (17,469) | (23,915) |
| Preferred dividends | (8,490) | (8,490) | (25,471) | (25,471) |
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS | $(21,985) | $(24,825) | $(42,940) | $(49,386) |

| | | | | |
|---|---|---|---|---|
| LOSS PER SHARE - BASIC AND DILUTED: | | | | |
| Basic: | | | | |
| Net loss attributable to common shareholders | $(0.24) | $(0.31) | $(0.50) | $(0.69) |
| Weighted average common shares outstanding – basic | 90,322 | 79,898 | 86,961 | 72,068 |
| Diluted: | | | | |
| Net loss attributable to common shareholders | $(0.24) | $(0.31) | $(0.50) | $(0.69) |
| Weighted average common shares outstanding – diluted | 90,322 | 79,898 | 86,961 | 72,068 |
| | | | | |
| Dividends declared per common share | $0.12 | $0.12 | $0.36 | $0.36 |
| | | | | |
| Amounts attributable to common shareholders: | | | | |
| Net loss attributable to the Company | $(13,495) | $(16,335) | $(17,469) | $(23,915) |
| Preferred dividends | (8,490) | (8,490) | (25,471) | (25,471) |
| Net loss attributable to common shareholders | $(21,985) | $(24,825) | $(42,940) | $(49,386) |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | $(16,204) | $(19,402) | $(21,849) | $(29,957) |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in unrealized loss on derivatives | — | (2) | — | (4) |
| Reclassification to interest expense | — | 29 | 100 | 53 |
| Total other comprehensive income | — | 27 | 100 | 49 |
| Comprehensive loss | (16,204) | (19,375) | (21,749) | (29,908) |
| Less: Comprehensive loss attributable to noncontrolling interests in consolidated entities | 124 | 175 | 146 | 890 |
| Less: Comprehensive loss attributable to redeemable noncontrolling interests in operating partnership | 2,585 | 2,888 | 4,221 | 5,145 |
| Comprehensive loss attributable to the Company | $(13,495) | $(16,312) | $(17,382) | $(23,873) |

See Notes to Consolidated Financial Statements.

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

| | Preferred Stock | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Series A | | Series D | | Series E | | Common Stock | | Additional Paid In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stoc | |
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | | Shares | Amo |
| Balance at January 1, 2014 | 1,657 | $17 | 9,469 | $95 | 4,630 | $46 | 124,897 | $1,249 | $1,652,743 | $(896,110) | $(197) | (44,331) | $(14 |
| Purchases of treasury shares | — | — | — | — | — | — | — | — | — | — | — | (41) | (458 |
| Equity-based compensation | — | — | — | — | — | — | — | — | 2,413 | — | — | — | — |
| Forfeitures of restricted shares | — | — | — | — | — | — | — | — | 32 | — | — | (8) | (20 |
| Issuance of restricted shares/units | — | — | — | — | — | — | — | — | (993) | — | — | 423 | 993 |
| Reissuance of treasury shares | — | — | — | — | — | — | — | — | 72,243 | — | — | 8,350 | 13,5 |
| Dividends declared- common shares | — | — | — | — | — | — | — | — | — | (31,161) | — | — | — |
| Dividends declared- preferred shares- Series A | — | — | — | — | — | — | — | — | — | (2,657) | — | — | — |
| Dividends declared- preferred shares- Series D | — | — | — | — | — | — | — | — | — | (15,001) | — | — | — |
| Dividends declared – preferred shares- Series E | — | — | — | — | — | — | — | — | — | (7,813) | — | — | — |
| Reclassification to interest expense | — | — | — | — | — | — | — | — | — | — | 87 | — | — |
| Distributions to noncontrolling interests | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Sale of consolidated noncontrolling interest | — | — | — | — | — | — | — | — | 640 | — | — | — | — |
| Redemption/conversion of operating partnership units | — | — | — | — | — | — | — | — | 1,574 | (401) | — | 160 | 242 |
| Redemption value adjustment | — | — | — | — | — | — | — | — | — | (42,350) | — | — | — |
| Unvested operating partnership units reclassified to equity | — | — | — | — | — | — | — | — | (272) | — | — | — | — |
| Deferred compensation to be settled in shares | — | — | — | — | — | — | — | — | 958 | (567) | — | — | — |
| Net loss | — | — | — | — | — | — | — | — | — | (17,469) | — | — | — |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at September 30, 2014 | 1,657 | $17 | 9,469 | $95 | 4,630 | $46 | 124,897 | $1,249 | $1,729,338 | $(1,013,529) | $(110) | (35,447) | $(12 |

See Notes to Consolidated Financial Statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash Flows from Operating Activities | | |
| Net loss | $(21,849) | $(29,957) |
| Adjustments to reconcile net loss to net cash flow provided by operating activities: | | |
| Depreciation and amortization | 81,262 | 98,099 |
| Impairment charges | (310) | (296) |
| Amortization of loan costs, write-off of loan costs, and exit fees | 15,901 | 7,702 |
| Equity in (earnings) loss of unconsolidated entities | (6,794) | 14,626 |
| Dividends from Ashford Prime OP | 746 | — |
| Income from financing derivatives | — | (6,215) |
| Gain on sale of hotel property | (3,658) | (76) |
| Realized and unrealized gains on marketable securities | (1,535) | (1,899) |
| Purchases of marketable securities | (91,749) | (15,525) |
| Sales of marketable securities | 79,201 | 15,287 |
| Net settlement of trading derivatives | (505) | (861) |
| Unrealized loss on derivatives | 680 | 7,177 |
| Equity-based compensation | 16,964 | 17,049 |
| Changes in operating assets and liabilities, exclusive of effect of acquisitions and disposition of hotel properties: | | |
| Restricted cash | (6,771) | 571 |
| Accounts receivable and inventories | (6,799) | 3,002 |
| Prepaid expenses and other assets | (4,564) | (4,685) |
| Accounts payable and accrued expenses | 24,355 | 14,837 |
| Due from affiliates | (446) | (248) |
| Due to/from related party | 1,224 | (2,568) |
| Due to/from third-party hotel managers | 19,764 | (4,163) |
| Due to/from Ashford Prime OP | (4,629) | — |
| Other liabilities | 2,381 | (3,109) |
| Net cash provided by operating activities | 92,869 | 108,748 |
| | | |
| Cash Flows from Investing Activities | | |
| Proceeds from payments of note receivable | 185 | 184 |
| Net proceeds from sales of hotel properties | 22,882 | 307 |
| Acquisition of hotel properties, net of cash acquired | (57,726) | (88,204) |
| Restricted cash related to improvements and additions to hotel properties | (39,283) | — |
| Improvements and additions to hotel properties | (91,483) | (68,958) |
| Due from Ashford Prime | 13,635 | — |
| Payments of franchise fees | (208) | — |
| Proceeds from property insurance | 1,407 | — |
| Net cash used in investing activities | (150,591) | (156,671) |
| | | |
| Cash Flows from Financing Activities | | |
| Borrowings on indebtedness | 718,825 | 268,875 |
| Repayments of indebtedness and capital leases | (509,152) | (167,884) |

| | | |
|---|---|---|
| Payments of loan costs and exit fees | (20,165) | (4,709) |
| Payments of dividends | (63,528) | (58,094) |
| Purchases of treasury shares | (458) | (401) |
| Payments for derivatives | (661) | (185) |
| Cash income from derivatives | — | 7,878 |
| Issuance of preferred stock | — | 244 |
| Issuances of treasury stock | 85,840 | 140,111 |
| Distributions to noncontrolling interests in consolidated entities | (1,235) | (13,489) |
| Other | 50 | 69 |
| Net cash provided by financing activities | 209,516 | 172,415 |
| | | |
| Net increase in cash and cash equivalents | 151,794 | 124,492 |
| Cash and cash equivalents at beginning of period | 128,780 | 185,935 |
| Cash and cash equivalents at end of period | $280,574 | $310,427 |
| Supplemental Cash Flow Information | | |
| Interest paid | $78,508 | $100,217 |
| Income taxes paid | 1,027 | 1,155 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activity | | |
| Deferred compensation to be settled in shares | $958 | $— |
| Dividend receivable from Ashford Prime | 249 | — |
| Transfer of debt to Ashford Prime | 69,000 | — |
| Dividends declared but not paid | 21,889 | 20,734 |
| Net other liabilities acquired | 396 | 1,691 |
| Sale of consolidated noncontrolling interest, settled subsequent to period end | 1,200 | — |

See Notes to Consolidated Financial Statements.

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

1. Organization and Description of Business

Ashford Hospitality Trust, Inc., together with its subsidiaries ("Ashford Trust"), is a real estate investment trust ("REIT") focused on investing in the hospitality industry across all segments and in all methods including direct real estate, securities, equity, and debt. We own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership ("AHLP"), our operating partnership. Ashford OP General Partner LLC, a wholly-owned subsidiary of Ashford Hospitality Trust, Inc., serves as the sole general partner of our operating partnership. In this report, terms such as the "Company," "we," "us," or "our" refer to Ashford Hospitality Trust, Inc. and all entities included in its consolidated financial statements.

As of September 30, 2014, we owned interests in the following hotel properties (all located in the United States) and a note receivable:

- 88 consolidated hotel properties ("legacy hotel properties"), including 86 directly owned and two owned through a majority-owned investment in a consolidated entity, which represent 17,291 total rooms (or 17,264 net rooms excluding those attributable to our partners);
- 28 hotel properties owned through a 71.74% common equity interest and a 50.0% preferred equity interest in an unconsolidated entity ("PIM Highland JV"), which represent 8,084 total rooms (or 5,799 net rooms excluding those attributable to our partner);
- 10 hotel properties owned through a 14.4% interest in Ashford Hospitality Prime Limited Partnership ("Ashford Prime OP");
- 88 hotel condominium units at WorldQuest Resort in Orlando, Florida; and
- a mezzanine loan with a carrying value of $3.5 million.

For federal income tax purposes, we have elected to be treated as a REIT, which imposes limitations related to operating hotels. As of September 30, 2014, our 88 legacy hotel properties were leased or owned by our wholly owned subsidiaries that are treated as taxable REIT subsidiaries for federal income tax purposes (collectively, these subsidiaries are referred to as "Ashford TRS"). Ashford TRS then engages third-party or affiliated hotel management companies to operate the hotels under management contracts. Hotel operating results related to these properties are included in the consolidated statements of operations. As of September 30, 2014, the 28 hotel properties owned by our unconsolidated joint venture, PIM Highland JV, are leased to its wholly owned subsidiary that is treated as a taxable REIT subsidiary for federal income tax purposes.

As of September 30, 2014, Remington Lodging & Hospitality, LLC, together with its affiliates ("Remington Lodging"), which is beneficially wholly owned by Mr. Monty J. Bennett, our Chairman and Chief Executive Officer, and Mr. Archie Bennett, Jr., our Chairman Emeritus, managed 55 of our 88 legacy hotel properties, 21 of the 28 PIM Highland JV hotel properties, one of the 10 Ashford Prime OP hotel properties and WorldQuest Resort. Third-party management companies managed the remaining hotel properties.

2. Significant Accounting Policies

Basis of Presentation—The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These consolidated financial statements include the accounts of Ashford Hospitality Trust, Inc., its majority-owned subsidiaries, and its majority-owned entities in which it has a controlling interest. All significant intercompany accounts and transactions between consolidated entities have been eliminated in these consolidated financial statements. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in our 2013 Annual Report to Shareholders on Form 10-K and Form 10-K/A filed with the Securities and Exchange Commission ("SEC") on March 3, 2014 and March 31,

2014, respectively.

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

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

- Historical seasonality patterns at some of our properties cause fluctuations in our overall operating results. Consequently, operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.
- On November 19, 2013, we completed the spin-off of Ashford Hospitality Prime, Inc. (“Ashford Prime”) and on March 1, 2014 we completed the sale of the Pier House Resort to Ashford Prime. The results of the eight initial hotel properties that were spun-off on November 19, 2013 and are now owned by Ashford Prime, are included in our consolidated statements of operations for the three and nine months ended September 30, 2013, in accordance with the applicable accounting guidance. The results of the Pier House Resort, which we acquired on May 14, 2013 and sold on March 1, 2014, are included in our results of operations for the nine months ended September 30, 2014, until its date of sale. Because we acquired the Pier House Resort on May 14, 2013, its operating results are only included in our results of operations for the three and nine months ended September 30, 2013 since May 14, 2013.
- On July 18, 2014, we acquired the Ashton hotel and on August 6, 2014, we acquired the Fremont Marriott Silicon Valley hotel. The results of these hotels are included in our results of operations as of their respective acquisition dates.

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

Restricted Cash—Restricted cash includes reserves for debt service, real estate taxes, and insurance, as well as excess cash flow deposits and reserves for furniture, fixtures, and equipment replacements of approximately 4% to 6% of property revenue for certain hotels, as required by certain management or mortgage debt agreement restrictions and provisions. For purposes of the consolidated statements of cash flows, changes in restricted cash caused by using such funds for debt service, real estate taxes, and insurance are shown as operating activities. Changes in restricted cash caused by using such funds for furniture, fixtures, and equipment replacements are included in cash flows from investing activities.

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

Impairment of Investments in Hotel Properties—Hotel properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of the hotel is measured by comparison of the carrying amount of the hotel to the estimated future undiscounted cash flows, which take into account current market conditions and our intent with respect to holding or disposing of the hotel. If our analysis indicates that the carrying value of the hotel is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the property’s net book value exceeds its estimated fair value, or fair value, less cost to sell. In evaluating impairment of hotel properties, we make many assumptions and estimates, including projected cash flows, expected holding period, and expected useful life. Fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third-party appraisals, where considered necessary. No impairment charges were recorded for investments in hotel properties for the three and nine months ended September 30, 2014 and 2013.

Note Receivable—Mezzanine loan financing, classified as note receivable, represents a loan held for investment and intended to be held to maturity. Note receivable is recorded at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and allowance for losses when a loan is deemed to be impaired. Premiums, discounts, and net origination fees are amortized or accreted as an adjustment to interest income using the effective interest method over the life of the loan. We discontinue recording interest and amortizing discounts/premiums when the contractual payment of interest and/or principal is not received when contractually due. Payments received on impaired nonaccrual loans are recorded as adjustments to impairment charges. No interest income was recorded for the three and nine months ended September 30, 2014 and 2013.

Variable interest entities ("VIEs"), as defined by authoritative accounting guidance, must be consolidated by their controlling interest beneficiaries if the VIEs do not effectively disperse risks among the parties involved. Our remaining mezzanine note receivable at September 30, 2014 is secured by a hotel property and is subordinate to the controlling interest in the secured hotel property. Although the note receivable is considered to be a variable interest in the entity that owns the related hotel, we are not considered to be the primary beneficiary of the hotel property as a result of holding the loan. Therefore, we do not consolidate the hotel property for which we have provided financing. We will evaluate interests in entities acquired or created in the future to determine whether such entities should be consolidated. In evaluating VIEs, our analysis involves considerable management judgment and assumptions.

Impairment of Note Receivable—We review notes receivable for impairment each reporting period. A loan is impaired when, based on current information and events, collection of all amounts recorded as assets on the balance sheet is no longer considered probable. We apply normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment.

When a loan is impaired, we measure impairment based on the present value of expected cash flows discounted at the loan's effective interest rate against the value of the asset recorded on the balance sheet. We may also measure impairment based on a loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Loan impairments are recorded as a valuation allowance and a charge to earnings. Our assessment of impairment is based on considerable management judgment and assumptions. No impairment charges were recorded during the three and nine months ended September 30, 2014 and 2013. Valuation adjustments of $105,000 and $310,000 on previously impaired notes were credited to impairment charges during the three and nine months ended September 30, 2014, respectively. Valuation adjustments of $101,000 and $296,000 on previously impaired notes were credited to impairment charges during the three and nine months ended September 30, 2013, respectively.

Investments in Unconsolidated Entities—Investments in entities in which we have ownership interests ranging from 14.4% to 71.74% are accounted for under the equity method of accounting by recording the initial investment and our percentage of interest in the entities' net income/loss. We review the investments in our unconsolidated entities for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. An investment is impaired when its estimated fair value is less than the carrying amount of our investment. Any impairment is recorded in equity earnings (loss) in unconsolidated entities. No such impairment was recorded in the three and nine months ended September 30, 2014 and 2013.

Our investments in certain unconsolidated entities are considered to be variable interests in the underlying entities. Variable Interest Entities ("VIE"), as defined by authoritative accounting guidance, must be consolidated by a reporting entity if the reporting entity is the primary beneficiary because it has (i) the power to direct the VIE's activities that most significantly impact the VIE's economic performance, (ii) an implicit financial responsibility to ensure that a VIE operates as designed, and (iii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Because we do not have the power and financial responsibility to direct the unconsolidated entities' activities and operations, we are not considered to be the primary beneficiary of these entities on an ongoing basis and therefore such entities should not be consolidated. In evaluating VIEs, our analysis involves considerable management judgment and assumptions.

We have a 71.74% ownership interest in PIM Highland JV. We adopted the equity accounting method for our investment in the PIM Highland JV because we exercise significant influence but do not control the joint venture. Although we have the majority ownership of 71.74% in the joint venture, all the major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs, incurring obligations and expenditures, are subject to the approval of an executive committee, which is comprised of four persons with us and our partner each designating two of those persons. Our investment in PIM Highland JV had a carrying value of $145.4 million and $139.3 million at September 30, 2014 and December 31, 2013, respectively.

In connection with the spin-off of Ashford Prime on November 19, 2013, we maintained an initial 20% ownership interest in Ashford Prime OP (subsequently reduced to a 14.4% ownership interest, as of September 30, 2014,

primarily as the result of an additional equity raise by Ashford Prime). We adopted the equity accounting method for our investment in Ashford Prime OP because we exercise significant influence but do not control the entity. All major decisions related to Ashford Prime OP that most significantly impact Ashford Prime OP's economic performance, including but not limited to operating procedures with respect to business affairs and any acquisitions, dispositions, financings, restructurings or other transactions with sellers, purchasers, lenders, brokers, agents and other applicable representatives, are subject to the approval of Ashford Prime OP General Partner LLC, its general partner. Our investment in Ashford Prime had a carrying value of $55.6 million and $56.2 million at September 30, 2014 and December 31, 2013, respectively.

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

Marketable Securities—Marketable securities, including U.S. treasury bills, public equity securities and equity put and call options of certain publicly traded companies, are recorded at fair value. Equity put and call options are considered derivatives. The fair value of these investments is based on the closing price as of the balance sheet date and is reported as “Marketable securities” or “Liabilities associated with marketable securities and other” in the consolidated balance sheets. On the consolidated statements of operations, net investment income, including interest income (expense), dividends, realized gains or losses and related costs incurred, is reported as a component of “Other income” while unrealized gains and losses on these investments are reported as “Unrealized gain (loss) on marketable securities.”

Revenue Recognition—Hotel revenues, including room, food, beverage, and ancillary revenues such as long-distance telephone service, laundry, parking and space rentals, are recognized when services have been rendered. Taxes collected from customers and submitted to taxing authorities are not recorded in revenue. Advisory services are recognized when services have been rendered. The quarterly base fee is equal to 0.70% per annum of the total enterprise value of Ashford Prime, as defined in the advisory agreement, subject to certain minimums. The incentive fee is earned annually in each year that Ashford Prime’s total shareholder return exceeds the total shareholder return for Ashford Prime’s peer group, as defined in the advisory agreement. Reimbursements for overhead, travel expenses and internal audit services are recognized when services have been rendered. We also record advisory revenue for equity grants of Ashford Prime common stock and LTIP units awarded to our officers and employees in connection with providing advisory services equal to the fair value of the award that vested during the period, as well an offsetting expense in an equal amount included in “Corporate, general and administrative” expense. Interest income (including accretion of discounts on the mezzanine loan using the effective interest method) is recognized when earned. We discontinue recording interest and amortizing discounts/premiums when the contractual payment of interest and/or principal is not received when contractually due. We are reimbursed by PIM Highland JV for costs associated with managing its day-to-day operations and providing corporate administrative services such as accounting, insurance, marketing support, asset management and other services. Beginning with the three months ended March 31, 2014, we changed the presentation to report such reimbursements as “Other” revenue as opposed to credits within “Corporate, general and administrative” expense. This change had no impact on our financial condition or results of operations.

Derivatives and Hedges—We use interest rate derivatives to hedge our risks and to capitalize on the historical correlation between changes in LIBOR (London Interbank Offered Rate) and RevPAR (Revenue per Available Room). Interest rate derivatives could include swaps, caps, floors and flooridors. We assess the effectiveness of each hedging relationship by comparing changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. We also use credit default swaps to hedge financial and capital market risk. All of our derivatives are subject to master-netting settlement arrangements and the credit default swaps are subject to credit support annexes. For credit default swaps, cash collateral is posted by us as well as our counterparty. We offset the fair value of the derivative and the obligation/right to return/reclaim cash collateral.

All derivatives are recorded at fair value in accordance with the applicable authoritative accounting guidance. Interest rate derivatives and credit default swaps are reported as “Derivative assets, net” or “Liabilities associated with marketable

securities and other” in the consolidated balance sheets. Accrued interest on non-hedge designated interest rate derivatives is included in “Accounts receivable, net” in the consolidated balance sheets. For interest rate derivatives designated as cash flow hedges:

a) the effective portion of changes in fair value is initially reported as a component of “Accumulated other comprehensive income (loss)” (“OCI”) in the equity section of the consolidated balance sheets and reclassified to interest expense in the consolidated statements of operations in the period during which the hedged transaction affects earnings, and

b) the ineffective portion of changes in fair value is recognized directly in earnings as “Unrealized gain (loss) on derivatives” in the consolidated statements of operations. For the three and nine months ended September 30, 2014 and 2013 there was no ineffectiveness.

For non-hedge designated interest rate derivatives and credit default swaps, changes in fair value are recognized in earnings as "Unrealized loss on derivatives" in the consolidated statements of operations.

Income Taxes—As a REIT, we generally are not subject to federal corporate income tax on the portion of our net income (loss) that does not relate to taxable REIT subsidiaries. However, Ashford TRS is treated as a taxable REIT subsidiary for federal income tax purposes. In accordance with authoritative accounting guidance, we account for income taxes related to Ashford TRS using the asset and liability method under which deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, the analysis utilized by us in determining our deferred tax asset valuation allowance involves considerable management judgment and assumptions.

Recently Issued Accounting Standards—In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). ASU 2014-08 revises the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results, removing the lack of continuing involvement criteria and requiring discontinued operations reporting for the disposal of an equity method investment that meets the definition of discontinued operations. The update also requires expanded disclosures for discontinued operations, including disclosure of pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. ASU 2014-08 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. Upon adoption of this standard, we will be required to evaluate whether a disposal meets the discontinued operations requirements under ASU 2014-08. We will make the additional disclosures upon adoption. Upon adoption, we anticipate that the operations of sold hotel properties through the date of their disposal will be included in continuing operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model, which requires a company to recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective in fiscal periods beginning after December 15, 2016. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), to provide guidance on management's responsibility to perform interim and annual assessments of an entity's ability to continue as a going concern and to provide related disclosure requirements. ASU 2014-15 applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We do not expect the adoption of this standard will have an impact on our financial position, results of operations or cash flows.

3. Investments in Hotel Properties, net

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Land | $359,848 | $410,148 |
| Buildings and improvements | 2,122,440 | 2,071,811 |
| Furniture, fixtures, and equipment | 202,256 | 166,193 |
| Construction in progress | 18,187 | 11,956 |
| Condominium properties | 12,241 | 12,442 |
| Total cost | 2,714,972 | 2,672,550 |

| | | |
|---|---|---|
| Accumulated depreciation | (571,330) | (508,161) |
| Investments in hotel properties, net | $2,143,642 | $2,164,389 |

Acquisitions

On July 18, 2014, we acquired a 100% interest in the Ashton hotel in Fort Worth, Texas (“Ashton”) for total consideration of $8.0 million. The acquisition was funded with cash, and we subsequently borrowed $5.5 million, secured by a mortgage on the

property. We have allocated the assets acquired and liabilities assumed on a preliminary basis using the estimated fair value information currently available. We are in the process of evaluating the values assigned to investment in hotel properties and property level working capital balances. This valuation is considered a Level 3 valuation technique. Thus, the balances reflected below are subject to change and could result in adjustments. Any change to the amounts recorded within the investments in hotel properties will also impact depreciation and amortization expense.
The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed in the acquisition (in thousands):

| | |
|---|---|
| Land | $800 |
| Buildings and improvements | 6,687 |
| Furniture, fixtures, and equipment | 500 |
| | 7,987 |
| Net other assets and liabilities | (66) |

The results of operations of the hotel property have been included in our results of operations since July 18, 2014. For both the three and nine months ended September 30, 2014, we have included total revenue of $551,000 and net loss of $14,000 in our consolidated statements of operations.
On July 31, 2014, to fund a portion of the acquisition of the Ashton hotel, we completed the financing of a $5.5 million mortgage loan. The mortgage loan bears interest at a rate of LIBOR + 3.75% (with a .25% LIBOR floor) for the first 18 months and a fixed rate of 4.0% thereafter. The stated maturity is July 31, 2019, with no extension options. The mortgage loan is secured by the Ashton hotel.
On August 6, 2014, we acquired a 100% interest in the Fremont Marriott Silicon Valley hotel in Fremont, California (“Fremont”) for total consideration of $50.0 million. The acquisition was funded with proceeds from a $37.5 million non-recourse mortgage loan and cash. We have allocated the assets acquired and liabilities assumed on a preliminary basis using the estimated fair value information currently available. We are in the process of evaluating the values assigned to investment in hotel properties and property level working capital balances. This valuation is considered a Level 3 valuation technique. Thus, the balances reflected below are subject to change and could result in adjustments. Any change to the amounts recorded within the investments in hotel properties will also impact depreciation and amortization expense.
The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed in the acquisition (in thousands):

| | |
|---|---|
| Land | $5,800 |
| Buildings and improvements | 41,100 |
| Furniture, fixtures, and equipment | 3,100 |
| | 50,000 |
| Net other assets and liabilities | (261) |

The results of operations of the hotel property have been included in our results of operations since August 6, 2014. For both the three and nine months ended September 30, 2014, we have included total revenue of $3.2 million and net income of $150,000 in our consolidated statements of operations.
On August 6, 2014, to fund a portion of the acquisition of the Fremont hotel, we completed the financing of a $37.5 million mortgage loan. The mortgage loan bears interest at a rate of LIBOR + 4.20%. The stated maturity is August 6, 2016, with three one-year extension options. The mortgage loan is secured by the Fremont Marriott Silicon Valley hotel.

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

The following table reflects the unaudited pro forma results of operations as if both acquisitions had occurred and the applicable indebtedness was incurred on January 1, 2013, and the removal of $605,000 of non-recurring transaction costs directly attributable to the transactions for both the three and nine months ended September 30, 2014 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Total revenue | $204,059 | $247,350 | $620,232 | $747,372 |
| Net income (loss) | (15,642) | (19,966) | (21,498) | (32,137) |

4. Note Receivable

As of September 30, 2014 and December 31, 2013, we had one mezzanine loan receivable with a net carrying value of $3.5 million and $3.4 million, respectively, net of a valuation allowance of $7.6 million and $7.9 million, respectively. This note is secured by one hotel property, bears interest at a rate of 6.09%, and matures in 2017. All required payments on this loan are current. Ongoing payments are treated as reductions of carrying value with related valuation allowance adjustments recorded as credits to impairment charges.

5. Investment in Unconsolidated Entities

We hold a 71.74% common equity interest and a $25.0 million, or 50%, preferred equity interest earning an accrued but unpaid 15% annual return with priority over common equity distributions in PIM Highland JV, a 28-hotel portfolio venture. Although we have majority ownership in PIM Highland JV, all major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs and incurring obligations and expenditures, are subject to the approval of an executive committee, which is comprised of four persons with us and our partner each designating two of those persons. As a result, we utilize the equity accounting method with respect to PIM Highland JV, which had a carrying value of $145.4 million and $139.3 million at September 30, 2014 and December 31, 2013, respectively.

Mortgage and mezzanine loans securing PIM Highland JV are non-recourse to the borrowers, except for customary exceptions or carve-outs that trigger recourse liability to the borrowers in certain limited instances. Recourse obligations typically include only the payment of costs and liabilities suffered by the lenders as a result of the occurrence of certain bad acts on the part of the borrower. However, in certain cases, the carve-outs could trigger recourse obligations on the part of the borrower with respect to repayment of all or a portion of the outstanding principal amount of the loans. We have entered into customary guaranty agreements pursuant to which we guaranty payment of any recourse liabilities of the borrowers that result from non-recourse carve-outs (which include, but are not limited to, fraud, misrepresentation, willful conduct resulting in waste, misappropriations of rents following an event of default, voluntary bankruptcy filings, unpermitted transfers of collateral, and certain environmental liabilities). In the opinion of management, none of these guaranty agreements, either individually or in the aggregate, are likely to have a material adverse effect on our business, results of operations, or financial condition.

The following tables summarize the consolidated balance sheets as of September 30, 2014 and December 31, 2013 and the consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 of the PIM Highland JV (in thousands):

PIM Highland JV
Condensed Consolidated Balance Sheets

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Total assets | $1,400,684 | $1,390,782 |
| Total liabilities | 1,172,636 | 1,173,841 |
| Members’ equity | 228,048 | 216,941 |
| Total liabilities and members’ equity | $1,400,684 | $1,390,782 |

| | | |
|---|---|---|
| Our ownership interest in PIM Highland JV | $145,405 | $139,302 |

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

PIM Highland JV
Condensed Consolidated Statements of Operations

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Total revenue | $118,659 | $104,226 | $353,562 | $324,762 |
| Total expenses | (99,074) | (100,422) | (294,740) | (292,487) |
| Operating income | 19,585 | 3,804 | 58,822 | 32,275 |
| Interest income and other | 17 | 14 | 43 | 55 |
| Interest expense, amortization and write-offs of deferred loan costs, discounts and premiums and exit fees | (14,570) | (16,238) | (44,904) | (48,089) |
| Other expenses | — | — | (44) | — |
| Income tax expense | (1,163) | (881) | (2,816) | (2,379) |
| Net income (loss) | $3,869 | $(13,301) | $11,101 | $(18,138) |
| Our equity in earnings (loss) of PIM Highland JV | $2,128 | $(10,105) | $6,102 | $(14,626) |

On June 17, 2013, we announced that our Board of Directors had approved a plan to spin-off an 80% ownership interest in an 8-hotel portfolio, totaling 3,146 rooms (2,912 net rooms excluding those attributable to our partners), to holders of our common stock in the form of a taxable special distribution. The distribution was comprised of common stock in Ashford Prime, a newly formed company into which we contributed the portfolio interests. The distribution was made on November 19, 2013, on a pro rata basis to holders of our common stock as of November 8, 2013, with each of our common shareholders receiving one share of Ashford Prime common stock for every five shares of our common stock held by such stockholder as of the close of business on November 8, 2013. We maintained a 20% ownership interest in Ashford Prime OP at the time of the spin-off. Our ownership interest in Ashford Prime OP was 14.4% at September 30, 2014.

The following tables summarize the condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013 and the condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and the condensed combined consolidated statements of operations for the three and nine months ended September 30, 2013 of Ashford Prime OP (in thousands):

Ashford Hospitality Prime Limited Partnership
Condensed Balance Sheets

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Total assets | $1,252,996 | $962,419 |
| Total liabilities | 805,130 | 659,292 |
| Partners’ capital | 447,866 | 303,127 |
| Total liabilities and partners’ capital | $1,252,996 | $962,419 |
| Our ownership interest in Ashford Prime OP | $55,589 | $56,243 |

Ashford Hospitality Prime Limited Partnership
Condensed Statements of Operations

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Total revenue | $84,784 | $60,960 | $230,557 | $178,388 |
| Total expenses | (70,086) | (51,595) | (196,270) | (150,547) |
| Operating income | 14,698 | 9,365 | 34,287 | 27,841 |
| Interest income | 10 | 5 | 20 | 19 |
| Interest expense and amortization and write-offs of loan costs | (10,137) | (8,380) | (29,159) | (26,542) |
| Unrealized gain (loss) on derivatives | 3 | (9) | (63) | (31) |
| Income tax expense | (185) | (952) | (622) | (2,255) |
| Net income (loss) | 4,389 | 29 | 4,463 | (968) |
| Loss from consolidated entities attributable to noncontrolling interests | 154 | 371 | 741 | 575 |
| Net income (loss) attributable to Ashford Prime OP | $4,543 | $400 | $5,204 | $(393) |
| Our equity in earnings of Ashford Prime OP | $703 | $— | $692 | $— |

Additionally, as of September 30, 2014 and December 31, 2013, we had a 14.4% subordinated beneficial interest in a trust that holds the Four Seasons hotel property in Nevis, which had a zero carrying value.

6. Indebtedness
Indebtedness consisted of the following (in thousands):

| Indebtedness | Collateral | Maturity | Interest Rate | September 30, 2014 | December 31, 2013 |
|---|---|---|---|---|---|
| Mortgage loan [5] | 5 hotels | March 2014 | LIBOR [1] + 4.50% | $— | $164,433 |
| Mortgage loan [7] | 1 hotel | May 2014 | 8.32% | — | 5,075 |
| Senior credit facility [4] | Various | September 2014 | LIBOR [1] + 2.75% to 3.50% | — | — |
| Mortgage loan [10] | 5 hotels | November 2014 | Greater of 6.40% or LIBOR [1] + 6.15% | 211,000 | 211,000 |
| Mortgage loan [8] | 8 hotels | December 2014 | 5.75% | — | 102,348 |
| Mortgage loan [6] [8] | 9 hotels | May 2015 | LIBOR [1] + 6.50% | — | 135,000 |
| Mortgage loan | 10 hotels | July 2015 | 5.22% | 146,530 | 148,991 |
| Mortgage loan [3] | 1 hotel | September 2015 | LIBOR [1] + 4.90% | — | 69,000 |
| Mortgage loan | 8 hotels | December 2015 | 5.70% | 93,319 | 94,899 |
| Mortgage loan | 5 hotels | February 2016 | 5.53% | 106,032 | 107,737 |
| Mortgage loan [8] | 5 hotels | February 2016 | 5.53% | — | 89,347 |
| Mortgage loan | 5 hotels | February 2016 | 5.53% | 76,169 | 77,394 |
| Mortgage loan [5] | 5 hotels | February 2016 | LIBOR [1] + 4.75% | 200,000 | — |
| Mortgage loan [2] [8] | 7 hotels | August 2016 | LIBOR [1] + 4.35% | 301,000 | — |
| Mortgage loan [2] [8] | 5 hotels | August 2016 | LIBOR [1] + 4.35% | 62,900 | — |
| Mortgage loan [2] | 1 hotel | August 2016 | LIBOR [1] + 4.20% | 37,500 | — |
| Mortgage loan | 5 hotels | April 2017 | 5.95% | 112,250 | 113,343 |
| Mortgage loan | 5 hotels | April 2017 | 5.95% | 100,895 | 101,878 |
| Mortgage loan | 5 hotels | April 2017 | 5.95% | 153,525 | 155,019 |
| Mortgage loan | 7 hotels | April 2017 | 5.95% | 122,802 | 123,997 |
| Mortgage loan [9] | 1 hotel | July 2019 | LIBOR [1] + 3.75% | 5,525 | — |
| Mortgage loan | 1 hotel | November 2020 | 6.26% | 100,246 | 101,268 |
| Mortgage loan | 1 hotel | January 2024 | 5.49% | 10,709 | 10,800 |
| Mortgage loan | 1 hotel | January 2024 | 5.49% | 7,337 | 7,400 |
| Mortgage loan [7] | 1 hotel | May 2024 | 4.99% | 6,869 | — |
| Mortgage loan [8] | 3 hotels | August 2024 | 5.20% | 67,520 | — |
| Mortgage loan [8] | 2 hotels | August 2024 | 4.85% | 12,500 | — |
| Mortgage loan [8] | 3 hotels | August 2024 | 4.90% | 24,980 | — |
| Total | | | | $1,959,608 | $1,818,929 |

[1] LIBOR rates were 0.157% and 0.168% at September 30, 2014 and December 31, 2013, respectively.
[2] This mortgage loan has three one-year extension options subject to satisfaction of certain conditions.
[3] This mortgage loan was assumed by Ashford Prime in connection with the sale of the Pier House Resort.
[4] The senior credit facility expired in September 2014 and was not extended.
[5] On January 24, 2014, we refinanced our $164.4 million loan due March 2014 with a $200.0 million loan due February 2016, with three one-year extension options, subject to the satisfaction of certain conditions. The new loan

provides for an interest rate of LIBOR + 4.75%, with a LIBOR floor of 0.20%.
(6) This mortgage loan had three one-year extension options subject to satisfaction of certain conditions. The first one-year extension period began in May 2014.
(7) On May 1, 2014, we refinanced our $5.1 million loan due May 2014 with a $6.9 million loan due May 2024, with no extension options. The new loan provides for a fixed interest rate of 4.99%.
(8) On July 25, 2014, we refinanced our $135.0 million loan due May 2015, $102.3 million loan due December 2014, and $89.3 million loan due February 2016 with a $301.0 million loan due August 2016, a $62.9 million loan due August 2016, a $67.5 million loan due August 2024, a $12.5 million loan due August 2024 and a $25.0 million loan due August 2024.
(9) This mortgage loan provides for an interest rate of LIBOR + 3.75% with a .25% LIBOR floor for the first 18 months and is fixed at 4.0% thereafter.
(10) This mortgage loan had three one-year extension options subject to satisfaction of certain conditions. The first one-year extension period began in November 2014.

Our senior credit facility expired in September 2014. We do not currently plan to replace it with another credit facility. Cash flows from operations, capital market activities and property refinancing proceeds have provided sufficient liquidity throughout the term of the credit facility. Additionally, we never drew on the credit facility. Accordingly, the absence of a credit facility is not expected to have a significant impact on our liquidity.

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On August 6, 2014, to fund a portion of the acquisition of the Fremont Marriott Silicon Valley hotel, we completed the financing of a $37.5 million mortgage loan. The mortgage loan bears interest at a rate of LIBOR + 4.20%. The stated maturity is August 6, 2016, with three one-year extension options. The mortgage loan is secured by the Fremont Marriott Silicon Valley hotel.

On July 31, 2014, to fund a portion of the acquisition of the Ashton hotel, we completed the financing of a $5.5 million mortgage loan. The mortgage loan bears interest at a rate of LIBOR + 3.75% (with a .25% LIBOR floor) for the first 18 months and a fixed rate of 4.0% thereafter. The stated maturity is July 31, 2019, with no extension options. The mortgage loan is secured by the Ashton hotel.

On July 25, 2014, we refinanced three mortgage loans, including our $135.0 million mortgage loan due May 2015, our $102.3 million mortgage loan due December 2014, which had an outstanding balance of $101.1 million, and our $89.3 million mortgage loan due February 2016, which had an outstanding balance of $88.5 million. The new loans total $468.9 million. As a result of the refinancing, the Homewood Suites Mobile and the Hampton Inn Terre Haute, Indiana are now unencumbered by debt. Other than the properties noted above, the new loans continue to be secured by the same hotel properties.

On May 1, 2014, we refinanced our $5.1 million loan due May 2014 with a $6.9 million loan due May 2024, with no extension options. The new loan provides for a fixed interest rate of 4.99%. The new loan continues to be secured by the same hotel property, the Courtyard Hartford-Manchester in Manchester, Connecticut.

On January 24, 2014, we refinanced our $164.4 million loan due March 2014 with a $200.0 million loan due February 2016, with three one-year extension options, subject to the satisfaction of certain conditions. The new loan provides for an interest rate of LIBOR + 4.75%, with a LIBOR floor of 0.20%. The new loan continues to be secured by the same five hotels that secured the original loan, including: the Embassy Suites Philadelphia Airport, Embassy Suites Walnut Creek, Sheraton Mission Valley San Diego, Sheraton Anchorage and the Hilton Minneapolis/St Paul Airport Mall of America.

We are required to maintain certain financial ratios under various debt and derivative agreements. If we violate covenants in any debt or derivative agreement, we could be required to repay a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of certain debt covenants may result in us being unable to borrow unused amounts under a line of credit, even if repayment of some or all borrowings is not required. The assets of certain of our subsidiaries are pledged under non-recourse indebtedness and are not available to satisfy the debts and other obligations of Ashford Trust or AHLP, our operating partnership, and the liabilities of such subsidiaries do not constitute the obligations of Ashford Trust or AHLP. Presently, our existing financial covenants are non-recourse and primarily relate to maintaining minimum debt coverage ratios, maintaining an overall minimum net worth, maintaining a maximum loan-to-value ratio, and maintaining an overall minimum total assets. As of September 30, 2014, we were in compliance in all material respects with all covenants or other requirements set forth in our debt and related agreements as amended.

We have derivative agreements that incorporate the loan covenant provisions of our senior credit facility (which expried in September 2014) requiring us to maintain certain minimum financial covenant ratios with respect to our indebtedness. Failure to comply with these covenant provisions would result in us being in default on any derivative instrument obligations covered by the applicable agreement. At September 30, 2014, we were in compliance with all the covenants incorporated from the senior credit facility and the fair value of derivatives that incorporate our senior credit facility covenant provisions was an asset of $101,000.

7. Income (Loss) Per Share

Basic income (loss) per common share is calculated using the two-class method by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is calculated using the two-class method, or treasury stock method if more dilutive, and reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares, whereby such exercise or conversion would result in lower

income per share.

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The following table reconciles the amounts used in calculating basic and diluted income (loss) per share (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss allocated to common shareholders: | | | | |
| Net loss attributable to the Company | $(13,495) | $(16,335) | $(17,469) | $(23,915) |
| Less: Dividends on preferred stocks | (8,490) | (8,490) | (25,471) | (25,471) |
| Less: Dividends on common stock | (10,661) | (9,617) | (30,930) | (27,223) |
| Less: Dividends on unvested restricted shares | (73) | (51) | (231) | (163) |
| Undistributed loss | (32,719) | (34,493) | (74,101) | (76,772) |
| Add back: Dividends on common stock | 10,661 | 9,617 | 30,930 | 27,223 |
| Distributed and undistributed net loss - basic and diluted | $(22,058) | $(24,876) | $(43,171) | $(49,549) |
| Weighted average shares outstanding: | | | | |
| Weighted average shares outstanding - basic and diluted | 90,322 | 79,898 | 86,961 | 72,068 |
| Basic loss per share: | | | | |
| Net loss allocated to common shareholders per share | $(0.24) | $(0.31) | $(0.50) | $(0.69) |
| Diluted loss per share: | | | | |
| Net loss allocated to common shareholders per share | $(0.24) | $(0.31) | $(0.50) | $(0.69) |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss allocated to common shareholders is not adjusted for: | | | | |
| Income allocated to unvested restricted shares | $73 | $51 | $231 | $163 |
| Net loss attributable to noncontrolling interest in operating partnership units | (2,585) | (2,892) | (4,234) | (5,152) |
| Total | $(2,512) | $(2,841) | $(4,003) | $(4,989) |
| Weighted average diluted shares are not adjusted for: | | | | |
| Effect of unvested restricted shares | 148 | 122 | 111 | 124 |
| Effect of assumed conversion of operating partnership units | 19,926 | 18,962 | 19,725 | 18,607 |
| Total | 20,074 | 19,084 | 19,836 | 18,731 |

## 8. Derivative Instruments and Hedging

Interest Rate Derivatives—We are exposed to risks arising from our business operations, economic conditions, and financial markets. To manage these risks, we use interest rate derivatives to hedge our debt and potentially improve cash flows. We also use non-hedge derivatives to capitalize on the historical correlation between changes in LIBOR and RevPAR. Interest rate derivatives may include interest rate swaps, caps, floors and flooridors. Our derivatives are subject to master-netting settlement arrangements. The maturities on these instruments range from November 2014 to August 2016. To mitigate nonperformance risk, we routinely rely on a third party's analysis of the creditworthiness of the counterparties, which supports our belief that the counterparties' nonperformance risk is limited. All derivatives are recorded at fair value.

During 2014 and 2013, we entered into interest rate caps with total notional amounts of $736.1 million and $268.9 million, respectively, to cap the interest rates on our mortgage loans, with maturities between March 2015 and August 2016, and strike rates between 1.80% and 2.59%, for total costs of $661,000 and $184,000, respectively. None of these interest rate caps were

designated as cash flow hedges. At September 30, 2014 and December 31, 2013, our floating interest rate mortgage loans, with principal balances of $812.4 million and $579.4 million, respectively, were capped by interest rate hedges. One interest rate cap entered into in 2013 with a notional amount of $199.9 million was transferred to Ashford Prime in connection with the spin-off in November 2013. Interest rate caps entered into in 2013 with a total amount of $69 million was transferred to Ashford Prime in connection with the sale of the Pier House Resort in March 2014.

Credit Default Swap Derivatives—In August 2011, we entered into credit default swap transactions for a notional amount of $100.0 million to hedge financial and capital market risk for an upfront cost of $8.2 million that was subsequently returned to us as collateral by our counterparty. A credit default swap is a derivative contract that functions like an insurance policy against the credit risk of an entity or obligation. The seller of protection assumes the credit risk of the reference obligation from the buyer (us) of protection in exchange for annual premium payments. If a default or a loss, as defined in the credit default swap agreements, occurs on the underlying bonds, then the buyer of protection is protected against those losses. The only liability for us, the buyer, is the annual premium and any change in value of the underlying CMBX index (if the trade is terminated prior to maturity). For all CMBX trades completed to date, we were the buyer of protection. Credit default swaps are subject to master-netting settlement arrangements and credit support annexes. Assuming the underlying bonds pay off at par over their remaining average life, our total exposure for these trades is approximately $8.5 million. Cash collateral is posted by us as well as our counterparty. We offset the fair value of the derivative and the obligation/right to return/reclaim cash collateral. The change in market value of credit default swaps is settled net through posting cash collateral or reclaiming cash collateral between us and our counterparty when the change in market value is over $250,000. The net carrying value of our credit default swaps was an asset of $101,000 and liability of $73,000 as of September 30, 2014 and December 31, 2013, respectively, which are included in "Derivative assets, net" and "Liabilities associated with marketable securities and other", respectively, in the consolidated balance sheets. We recognized an unrealized gain of $86,000 and an unrealized loss of $331,000 for the three and nine months ended September 30, 2014, respectively, and unrealized losses of $689,000 and $820,000 for the three and nine months ended September 30, 2013, respectively, which are included in "Unrealized loss on derivatives" in the consolidated statements of operations.

Marketable Securities and Liabilities Associated with Marketable Securities and other—We invest in public securities, including stocks and put and call options, which are considered derivatives. At September 30, 2014, we had investments in these derivatives totaling $769,000 and liabilities of $435,000. At December 31, 2013, we had investments in these derivatives totaling $560,000 and liabilities of $561,000.

9. Fair Value Measurements

Fair Value Hierarchy—For disclosure purposes, financial instruments, whether measured at fair value on a recurring or nonrecurring basis or not measured at fair value, are classified in a hierarchy consisting of three levels based on the observability of valuation inputs in the market place as discussed below:

- Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets.
- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability.

Fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts/payments and the discounted expected variable cash payments/receipts. Fair values of interest rate caps, floors, flooridors, and corridors are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below the strike rates of the

floors or rise above the strike rates of the caps. Variable interest rates used in the calculation of projected receipts and payments on the swaps, caps, and floors are based on an expectation of future interest rates derived from observable market interest rate curves (LIBOR forward curves) and volatilities (Level 2 inputs). We also incorporate credit valuation adjustments (Level 3 inputs) to appropriately reflect both our own nonperformance risk and the respective counterparty’s nonperformance risk.

Fair values of credit default swaps are obtained from a third party who publishes various information including the index composition and price data (Level 2 inputs). The fair value of credit default swaps does not contain credit-risk-related adjustments as the change in fair value is settled net through posting cash collateral or reclaiming cash collateral between us and our counterparty.

Fair values of marketable securities and liabilities associated with marketable securities, including public equity securities, equity put and call options, and other investments, are based on their quoted market closing prices (Level 1 inputs).

When a majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. However, when valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties, which we consider significant (10% or more) to the overall valuation of our derivatives, the derivative valuations in their entirety are classified in Level 3 of the fair value hierarchy. Transfers of inputs between levels are determined at the end of each reporting period. In determining the fair values of our derivatives at September 30, 2014, the LIBOR interest rate forward curve (Level 2 inputs) assumed an uptrend from 0.16% to 1.05% for the remaining term of our derivatives. Credit spreads (Level 3 inputs) used in determining the fair values of hedge and non-hedge designated derivatives assumed an uptrend in nonperformance risk for us and all of our counterparties through the maturity dates.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis aggregated by the level within which measurements fall in the fair value hierarchy (in thousands):

| | Quoted Market Prices (Level 1) | Significant Other Observable Inputs (Level 2) | Counterparty and Cash Collateral Netting[4] | Total | |
|---|---|---|---|---|---|
| September 30, 2014: | | | | | |
| Assets | | | | | |
| Derivative assets: | | | | | |
| Interest rate derivatives - non-hedge | $— | $312 | $— | $312 | [1] |
| Credit default swaps | — | 664 | (563) | 101 | [1] |
| Equity put and call options | 769 | — | — | 769 | [2] |
| Non-derivative assets: | | | | | |
| Equity and US treasury securities | 43,504 | — | — | 43,504 | [2] |
| Total | 44,273 | 976 | (563) | 44,686 | |
| Liabilities | | | | | |
| Derivative liabilities: | | | | | |
| Short-equity put options | (279) | — | — | (279) | [3] |
| Short-equity call options | (156) | — | — | (156) | [3] |
| Non-derivative liabilities: | | | | | |
| Margin account balance | (3,867) | — | — | (3,867) | [3] |
| Total | (4,302) | — | — | (4,302) | |
| Net | $39,971 | $976 | $(563) | $40,384 | |
| December 31, 2013: | | | | | |
| Assets | | | | | |
| Derivative assets: | | | | | |
| Interest rate derivatives - non-hedge | $— | $19 | $— | $19 | [1] |
| Equity put and call options | 560 | — | — | 560 | [2] |
| Non-derivative assets: | | | | | |
| Equity and US treasury securities | 29,041 | — | — | 29,041 | [2] |
| Total | 29,601 | 19 | — | 29,620 | |
| Liabilities | | | | | |
| Derivative liabilities: | | | | | |
| Credit default swaps | — | 995 | (1,068) | (73) | [3] |
| Short-equity put options | (82) | — | — | (82) | [3] |
| Short-equity call options | (479) | — | — | (479) | [3] |
| Non-derivative liabilities: | | | | | |
| Margin account balance | (3,130) | — | — | (3,130) | [3] |
| Total | (3,691) | 995 | (1,068) | (3,764) | |
| Net | $25,910 | $1,014 | $(1,068) | $25,856 | |

[1] Reported net as “Derivative assets, net” in the consolidated balance sheets.

(2) Reported as “Marketable securities” in the consolidated balance sheets.
(3) Reported as “Liabilities associated with marketable securities and other” in the consolidated balance sheets.
(4) Represents cash collateral posted by our counterparty.

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Effect of Fair-Value-Measured Assets and Liabilities on Consolidated Statements of Operations
The following tables summarize the effect of fair-value-measured assets and liabilities on the consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 (in thousands):

| | Gain (Loss) Recognized in Income Three Months Ended September 30, | | Reclassified from Accumulated OCI into Interest Expense Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Assets | | | | |
| Derivative assets: | | | | |
| Interest rate derivatives | $(156) | $(128) | $— | $29 |
| Credit default swaps | 65 | (711) | — | — |
| Equity put and call options | (115) | (621) | — | — |
| Non-derivative assets: | | | | |
| Equity and US treasury securities | (612) | 965 | — | — |
| Total | (818) | (495) | — | 29 |
| Liabilities | | | | |
| Derivative liabilities: | | | | |
| Short-equity put options | 102 | (148) | — | — |
| Short-equity call options | 212 | 316 | — | — |
| Total | 314 | 168 | — | — |
| Net | $(504) | $(327) | $— | $29 |
| Total combined | | | | |
| Interest rate derivatives | $(156) | $(128) | $— | $29 |
| Credit default swaps | 86 | (689) | — | — |
| Total derivatives | (70) [1] | (817) [1] | — | 29 |
| Unrealized loss on marketable securities | (2,875) [3] | 257 [3] | — | — |
| Realized gain (loss) on marketable securities | 2,441 [2] [4] | 233 [2] [4] | — | — |
| Net | $(504) | $(327) | $— | $29 |

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| | Gain (Loss) Recognized in Income | | Interest Savings (Cost) Recognized in Income | | Reclassified from Accumulated OCI into Interest Expense | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | Nine Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Assets | | | | | | |
| Derivative assets: | | | | | | |
| Interest rate derivatives | $(349) | $(10,757) | $— | $10,639 | $100 | $53 |
| Equity put and call options | (1,219) | (435) | — | — | — | — |
| Credit default swaps | (394) | (886) | — | — | — | — |
| Non-derivative assets: | | | | | | |
| Equity and US treasury securities | 2,536 | 2,074 | — | — | — | — |
| Total | 574 | (10,004) | — | 10,639 | 100 | 53 |
| Liabilities | | | | | | |
| Derivative liabilities: | | | | | | |
| Interest rate derivatives | — | 4,400 | — | (4,424) | — | — |
| Credit default swaps | — | (142) | — | — | — | — |
| Short-equity put options | 46 | — | — | — | — | — |
| Short-equity call options | 235 | 402 | — | — | — | — |
| Total | 281 | 4,660 | — | (4,424) | — | — |
| Net | $855 | $(5,344) | $— | $6,215 | $100 | $53 |
| Total combined | | | | | | |
| Interest rate derivatives | $(349) | $(6,357) | $— | $6,215 | $100 | $53 |
| Credit default swaps | (331) | (820) | — | — | — | — |
| Total derivatives | (680) [1] | (7,177) [1] | — | 6,215 [2] | 100 | 53 |
| Unrealized gain (loss) on marketable securities | (3,818) [3] | 2,039 [3] | — | — | — | — |
| Realized gain (loss) on marketable securities | 5,353 [2] [4] | (206) [2] [4] | — | — | — | — |
| Net | $855 | $(5,344) | $— | $6,215 | $100 | $53 |

[1] Reported as "Unrealized loss on derivatives" in the consolidated statements of operations.
[2] Included in "Other income" in the consolidated statements of operations.
[3] Reported as "Unrealized gain (loss) on marketable securities" in the consolidated statements of operations.
[4] Includes costs of $21 and $63 for the three and nine months ended September 30, 2014, respectively, and $22 and $66 for the three and nine months ended September 30, 2013, respectively, associated with credit default swaps.

There was no change in fair value of our interest rate derivatives that were recognized in other comprehensive loss for the three and nine months ended September 30, 2014. For the three and nine months ended September 30, 2013, the change in fair value of our interest rate derivatives that was recognized in other comprehensive loss was a loss of $2,000 and $4,000, respectively.

10. Summary of Fair Value of Financial Instruments

Determining estimated fair values of our financial instruments such as notes receivable and indebtedness requires considerable judgment to interpret market data. Market assumptions and/or estimation methodologies used may have a material effect on estimated fair value amounts. Accordingly, estimates presented are not necessarily indicative of amounts at which these instruments could be purchased, sold, or settled. Carrying amounts and estimated fair values of financial instruments, for periods indicated, were as follows (in thousands):

| | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Financial assets and liabilities measured at fair value: | | | | |
| Marketable securities | $44,273 | $44,273 | $29,601 | $29,601 |
| Derivative assets, net | 413 | 413 | 19 | 19 |
| Liabilities associated with marketable securities and other | 4,302 | 4,302 | 3,764 | 3,764 |
| Financial assets not measured at fair value: | | | | |
| Cash and cash equivalents | $280,574 | $280,574 | $128,780 | $128,780 |
| Restricted cash | 107,356 | 107,356 | 61,498 | 61,498 |
| Accounts receivable | 29,153 | 29,153 | 21,791 | 21,791 |
| Note receivable | 3,509 | $2,983 to $3,297 | 3,384 | $2,800 to $3,094 |
| Due from affiliates | 1,748 | 1,748 | 1,302 | 1,302 |
| Due from Ashford Prime OP, net | 3,815 | 3,815 | 13,042 | 13,042 |
| Due from related parties | 1,200 | 1,200 | — | — |
| Due from third-party hotel managers | 14,635 | 14,635 | 33,728 | 33,728 |
| Financial liabilities not measured at fair value: | | | | |
| Indebtedness | $1,959,608 | $ 1,903,723 to $2,104,118 | $1,818,929 | $ 1,786,651 to $1,974,714 |
| Accounts payable and accrued expenses | 93,536 | 93,536 | 70,683 | 70,683 |
| Dividends payable | 21,889 | 21,889 | 20,735 | 20,735 |
| Due to related party, net | 1,461 | 1,461 | 270 | 270 |
| Due to third-party hotel managers | 1,629 | 1,629 | 958 | 958 |

Cash, cash equivalents, and restricted cash. These financial assets bear interest at market rates and have maturities of less than 90 days. The carrying value approximates fair value due to their short-term nature. This is considered a Level 1 valuation technique.

Accounts receivable, accounts payable, accrued expenses, dividends payable, due to/from Ashford Prime OP, due to/from related party, due to/from affiliates and due to/from third-party hotel managers. The carrying values of these financial instruments approximate their fair values due to their short-term nature. This is considered a Level 1 valuation technique.

Note receivable. Fair value of notes receivable is determined using similar loans with similar collateral. We relied on our internal analysis of what we believe a willing buyer would pay for this note. We estimated the fair value of the note receivable to be approximately 15.0% to 6.0% lower than the carrying value of $3.5 million at September 30, 2014 and approximately 17.3% to 8.6% lower than the carrying value of $3.4 million at December 31, 2013. This is considered a Level 2 valuation technique.

Marketable securities. Marketable securities consist of U.S. treasury bills, public equity securities, and equity put and call options. The fair value of these investments is based on quoted market closing prices at the balance sheet dates. See Notes 2, 8 and 9 for a complete description of the methodology and assumptions utilized in determining fair values.

Indebtedness. Fair value of indebtedness is determined using future cash flows discounted at current replacement rates for these instruments. Cash flows are determined using a forward interest rate yield curve. Current replacement rates are determined by using the U.S. Treasury yield curve or the index to which these financial instruments are tied and adjusted for credit spreads. Credit spreads take into consideration general market conditions, maturity, and collateral. We estimated the fair value of total indebtedness to be approximately 97.1% to 107.4% of the carrying value of $2.0 billion at September 30, 2014 and approximately 98.2% to 108.6% of the carrying value of $1.8 billion at December 31, 2013. This is considered a Level 2 valuation technique.

Derivative assets, net and liabilities associated with marketable securities and other. Fair value of interest rate derivatives is determined using the net present value of expected cash flows of each derivative based on the market-based interest rate curve and adjusted for credit spreads of us and our counterparties. Fair values of credit default swap derivatives are obtained from a third party who publishes the CMBX index composition and price data. Liabilities associated with marketable securities and other consists of a margin account balance, short public equity securities and short equity put and call options. Fair value is determined based on quoted market closing prices at the balance sheet dates. See Notes 2, 8 and 9 for a complete description of the methodology and assumptions utilized in determining fair values.

11. Redeemable Noncontrolling Interests in Operating Partnership

Redeemable noncontrolling interests in the operating partnership represent certain limited partners' proportionate share of equity in earnings/losses of the operating partnership, which is an allocation of net income/loss attributable to common unit holders based on the weighted average ownership percentage of these limited partners' common units and units issued under our Long-Term Incentive Plan (the "LTIP units") that are vested plus distributions paid to the limited partners with regard to Class B common units. Class B common units have a fixed dividend rate of 7.2% and priority in payment of cash dividends over common units but otherwise have no preference over common units. Beginning one year after issuance, each common unit of limited partnership interest (including each Class B common unit) may be redeemed for either cash or, at our sole discretion, one share of our common stock. Class B common units are convertible at the option of us or the holder into an equivalent number of common units any time after July 13, 2016.

LTIP units, which are issued to certain executives and employees as compensation, have vesting periods ranging from three to five years. Additionally, certain independent members of the Board of Directors have elected to receive LTIP units as part of their compensation, which are fully vested upon grant. Upon reaching economic parity with common units, each vested LTIP unit can be converted by the holder into one common partnership unit of the operating partnership which can then be redeemed for cash or, at our election, settled in our common stock. An LTIP unit will achieve parity with the common units upon the sale or deemed sale of all or substantially all of the assets of the operating partnership at a time when our stock is trading at a level in excess of the price it was trading on the date of the LTIP issuance. More specifically, LTIP units will achieve full economic parity with common units in connection with (i) the actual sale of all or substantially all of the assets of the operating partnership or (ii) the hypothetical sale of such assets, which results from a capital account revaluation, as defined in the partnership agreement, for the operating partnership.

As of September 30, 2014, we have issued a total of 8.0 million LTIP units, of which all but 921,000 units issued in February 2014 and 25,000 units issued in May 2014 have reached full economic parity with the common units. All LTIP units issued had an aggregate value of $79.9 million at the date of grant which is being amortized over their vesting periods. Compensation expense of $4.0 million and $14.6 million was recognized for the three and nine months ended September 30, 2014, respectively, and $3.6 million and $15.3 million was recognized for the three and nine months ended September 30, 2013, respectively. The unamortized value of LTIP units was $17.7 million at September 30, 2014, which will be amortized over periods from 0.4 to 2.6 years. During the three and nine months ended September 30, 2014, 160,000 operating partnership units with a fair value of $1.8 million were converted to common shares at our election.

Redeemable noncontrolling interests, including vested LTIP units, in our operating partnership as of September 30, 2014 and December 31, 2013 were $177.7 million and $134.2 million, respectively, which represents ownership of our operating partnership of 13.01% and 12.72%, respectively. The carrying value of redeemable noncontrolling interests as of September 30, 2014 and December 31, 2013 included adjustments of $165.7 million and $123.3 million, respectively, to reflect the excess of the redemption value over the accumulated historical costs. Redeemable noncontrolling interests were allocated net losses of $2.6 million and $4.2 million for the three and nine months ended September 30, 2014, respectively, and $2.9 million and $5.2 million for the three and nine months ended

September 30, 2013, respectively. We declared cash distributions to operating partnership units of $2.7 million and $8.1 million for the three and nine months ended September 30, 2014, respectively, and $2.6 million and $7.7 million for the three and nine months ended September 30, 2013, respectively. These distributions are recorded as a reduction of redeemable noncontrolling interests in operating partnership.

12. Equity and Equity-Based Compensation

Equity Offering—On April 8, 2014, we commenced a follow-on public offering of 7.5 million shares of common stock at $10.70 per share for gross proceeds of $80.3 million. The aggregate proceeds net of underwriting discount and other expenses were approximately $76.8 million. The offering settled on April 14, 2014. We granted the underwriters a 30-day option to purchase up to an additional 1.125 million shares of common stock. On May 9, 2014, the underwriters partially exercised their option and

purchased an additional 850,000 shares of our common stock at a price of $10.70 per share less the underwriting discount resulting in additional net proceeds of approximately $8.7 million.

Common Stock Dividends—For each of the 2014 and 2013 quarters, the Board of Directors declared quarterly dividends of $0.12 per outstanding share of common stock with an annualized target of $0.48 per share for 2014.

Equity-Based Compensation—We recognized compensation expense related to restricted shares of our common stock of $766,000 and $2.4 million for the three and nine months ended September 30, 2014, respectively, and $530,000 and $1.7 million for the three and nine months ended September 30, 2013, respectively. As of September 30, 2014, the unamortized cost of the unvested shares of restricted stock was $4.9 million, which is being amortized over periods from 0.5 to 2.4 years.

Preferred Dividends—During the three months ended September 30, 2014, the Board of Directors declared quarterly dividends of $0.5344 per share for our 8.55% Series A preferred stock, $0.5281 per share for our 8.45% Series D preferred stock, and $0.5625 per share for our 9.00% Series E preferred stock. During the three months ended September 30, 2013, the Board of Directors declared quarterly dividends of $0.5344 per share for our 8.55% Series A preferred stock, $0.5281 per share for our 8.45% Series D preferred stock and $0.5625 per share for our 9.00% Series E preferred stock.

Noncontrolling Interests in Consolidated Entities—Our noncontrolling entity partner, had an ownership interest of 15% in two hotel properties and a total carrying value of $801,000 and $1.0 million at September 30, 2014 and December 31, 2013, respectively. Our ownership interest is reported in equity in the consolidated balance sheets. Through November 19, 2013, we held a 75% ownership interest in two hotel properties in which our partner held a 25% ownership interest. These two hotel properties were contributed to Ashford Prime in connection with the Ashford Prime spin-off. Noncontrolling interests in consolidated entities were allocated losses of $124,000 and $146,000 for the three and nine months ended September 30, 2014, respectively, and loss of $175,000 and $890,000 for the three and nine months ended September 30, 2013, respectively.

On September 10, 2014, the Company entered into four Assignment, Assumption and Admission Agreements to effect the collective sale of 40% equity interests in two consolidated entities to Messrs. Monty Bennett and Rob Hays for an aggregate amount of $1.2 million. As of September 30, 2014, this amount was included in “Due from related parties”. All amounts were collected subsequent to September 30, 2014.The carrying amount of the 40% ownership interest is $560,000 at September 30, 2014.

## 13. Commitments and Contingencies

Restricted Cash—Under certain management and debt agreements for our hotel properties existing at September 30, 2014, escrow payments are required for insurance, real estate taxes, and debt service. In addition, for certain properties based on the terms of the underlying debt and management agreements, we escrow 4% to 6% of gross revenues for capital improvements.

Franchise Fees—Under franchise agreements for our hotel properties existing at September 30, 2014, we pay franchisor royalty fees between 3% and 6% of gross room revenue and, in some cases, food and beverage revenues. Additionally, we pay fees for marketing, reservations, and other related activities aggregating between 1% and 4% of gross room revenue and, in some cases, food and beverage revenues. These franchise agreements expire on varying dates between 2015 and 2035. When a franchise term expires, the franchisor has no obligation to renew the franchise. A franchise termination could have a material adverse effect on the operations or the underlying value of the affected hotel due to loss of associated name recognition, marketing support, and centralized reservation systems provided by the franchisor. A franchise termination could also have a material adverse effect on cash available for distribution to shareholders. In addition, if we breach the franchise agreement and the franchisor terminates a franchise prior to its expiration date, we may be liable for up to three times the average annual fees incurred for that property.

Our continuing operations incurred franchise fees of $10.0 million and $28.6 million for the three and nine months ended September 30, 2014, respectively, and $8.8 million and $24.2 million for the three and nine months ended September 30, 2013, respectively.

Management Fees—Under management agreements for our hotel properties existing at September 30, 2014, we pay a) monthly property management fees equal to the greater of $10,000 (CPI adjusted since 2003) or 3% of gross revenues, or in some cases 2% to 7% of gross revenues, as well as annual incentive management fees, if applicable, b) market service fees on approved capital improvements, including project management fees of up to 4% of project costs, for certain hotels, and c) other general fees at current market rates as approved by our independent directors, if required. These management agreements expire from 2015 through 2032, with renewal options. If we terminate a management agreement prior to its expiration, we may be liable for estimated management fees through the remaining term and liquidated damages or, in certain circumstances, we may substitute a new management agreement.

Income Taxes—We and our subsidiaries file income tax returns in the federal jurisdiction and various states. Tax years 2010 through 2013 remain subject to potential examination by certain federal and state taxing authorities.
In September 2010, the Internal Revenue Service ("IRS") completed an audit of one of our taxable REIT subsidiaries that leases two of our hotel properties for the tax year ended December 31, 2007. The IRS issued a notice of proposed adjustment based on Internal Revenue Code (IRC) Section 482 that reduced the amount of rent we charged the taxable REIT subsidiary ("TRS"). We owned a 75% interest in the hotel properties and the TRS at issue. In connection with the TRS audit, the IRS selected our REIT for audit for the same tax year. In October 2011, the IRS issued an income tax adjustment to the REIT as an alternative to the TRS proposed adjustment. The REIT adjustment was based on the REIT 100% federal excise tax on our share of the amount by which the rent was held to be greater than the arm's length rate. We strongly disagreed with the IRS's position and appealed our cases to the IRS Appeals Office. In determining amounts payable by our TRS subsidiaries under our leases, we engaged a third party to prepare a transfer pricing study which concluded that the lease terms were consistent with arms' length terms as required by applicable Treasury regulations. We believe the IRS transfer pricing methodologies applied in the audits contained flaws and that the IRS adjustments to the rent charged were inconsistent with the U.S. federal tax laws related to REITs and true leases. The IRS Appeals Office reviewed our cases in 2012. In July 2013, the IRS Appeals Office issued "no-change letters" for the TRS and the REIT indicating that the 2007 tax returns were accepted as filed and the examinations resulted in no deficiencies. The statute of limitations for IRS assessments relating to the 2007 tax returns expired on March 31, 2014.
In June 2012, the IRS completed audits of the same TRS and our REIT for the tax years ended December 31, 2008 and 2009. With respect to the 2009 tax year, the IRS did not propose any adjustments to the TRS or the REIT. For the 2008 tax year, the IRS issued notices of proposed adjustments for both the REIT and the TRS. The REIT adjustment was for $3.3 million of U.S. federal excise taxes and represented the amount by which the IRS asserted that the rent charged to the TRS was greater than the arms' length rate pursuant to IRC Section 482. The TRS adjustment was for $1.6 million of additional income which would have resulted in approximately $467,000 of additional U.S. federal income taxes and potential state income taxes of $83,000, net of federal benefit. The TRS adjustment represented the IRS' imputation of compensation to the TRS under IRC Section 482 for agreeing to be a party to the lessor entity's bank loan agreement. We owned a 75% interest in the lessor entity through November 19, 2013, when our interest was contributed to Ashford Prime in connection with the November 19, 2013 spin-off. We strongly disagreed with both of the IRS adjustments for the reasons noted under the 2007 audits, and in addition, we believe the IRS misinterpreted certain terms of the lease, third party hotel management agreements, and bank loan agreements. We appealed our cases to the IRS Appeals Office and the IRS assigned the same Appeals team that oversaw our 2007 cases to our 2008 cases. Our representatives attended Appeals conferences for the 2008 cases in August 2013 and in February, April and May of 2014. In August 2014, we reached a final settlement with the IRS Appeals Office resolving all issues that arose in the 2008 audits of the TRS and the REIT. In connection with this settlement, we agreed to an adjustment to reduce the TRS rent expense and thereby increase the TRS's taxable income by $660,000. However, due to net operating losses available for utilization by the TRS in the 2008 tax year and the expiration of the statute of limitations for the 2009 TRS tax year, the IRS Appeals Office issued "no-change letters" for the TRS and the REIT indicating that the examinations resulted in no deficiencies. U.S. federal income tax assessment statutes of limitations generally limit the time the IRS has to make assessments to within three years after a return is due or filed, whichever is later. As a result, the IRS requested and we agreed to extend the assessment statute of limitations for both the TRS and REIT for the 2008 tax year to December 31, 2014. Accordingly, the IRS will have the right to reopen the cases until December 31, 2014. However, the IRS typically only reopens closed cases in very limited circumstances, none of which we believe are applicable to our cases. We indemnified Ashford Prime for any potential losses resulting from the completion of this examination.
On November 19, 2013, we completed the spin-off of Ashford Prime. For federal income tax purposes, we recorded a gain as a result of the spin-off. Since Ashford Prime qualified for taxation as a REIT for 2013, that gain was

qualifying income for purposes of our 2013 REIT income tests.
If we sell or transfer the Marriott Crystal Gateway in Arlington, Virginia prior to July 2016, we will be required to indemnify the entity from which we acquired the property if, as a result of such transactions, such entity would recognize a gain for federal tax purposes.
In general, tax indemnities equal the federal, state, and local income tax liabilities the contributor or their specified assignee incurs with respect to the gain allocated to the contributor. The contribution agreements' terms generally require us to gross up tax indemnity payments for the amount of income taxes due as a result of such tax indemnities.
Potential Pension Liabilities—Upon our 2006 acquisition of a hotel property, certain employees of such hotel were unionized and covered by a multi-employer defined benefit pension plan. At that time, no unfunded pension liabilities existed. Subsequent to our acquisition, a majority of employees, who are employees of the hotel manager, Remington Lodging, petitioned the employer to withdraw recognition of the union. As a result of the decertification petition, Remington Lodging withdrew recognition of the

union. At the time of the withdrawal, the National Retirement Fund, the union's pension fund, indicated unfunded pension liabilities existed. The National Labor Relations Board ("NLRB") filed a complaint against Remington Lodging seeking, among other things, that Remington Lodging's withdrawal of recognition was unlawful. Pending the final determination of the NLRB complaint, including appeals, the pension fund entered into a settlement agreement with Remington Lodging on November 1, 2011, providing that (a) Remington Lodging will continue to make monthly pension fund payments pursuant to the collective bargaining agreement, and (b) if the withdrawal of recognition is ultimately deemed lawful, Remington Lodging will have an unfunded pension liability equal to $1.7 million minus the monthly pension payments made by Remington Lodging since the settlement agreement. To illustrate, if Remington Lodging—as of the date a final determination occurs—has made monthly pension payments equaling $100,000, Remington Lodging's remaining withdrawal liability shall be the unfunded pension liability of $1.7 million minus $100,000 (or $1.6 million). This remaining unfunded pension liability shall be paid to the pension fund in annual installments of $84,000 (but may be made monthly or quarterly, at Remington Lodging's election), which shall continue for the remainder of the twenty-(20)-year capped period, unless Remington Lodging elects to pay the unfunded pension liability amount earlier. We agreed to indemnify Remington Lodging for the payment of the unfunded pension liability as set forth in the settlement agreement.

Litigation—Palm Beach Florida Hotel and Office Building Limited Partnership, et al. v. Nantucket Enterprises, Inc. This litigation involves a landlord tenant dispute from 2008 in which the landlord, a subsidiary of the Company, claimed that the tenant had violated various lease provisions of the lease agreement and was therefore in default. The tenant counterclaimed and asserted multiple claims including that it had been wrongfully evicted. The litigation was instituted by the plaintiff in November 2008 in the Circuit Court of the Fifteenth Judicial Circuit, in and for Palm Beach County, Florida and proceeded to a jury trial on June 30, 2014. The jury entered its verdict awarding the tenant total claims of $10.8 million and ruling against the landlord on its claim of breach of contract. The landlord is preparing various post trial motions. Upon completion of all post trial motions, a final judgment will be entered. The landlord will ultimately appeal this case once the final judgment has been entered. As a result of the jury verdict, we have recorded pre-judgement interest of $683,000 for the three months ended September 30, 2014. Total expense was $11.5 million for the nine months ended September 30, 2014. The charge is included in other expenses in the consolidated statements of operations for the three and nine months ended September 30, 2014. During October 2014, there was a hearing held regarding the plaintiff's motion to recover legal fees. ThIt is the court ruled that as the prevailing party, the plaintiff was entitled to recover legal fees. The plaintiff has not yet given any indication to the amount, nor has any discovery been undertaken. As of September 30, 2014, no accrual has been made as a reasonable estimate of loss cannot be made.

We are engaged in other various legal proceedings which have arisen but have not been fully adjudicated. The likelihood of loss from these legal proceedings, based on definitions within contingency accounting literature, ranges from remote to reasonably possible and to probable. Based on estimates of the range of potential losses associated with these matters, management does not believe the ultimate resolution of these proceedings, either individually or in the aggregate, will have a material adverse effect on our consolidated financial position or results of operations. However, the final results of these legal proceedings cannot be predicted with certainty and if we fail to prevail in one or more of these legal matters, and the associated realized losses exceed our current estimates of the range of potential losses, our consolidated financial position or results of operations could be materially adversely affected in future periods.

## 14. Segment Reporting

We operate in one business segment within the hotel lodging industry: direct hotel investments. Direct hotel investments refer to owning hotels through either acquisition or new development. We report operating results of direct hotel investments on an aggregate basis as substantially all of our hotel investments have similar economic characteristics and exhibit similar long-term financial performance. As of September 30, 2014 and December 31, 2013, all of our hotel properties were domestically located.

15. Subsequent Events

In October 2014, we entered into a purchase and sale agreement to sell the Mobile Homewood Suites. The sale is expected to close on November 12, 2014. The carrying value of the land, building and furniture, fixtures and equipment was approximately $7.2 million at September 30, 2014.

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## ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the unaudited financial statements and notes thereto appearing elsewhere herein. This report contains forward-looking statements within the meaning of the federal securities laws. Ashford Hospitality Trust, Inc. (the "Company" or "we" or "our" or "us") cautions investors that any forward-looking statements presented herein, or which management may express orally or in writing from time to time, are based on management's beliefs and assumptions at that time. Throughout this report, words such as "anticipate," "believe," "expect," "intend," "may," "might," "plan," "estimate," "project," "should," "will," "result," and other expressions, which do not relate solely to historical matters, are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution investors that while forward-looking statements reflect our good-faith beliefs at the time such statements are made, said statements are not guarantees of future performance and are affected by actual events that occur after such statements are made. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events, or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which were based on results and trends at the time those statements were made, to anticipate future results or trends.

Some risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others:

- factors discussed in our Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 3, 2014, including those set forth under the sections titled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," and "Properties," as updated in our subsequent Quarterly Reports on Form 10-Q;
- general and economic business conditions affecting the lodging and travel industry;
- general volatility of the capital markets and the market price of our common stock;
- changes in our business or investment strategy;
- availability, terms, and deployment of capital;
- availability of qualified personnel;
- changes in our industry and the market in which we operate, interest rates, or general or local economic conditions; and
- the degree and nature of our competition.

Moreover, we operate in a very competitive and rapidly changing environment where new risks emerge from time to time. It is not possible for management to predict all such risks, nor can management assess the impact of all such risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as indicators of actual results.

### Overview

We will continue to seek ways to benefit from the cyclical nature of the hotel industry. We believe that in the prior cycle, hotel values and cash flows, for the most part, peaked in 2007, and we believe the hotel industry may exceed these cash flows and values during the next cyclical peak.

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

- acquisition of hotel properties that will be accretive to our portfolio;
- opportunistic disposition of hotel properties;
- investing in securities;
- pursuing capital market activities to enhance long-term shareholder value;
- preserving capital, enhancing liquidity, and continuing current cost-saving measures;

- implementing selective capital improvements designed to increase profitability;
- implementing effective asset management strategies to minimize operating costs and increase revenues;

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

Our investment strategies continue to focus on the upscale and upper-upscale segments within the lodging industry. We believe that as supply, demand, and capital-market cycles change, we will be able to shift our investment strategies to take advantage of new lodging-related investment opportunities as they develop. Our Board of Directors may change our investment strategies at any time without shareholder approval or notice.

Recent Developments

On January 24, 2014, we refinanced our $164.4 million loan due March 2014 with a $200.0 million loan due February 2016, with three one-year extension options, subject to the satisfaction of certain conditions. The new loan provides for an interest rate of LIBOR + 4.75%, with a LIBOR floor of 0.20%. The new loan continues to be secured by the same five hotels that secured the original loan including: the Embassy Suites Philadelphia Airport, Embassy Suites Walnut Creek, Sheraton Mission Valley San Diego, Sheraton Anchorage and the Hilton Minneapolis/St Paul Airport Mall of America. The refinance resulted in excess proceeds above closing costs and reserves of approximately $37.8 million.

On February 27, 2014, we announced that our Board of Directors unanimously approved a plan to spin-off our asset management business into a separate publicly traded company in the form of a taxable distribution. The distribution is expected to be completed in the fourth quarter of 2014, and we anticipate that (i) the distribution will be comprised of common stock in Ashford Inc., a newly formed company, (ii) Ashford Hospitality Advisors LLC (“Ashfor