ASHFORD HOSPITALITY TRUST INC
Form 10-Q
November 09, 2015

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, 2015

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	95,474,163
(Class)	Outstanding at November 5, 2015

ASHFORD HOSPITALITY TRUST, INC
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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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 amounts)

	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$ 185,981	$ 215,063
Marketable securities	—	63,217
Total cash, cash equivalents and marketable securities	185,981	278,280
Investments in hotel properties, net	4,305,918	2,128,611
Restricted cash	146,220	85,830
Accounts receivable, net of allowance of $585 and $241, respectively	53,037	22,399
Inventories	4,652	2,104
Note receivable, net of allowance of $7,196 and $7,522, respectively	3,695	3,553
Investment in unconsolidated entities	60,315	206,790
Deferred costs, net	34,952	12,588
Prepaid expenses	20,532	7,017
Derivative assets, net	5,572	182
Other assets	13,386	17,116
Intangible assets, net	11,393	—
Due from Ashford Prime OP, net	—	896
Due from affiliates	—	3,473
Due from third-party hotel managers	37,947	12,241
Total assets	$ 4,883,600	$ 2,781,080
Liabilities and Equity		
Liabilities:		
Indebtedness	$ 3,698,385	$ 1,954,103
Accounts payable and accrued expenses	141,404	71,118
Dividends payable	22,679	21,889
Unfavorable management contract liabilities	3,849	5,330
Due to Ashford Inc., net	9,893	8,202
Due to Ashford Prime OP, net	110	—
Due to related party, net	470	1,867
Due to third-party hotel managers	2,424	1,640
Intangible liabilities, net	16,593	—
Liabilities associated with marketable securities and other	—	6,201
Other liabilities	9,717	1,233
Total liabilities	3,905,524	2,071,583
Redeemable noncontrolling interests in operating partnership	114,741	177,064
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, 2015 and December 31, 2014	17	17
	95	95

Series D Cumulative Preferred Stock, 9,468,706 shares issued and outstanding at September 30, 2015 and December 31, 2014		
Series E Cumulative Preferred Stock, 4,630,000 shares issued and outstanding at September 30, 2015 and December 31, 2014	46	46
Common stock, $0.01 par value, 200,000,000 shares authorized, 119,146,765 and 124,896,765 shares issued, 95,474,163 and 89,439,624 shares outstanding at September 30, 2015 and December 31, 2014, respectively	1,192	1,249
Additional paid-in capital	1,704,920	1,706,274
Accumulated deficit	(735,087)	(1,050,323)
Treasury stock, at cost, 23,672,602 and 35,457,141 shares at September 30, 2015 and December 31, 2014, respectively	(108,640)	(125,725)
Total stockholders’ equity of the Company	862,543	531,633
Noncontrolling interests in consolidated entities	792	800
Total equity	863,335	532,433
Total liabilities and equity	$4,883,600	$2,781,080

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,	
	2015	2014	2015	2014
Revenue				
Rooms	$294,768	$164,946	$787,428	$489,427
Food and beverage	55,210	25,268	159,528	82,521
Other hotel revenue	14,097	7,044	35,402	20,054
Total hotel revenue	364,075	197,258	982,358	592,002
Advisory services revenue	—	3,127	—	9,266
Other	441	1,072	1,731	3,213
Total revenue	364,516	201,457	984,089	604,481
Expenses				
Hotel operating expenses:				
Rooms	65,402	37,368	169,290	108,152
Food and beverage	40,570	18,628	108,891	57,330
Other expenses	112,759	64,103	295,936	194,679
Management fees	13,324	7,799	36,366	23,618
Total hotel expenses	232,055	127,898	610,483	383,779
Property taxes, insurance, and other	17,997	10,421	47,167	28,958
Depreciation and amortization	58,741	28,338	149,221	81,022
Impairment charges	(111)	(105)	19,623	(310)
Transaction costs	392	533	5,850	616
Advisory services fee	10,788	—	31,827	—
Corporate, general, and administrative	3,772	15,104	11,732	47,290
Total expenses	323,634	182,189	875,903	541,355
Operating income	40,882	19,268	108,186	63,126
Equity in earnings (loss) of unconsolidated entities	(4,369)	2,831	(9,084)	6,794
Interest income	21	27	67	45
Gain on acquisition of PIM Highland JV	—	—	381,835	—
Other income (expense)	(314)	2,564	1,733	5,841
Interest expense and amortization of premiums and loan costs	(51,859)	(29,400)	(133,989)	(85,563)
Write-off of loan costs and exit fees	—	(8,319)	(4,767)	(10,353)
Unrealized gain (loss) on marketable securities	—	(2,875)	127	(3,818)
Unrealized loss on derivatives	(2,750)	(70)	(6,403)	(680)
Income (loss) from continuing operations before income taxes	(18,389)	(15,974)	337,705	(24,608)
Income tax expense	(1,721)	(292)	(4,635)	(820)
Income (loss) from continuing operations	(20,110)	(16,266)	333,070	(25,428)
Income from discontinued operations	—	62	—	88
Gain (loss) on sale of hotel properties, net of tax	599	—	(531)	3,491
Net income (loss)	(19,511)	(16,204)	332,539	(21,849)
(Income) loss from consolidated entities attributable to noncontrolling interest	(3)	124	8	146
Net (income) loss attributable to redeemable noncontrolling interests in operating partnership	3,193	2,585	(39,616)	4,234
Net income (loss) attributable to the Company	(16,321)	(13,495)	292,931	(17,469)
Preferred dividends	(8,490)	(8,490)	(25,471)	(25,471)

Net income (loss) attributable to common stockholders	$(24,811)	$(21,985)	$267,460	$(42,940)
Income (loss) per share - basic and diluted:				
Basic:				
Income (loss) from continuing operations attributable to common stockholders	$(0.26)	$(0.24)	$2.72	$(0.50)
Income from discontinued operations attributable to common stockholders	—	—	—	—
Net income (loss) attributable to common stockholders	$(0.26)	$(0.24)	$2.72	$(0.50)
Weighted average common shares outstanding – basic	95,888	90,322	97,061	86,961
Diluted:				
Income (loss) from continuing operations attributable to common stockholders	$(0.26)	$(0.24)	$2.63	$(0.50)
Income from discontinued operations attributable to common stockholders	—	—	—	—
Net income (loss) attributable to common stockholders	$(0.26)	$(0.24)	$2.63	$(0.50)
Weighted average common shares outstanding – diluted	95,888	90,322	115,560	86,961
Dividends declared per common share	$0.12	$0.12	$0.36	$0.36
Amounts attributable to common stockholders:				
Income (loss) from continuing operations, net of tax	$(16,321)	$(13,550)	$292,931	$(17,546)
Income from discontinued operations, net of tax	—	55	—	77
Preferred dividends	(8,490)	(8,490)	(25,471)	(25,471)
Net income (loss) attributable to common stockholders	$(24,811)	$(21,985)	$267,460	$(42,940)

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$(19,511)	$(16,204)	$332,539	$(21,849)
Other comprehensive income, net of tax:				
Reclassification to interest expense	—	—	—	100
Total other comprehensive income	—	—	—	100
Comprehensive income (loss)	(19,511)	(16,204)	332,539	(21,749)
Less: Comprehensive income (loss) attributable to noncontrolling interest in consolidated entities	(3)	124	8	146
Less: Comprehensive (income) loss attributable to redeemable noncontrolling interests in operating partnership	3,193	2,585	(39,616)	4,221
Comprehensive income (loss) attributable to the Company	$(16,321)	$(13,495)	$292,931	$(17,382)

See Notes to Consolidated Financial Statements.

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

	Preferred Stock Series A		Series D		Series E		Common Stock		Additional Paid In Capital	Accumulated Deficit	Treasury Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount
Balance at January 1, 2015	1,657	$17	9,469	$95	4,630	$46	124,897	$1,249	$1,706,274	$(1,050,323)	(35,457)	$(125,725
Repurchases of common shares	—	—	—	—	—	—	(5,750)	(57)	(51,693)	—	(53)	(543
Equity-based compensation	—	—	—	—	—	—	—	—	1,378	—	—	—
Forfeitures of restricted shares	—	—	—	—	—	—	—	—	57	—	(17)	(40
Issuance of restricted shares/units	—	—	—	—	—	—	—	—	(2,745)	—	1,183	2,745
Reissuance of treasury shares	—	—	—	—	—	—	—	—	96,159	—	10,530	14,711
Dividends declared- common shares	—	—	—	—	—	—	—	—	—	(35,733)	—	—
Dividends declared- preferred shares- Series A	—	—	—	—	—	—	—	—	—	(2,657)	—	—
Dividends declared- preferred shares- Series D	—	—	—	—	—	—	—	—	—	(15,001)	—	—
Dividends declared – preferred shares- Series E	—	—	—	—	—	—	—	—	—	(7,813)	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	—
Redemption/conversion of operating partnership units	—	—	—	—	—	—	—	—	1,333	—	141	212
Distribution of Ashford Prime OP units	—	—	—	—	—	—	—	—	(45,843)	—	—	—
Redemption value adjustment	—	—	—	—	—	—	—	—	—	83,509	—	—
Net income (loss)	—	—	—	—	—	—	—	—	—	292,931	—	—
Balance at September 30, 2015	1,657	$17	9,469	$95	4,630	$46	119,147	$1,192	$1,704,920	$(735,087)	(23,673)	$(108,640

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,	
	2015	2014
Cash Flows from Operating Activities		
Net income (loss)	$332,539	$(21,849)
Adjustments to reconcile net income (loss) to net cash flow provided by operating activities:		
Depreciation and amortization	149,221	81,262
Impairment charges	19,623	(310)
Amortization of loan costs and premiums, write-off of loan costs and exit fees	16,699	15,901
Amortization of intangibles, net	(117)	—
Bad debt expense	786	—
Equity in (earnings) loss of unconsolidated entities	9,084	(6,794)
Distribution of earnings from unconsolidated entities	996	746
Gain on hotel properties	(381,304)	(3,658)
Realized and unrealized gains on marketable securities	(1,776)	(1,535)
Purchases of marketable securities	(96,322)	(91,749)
Sales of marketable securities	95,963	79,201
Net settlement of trading derivatives	(170)	(505)
Payments for derivatives	(9,975)	—
Unrealized loss on derivatives	6,403	680
Equity-based compensation	2,436	16,964
Changes in operating assets and liabilities, exclusive of effect of acquisitions and dispositions of hotel properties:		
Restricted cash	(11,980)	(6,771)
Accounts receivable and inventories	(8,410)	(6,799)
Prepaid expenses and other assets	(8,337)	(4,564)
Accounts payable and accrued expenses	19,369	24,355
Due from affiliates	3,473	(446)
Due to/from related party	(3,923)	1,224
Due to/from third-party hotel managers	(6,300)	19,764
Due to/from Ashford Prime OP, net	774	(4,629)
Due to/from Ashford Inc., net	1,691	—
Other liabilities	2,829	2,381
Net cash provided by operating activities	133,272	92,869
Cash Flows from Investing Activities		
Proceeds from payments of note receivable	184	185
Proceeds from franchise agreement extension	2,500	—
Net proceeds from sales of hotel properties	7,502	22,882
Acquisition of hotel properties, net of cash acquired	(695,969)	(57,726)
Change in restricted cash related to improvements and additions to hotel properties	63,452	(39,283)
Improvements and additions to hotel properties	(114,926)	(91,483)
Due from Ashford Prime OP	—	13,635
Payments for initial franchise fees	(498)	(208)
Proceeds from property insurance	385	1,407
Net cash used in investing activities	(737,370)	(150,591)

Cash Flows from Financing Activities		
Borrowings on indebtedness	1,902,782	718,825
Repayments of indebtedness and capital leases	(1,277,606)	(509,152)
Payments of loan costs and exit fees	(38,338)	(20,165)
Payments of dividends	(68,602)	(63,528)
Repurchases of common shares	(52,293)	(458)
Payments for derivatives	(1,832)	(661)
Issuances of treasury stock	110,870	85,840
Distributions to noncontrolling interests in consolidated entities	—	(1,235)
Other	35	50
Net cash provided by financing activities	575,016	209,516
Net increase (decrease) in cash and cash equivalents	(29,082)	151,794
Cash and cash equivalents at beginning of period	215,063	128,780
Cash and cash equivalents at end of period	$185,981	$280,574

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	Nine Months Ended September 30,	
	2015	2014
Supplemental Cash Flow Information		
Interest paid	$116,463	$78,508
Income taxes paid	7,033	1,027
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Accrued but unpaid capital expenditures	$6,686	$5,096
Deferred compensation to be settled in shares	—	958
Dividend receivable from Ashford Prime OP	—	249
Transfer of debt to Ashford Prime OP	—	69,000
Investment in unconsolidated entity	59,338	—
Acquisition of land	3,100	—
Dividends declared but not paid	22,679	21,889
Sale of consolidated noncontrolling interest, settled subsequent to period end	—	1,200
Distribution of Ashford Prime OP units	55,633	—

See Notes to Consolidated Financial Statements.

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 full service hotels in the upscale and upper-upscale segments in domestic and international markets that have revenue per available room (“RevPAR”) generally less than twice the national average, and in all methods including direct real estate, equity, and debt. Other than Ashford Hospitality Trust, Inc.’s investment in Ashford Inc. common stock, we own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership (“Ashford Trust OP”), our operating partnership. Ashford OP General Partner LLC, a wholly-owned subsidiary of Ashford Trust, 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.
On December 14, 2014, we executed a Letter Agreement (the “Agreement”) with PRISA III Investments ("PRISA III"). The Agreement was approved by the investment committee of Prudential Real Estate Investors ("PREI"), the investment manager of PRISA III, and fully executed and delivered to us on December 15, 2014. Pursuant to the Agreement, we agreed to purchase and PRISA III agreed to sell (the “Transaction”) all of PRISA III’s right, title and interest in and to its approximately 28.26% interest in the PIM Highland Holding LLC (“PIM Highland JV”). As of March 6, 2015, we own 100% of the PIM Highland JV. See Notes 3, 6 and 7.
On July 13, 2015, we announced that our board of directors had declared the distribution (1) to our stockholders of approximately 4.1 million shares of common stock of Ashford Prime to be received by Ashford Trust upon redemption of Ashford Prime OP common units and (2) to the common unitholders of Ashford Trust OP of our remaining common units of Ashford Prime OP. The distribution occurred on July 27, 2015, to stockholders and common unitholders of record as of the close of business of the New York Stock Exchange on July 20, 2015. As a result of the distribution, we have no ownership interest in Ashford Prime.
We are advised by Ashford Hospitality Advisors LLC (“Ashford LLC”), a subsidiary of Ashford Inc., through an advisory agreement. All of the hotels in our portfolio are currently asset-managed by Ashford LLC. We do not have any employees. All of the services that might be provided by employees are provided to us by Ashford LLC.
As of September 30, 2015, we owned interests in the following assets:

- 130 consolidated hotel properties, including 128 directly owned and two owned through a majority-owned investment in a consolidated entity, which represent 27,605 total rooms (or 27,578 net rooms excluding those attributable to our partners);
- 86 hotel condominium units at WorldQuest Resort in Orlando, Florida;
- a 29.8% ownership in Ashford Inc. common stock with a carrying value of $5.9 million;
- a 52.4% ownership in AIM Real Estate Hedged Equity (U.S.) Fund, LP (the “REHE Fund”) with a carrying value of $54.5 million and
- a mezzanine loan with a carrying value of $3.7 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, 2015, our 130 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, 2015, 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 88 of our 130 hotel properties and WorldQuest Resort. Third-party management companies managed the remaining hotel properties. On September 17, 2015, Remington

Lodging and Ashford Inc. entered into an agreement pursuant to which Ashford Inc. will acquire all of the general partner interest and eighty percent of the limited partner interests in Remington Lodging. The acquisition is subject to the satisfaction of various conditions, including the approval of Ashford Inc.'s stockholders. The acquisition, if completed, will not impact our management agreements with Remington Lodging.

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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 2014 Annual Report to Stockholders on Form 10-K and Form 10-K/A filed with the Securities and Exchange Commission ("SEC") on March 2, 2015, and March 31, 2015, respectively.

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, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.
- On March 1, 2014, we completed the sale of the Pier House Resort to Ashford Prime ("Ashford Prime"). 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 period from January 1, 2014, through February 28, 2014.
- On February 6, 2015, we acquired the Lakeway Resort & Spa, on February 25, 2015, we acquired the Memphis Marriott East hotel, on April 29, 2015, we acquired the Hampton Inn & Suites Gainesville, on June 3, 2015, we acquired the Le Pavillon Hotel, on June 17, 2015, we acquired a 9-hotel portfolio, on July 1, 2015, we acquired the W Atlanta Downtown hotel, on July 23, 2015, we acquired the Le Meridien Minneapolis, and on August 5, 2015, we acquired the Hilton Garden Inn - Wisconsin Dells. The results of these hotels are included in our results of operations as of their respective acquisition dates.
- On March 6, 2015, we acquired the remaining approximate 28.26% interest in the 28 hotels of the PIM Highland JV. For the period January 1, 2014, through March 5, 2015, we have recorded equity in earnings for our ownership percentage. Beginning March 6, 2015, we consolidated the results of operations of these hotels.

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. We recorded an impairment charge of $19.9 million for the nine months ended September 30, 2015. See Note 4. No impairment charges were recorded for investments in hotel properties for the three months ended September 30, 2015 and for the three and nine months ended September 30, 2014.

Hotel Dispositions—Effective January 1, 2015, discontinued operations are defined as the disposal of components of an entity that represents strategic shifts that have (or will have) a major effect on an entity's operations and financial results. We believe that individual dispositions of hotel properties do not represent a strategic shift that has (or will have) a major effect on our operations and financial results as most will not fit the definition. This new guidance was implemented prospectively only. As such, hotel property dispositions that occurred prior to December 31, 2014, will continue to be reported as discontinued operations in the statements of operations for all applicable periods presented. See Note 4.

Assets Held for Sale and Discontinued Operations—We classify assets as held for sale when we have obtained a firm commitment from a buyer, and consummation of the sale is considered probable and expected within one year. The related operations of assets held for sale are reported as discontinued if the disposal is a component of an entity or group of components that represents a strategic shift that has (or will have) a major effect on our operations and cash flows.

Intangible Assets and Liabilities—Intangible assets and liabilities represent the assets and liabilities recorded on certain hotel properties' ground lease contracts that were below or above market rates at the date of acquisition. These assets and liabilities are amortized using the straight-line method over the remaining terms of the respective lease contracts.

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, 2015 and 2014.

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, 2015, 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, 2015 and 2014. Valuation adjustments of $111,000 and $326,000 on previously impaired notes were credited to impairment charges during the three and nine months ended September 30, 2015 and $105,000 and $310,000 during the three and nine months ended September 30, 2014, respectively.

Investments in Unconsolidated Entities—Investments in entities in which we have ownership interests ranging from 14.4% to 52.4% 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, 2015 and 2014.

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.

Marketable Securities—Marketable securities, including U.S. treasury bills, publicly traded equity securities and stocks, and put and call options on certain publicly traded securities. All of these investments are recorded at fair value. Put and call options are considered derivatives. The fair value of these investments has been determined 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. The cost of securities sold is determined by using the high cost method. Net investment income, including interest income (expense), dividends, realized gains or losses and costs of investment, is reported as a component of "other income (expense)." Unrealized gains and losses on these investments are reported as "unrealized gain (loss) on marketable securities" in the consolidated statements of operations.

Due to/from Affiliates—Due to/from affiliates represents current receivables and payables resulting primarily from advances of shared costs incurred. Both due to/from affiliates are generally settled within a period not exceeding one year.

Due to/from Related Party—Due to/from related party represents current receivables and payables resulting from transactions related to hotel management, project management and market services with a related party. Due to/from related party is generally settled within a period not exceeding one year.

Due to/from Ashford Prime OP, net—Due to/from Ashford Prime OP represents receivables and payables resulting primarily from reimbursable expenses between the two entities. In 2014, we had receivables related to advisory fees. Both due to/from Ashford Prime OP is generally settled within a period not exceeding one year.

Due to Ashford Inc., net—Due to Ashford Inc., net, represents current payables resulting primarily from advisory services fee, including reimbursable expenses. In 2014, due to Ashford Inc., net, included payables resulting primarily from costs associated with the spin-off of Ashford Inc. Due to Ashford Inc., net, is generally settled within a period not exceeding one year.

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. 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 were 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. As of March 6, 2015, we acquired the remaining approximate 28.26% of the PIM Highland JV which discontinued the aforementioned reimbursements.

Prior to the spin-off of Ashford Inc. in November 2014, we recognized advisory services revenue when services had been rendered. The quarterly base fee was equal to 0.7% per annum of the total market capitalization, as defined in the advisory agreement, of Ashford Prime, subject to certain minimums. Reimbursements for overhead and internal audit services were recognized when services had been rendered. We also recorded advisory services 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 in proportion to the requisite service period satisfied during the period, as well as an offsetting expense in an equal amount included in “corporate, general and administrative” expense.

Derivatives Instruments and Hedging—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. 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. We also purchase options on Eurodollar futures as a hedge against our cash flows. Eurodollar futures prices reflect market expectations for interest rates on three month Eurodollar deposits for specific dates in the future, and the final settlement price is determined by three-month LIBOR on the last trading day. Options on Eurodollar futures provide the ability to limit losses while maintaining the possibility of profiting from favorable changes in the futures prices. As the purchaser, our maximum potential loss is limited to the initial premium paid for the Eurodollar option contracts, while our potential gain has no limit. These exchange-traded options are centrally cleared, and a clearinghouse stands in between all trades to ensure that the obligations involved in the trades are made good.

All derivatives are recorded at fair value in accordance with the applicable authoritative accounting guidance. Interest rate derivatives, credit default swaps and futures contracts 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, 2015 and 2014, there was no ineffectiveness.

For non-hedge designated interest rate derivatives, credit default swaps and futures, 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.

The “Income Taxes” Topic of the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification addresses the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. The guidance requires us to determine whether tax positions we have taken or expect to take in a tax return are more likely than not to be sustained upon examination by the appropriate taxing authority based on the technical merits of the positions. Tax positions that do not meet the more likely than not threshold would be recorded as additional tax expense in the current period. We analyze all open tax years, as defined by the statute of limitations for each jurisdiction, which includes the federal jurisdiction and various states. We classify interest and penalties related to underpayment of income taxes as income tax expense. We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and cities. Tax years 2011 through 2014 remain subject to potential examination

by certain federal and state taxing authorities.

Reclassification—Certain amounts in the consolidated financial statements for the three and nine months ended September 30, 2014, have been reclassified for discontinued operations.

Recently Adopted Accounting Standards—In April 2014, the FASB issued accounting guidance that 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. The new accounting guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014. We adopted this accounting guidance on January 1, 2015. The adoption of this accounting guidance affects the presentation of our results of operations to the extent that the operations of disposed hotel properties are included in continuing operations.

Recently Issued Accounting Standards—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. In August 2015, the FASB issued ASU 2015-14, Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date, which defers the effective date to fiscal periods beginning after December 15, 2017. Early adoption is permitted for fiscal periods beginning after December 15, 2016. 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. ASU 2014-15 also requires certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. 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.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis (“ASU 2015-02”). The ASU amends the consolidation guidance for VIEs and general partners' investments in limited partnerships and modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. The ASU is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We are evaluating the effect that ASU 2015-02 will have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those fiscal years, with early adoption permitted. Upon adoption of the standard, we will reclassify deferred financing costs, net, from total assets to be shown net of debt in the liabilities section of our consolidated balance sheet. Adoption of this standard will only affect the presentation of our consolidated balance sheets and related disclosures.

In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (“ASU 2015-15”) to amend SEC paragraphs of the FASB Accounting Standards Codification pursuant to an SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting. The guidance in ASU 2015-03, described above, does not address

presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We do not expect that the adoption of this standard will have an impact on our financial position, results of operations or cash flows.
In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"), as part of its Simplification Initiative to provide guidance on management's responsibility to adjust provisional amounts recognized in a business combination and to provide related disclosure requirements.The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of

changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 applies to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period has an adjustment to provisional amounts recognized during the measurement period. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, 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, 2015	December 31, 2014
Land	$692,874	$358,514
Buildings and improvements	3,911,063	2,125,656
Furniture, fixtures, and equipment	378,486	211,777
Construction in progress	18,693	11,704
Condominium properties	12,065	12,065
Total cost	5,013,181	2,719,716
Accumulated depreciation	(707,263)	(591,105)
Investments in hotel properties, net	$4,305,918	$2,128,611

Acquisitions

Lakeway Resort & Spa

On February 6, 2015, we acquired a 100% interest in the Lakeway Resort & Spa (“Lakeway Resort”) in Austin, Texas, for total consideration of $33.5 million. The acquisition was funded with cash. We prepared a purchase price allocation of the assets acquired and liabilities assumed. The final purchase price allocation was completed with the assistance of a third party appraisal firm. This valuation is considered a Level 3 valuation technique. On April 17, 2015, we completed the financing of a $25.1 million mortgage loan, secured by the Lakeway Resort. See Note 7.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the acquisition (in thousands):

Land	$4,541
Buildings and improvements	24,703
Furniture, fixtures, and equipment	4,237
	33,481
Net other assets and liabilities	(382)

The results of operations of the hotel property have been included in our results of operations since February 6, 2015. For the three and nine months ended September 30, 2015, we have included total revenue of $3.4 million and $8.6 million, respectively, and net loss of $275,000 and $610,000, respectively, in our consolidated statements of operations. The unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.

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Memphis Marriott East Hotel
On February 25, 2015, we acquired a 100% interest in the Memphis Marriott East ("Memphis Marriott") hotel in Memphis, Tennessee for total consideration of $43.5 million. The acquisition was funded with cash. We prepared a purchase price allocation of the assets acquired and liabilities assumed. The final purchase price allocation was completed with the assistance of a third party appraisal firm. This valuation is considered a Level 3 valuation technique. On March 25, 2015, we completed the financing of a $33.3 million mortgage loan, secured by the Memphis Marriott. See Note 7.
The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the acquisition (in thousands):

Land	$6,210
Buildings and improvements	32,934
Furniture, fixtures, and equipment	4,350
	43,494
Net other assets and liabilities	34

The results of operations of the hotel property have been included in our results of operations since February 25, 2015. For the three and nine months ended September 30, 2015, we have included total revenue of $3.2 million and $7.6 million, respectively, and net income of $77,000 and $470,000, respectively, in our consolidated statements of operations. The unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.
PIM Highland JV Acquisition
As previously discussed in Note 1, we acquired the remaining approximate 28.26% interest in the PIM Highland JV. The transaction closed on March 6, 2015, for consideration of $250.1 million in cash. We recognized a gain of $381.8 million. Subsequent to the close of the transaction, $907.6 million of existing debt of the PIM Highland JV was refinanced. See Note 7. We prepared a purchase price allocation of the assets acquired and liabilities assumed. The final purchase price allocation was completed with the assistance of a third party appraisal firm subsequent to March 31, 2015. This resulted in adjustments to land, buildings and improvements, furniture, fixtures and equipment, and intangibles associated with above and below market leases. These adjustments resulted in a reduction of $1.1 million of depreciation expense for the three months ended June 30, 2015, which represents the decrease of depreciation from the date of the acquisition through March 31, 2015. These adjustments also resulted in a net reduction of approximately $16,000 of rent expense associated with intangible amortization of above and below market leases for the three months ended June 30, 2015, which represents the net decrease of rent expense from the date of acquisition through March 31, 2015. Rent expense is included in "other expenses" in the consolidated statements of operations. This valuation is considered a Level 3 valuation technique.
The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the acquisition (in thousands):

	Preliminary Allocations as of March 31, 2015	Adjustments	Final Allocations as of June 30, 2015
Land	$292,934	$(7,712)	$285,222
Buildings and improvements	1,351,293	38,182	1,389,475
Furniture, fixtures, and equipment	118,878	(35,958)	82,920
	1,763,105	(5,488)	1,757,617
Indebtedness	(1,120,082)	—	(1,120,082)
Intangible liabilities, net	(12,217)	5,488	(6,729)
Net other assets and liabilities	116,533	—	116,533

The results of operations of the hotel properties have been included in our results of operations since March 6, 2015. For the three and nine months ended September 30, 2015, we have included total revenue of $121.9 million and $293.2 million, respectively,

and net income of $547,000 and $10.8 million, respectively, in our consolidated statements of operations. The unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.

Hampton Inn & Suites - Gainesville

On April 29, 2015, we acquired a 100% interest in the Hampton Inn & Suites ("Hampton Inn Gainesville") in Gainesville, Florida for total consideration of $25.2 million. The acquisition was funded with cash. We prepared a purchase price allocation of the assets acquired and liabilities assumed. The final purchase price allocation was completed with the assistance of a third party appraisal firm. This valuation is considered a Level 3 valuation technique. On June 24, 2015, we completed the financing of a $21.2 million mortgage loan, secured by the Hampton Inn Gainesville. See Note 7.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the acquisition (in thousands):

Land	$3,695
Buildings and improvements	19,002
Furniture, fixtures, and equipment	1,139
	23,836
Intangible assets	1,412
Net other assets and liabilities	(150)

The results of operations of the hotel property have been included in our results of operations since April 29, 2015. For the three and nine months ended September 30, 2015, we have included total revenue of $1.5 million and $2.4 million, respectively, and net loss of $3,000 and net income of $200,000, respectively, in our consolidated statements of operations. The unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.

Le Pavillon Hotel

On June 3, 2015, we acquired a 100% interest in the Le Pavillon Hotel ("Le Pavillon") in New Orleans, Louisiana for total consideration of $62.5 million. The acquisition was funded with cash. Subsequent to the close of the transaction, we completed the financing of a $43.8 million mortgage loan. See Note 7. We prepared a purchase price allocation of the assets acquired and liabilities assumed. The final purchase price allocation was completed with the assistance of a third party appraisal firm. This valuation is considered a Level 3 valuation technique.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the acquisition (in thousands):

Land	$10,933
Buildings and improvements	46,761
Furniture, fixtures, and equipment	4,788
	62,482
Net other assets and liabilities	486

The results of operations of the hotel property have been included in our results of operations since June 3, 2015. For the three and nine months ended September 30, 2015, we have included total revenue of $2.7 million and $3.7 million, respectively, and net loss of $963,000 and $1.1 million, respectively, in our consolidated statements of operations. The unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.

Princeton Westin - Land Acquisition

On June 4, 2015, we acquired a 100% interest in the land underlying the Princeton Westin hotel in Princeton, New Jersey for total consideration of $6.5 million. The acquisition was funded with $3.4 million of cash and the surrender of $3.1 million of prepaid rent related to the lease agreement that is being terminated. We prepared a purchase price allocation of the assets acquired. The final purchase price allocation was completed with the assistance of a third party

appraisal firm. This valuation is considered a Level 3 valuation technique.

The following table summarizes the estimated fair value of the asset acquired in the acquisition (in thousands):

Land	$6,475

The Rockbridge Hotel Portfolio

On June 17, 2015, we acquired a 100% interest in a 9-hotel portfolio ("Rockbridge Portfolio") for total consideration of $225.0 million. The acquisition was funded with cash. Subsequent to the close of the transaction, we completed the financing on loans totaling $179.2 million. See Note 7. We prepared a purchase price allocation of the assets acquired and liabilities assumed. The final purchase price allocation was completed with the assistance of a third party appraisal firm. This valuation is considered a Level 3 valuation technique.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the acquisition (in thousands):

Land	$18,551
Buildings and improvements	190,952
Furniture, fixtures, and equipment	15,451
	224,954
Net other assets and liabilities	(298)

The results of operations of the hotel properties have been included in our results of operations since June 17, 2015. For the three and nine months ended September 30, 2015, we have included total revenue of $13.3 million and $15.4 million, respectively, and net loss of $385,000 and $375,000, respectively, in our consolidated statements of operations. The unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.

W Atlanta Downtown Hotel

On July 1, 2015, we acquired a 100% interest in the W Atlanta Downtown ("W Atlanta") in Atlanta, Georgia for total consideration of $56.8 million. Subsequent to the close of the transaction, we completed the financing of a $40.5 million mortgage loan. See Note 7. We have allocated the assets acquired and liabilities assumed on a preliminary basis using the estimated fair value information currently available. This valuation is considered a Level 3 valuation technique. We are in the process of obtaining necessary information and evaluating the values assigned to investment in hotel properties and property level working capital balances. 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	$2,353
Buildings and improvements	51,758
Furniture, fixtures, and equipment	2,626
	56,737
Net other assets and liabilities	1,358

The results of operations of the hotel properties have been included in our results of operations since July 1, 2015. For both the three and nine months ended September 30, 2015, we have included total revenue of $5.4 million and net loss of $421,000, in our consolidated statements of operations. The unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.

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Le Meridien Minneapolis Hotel
On July 23, 2015, we acquired a 100% interest in the Le Meridien Chambers Minneapolis ("Le Meridien Minneapolis") in Minneapolis, Minnesota for total consideration of $15.0 million. The acquisition was funded with cash. We have allocated the assets acquired and liabilities assumed on a preliminary basis using the estimated fair value information currently available. This valuation is considered a Level 3 valuation technique. We are in the process of obtaining necessary information and evaluating the values assigned to investment in hotel properties and property level working capital balances. 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	$2,752
Buildings and improvements	11,583
Furniture, fixtures, and equipment	665
	15,000
Net other assets and liabilities	215

The results of operations of the hotel properties have been included in our results of operations since July 23, 2015. For both the three and nine months ended September 30, 2015, we have included total revenue of $1.4 million and net income of $305,000, in our consolidated statements of operations. The unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.
Hilton Garden Inn - Wisconsin Dells
On August 5, 2015, we acquired a 100% interest in the Hilton Garden Inn - Wisconsin Dells in Wisconsin Dells, Wisconsin for total consideration of $15.2 million. The acquisition was funded with cash. Subsequent to the close of the transaction, we completed the financing of a $12.0 million mortgage loan. See Note 7. We have allocated the assets acquired and liabilities assumed on a preliminary basis using the estimated fair value information currently available. This valuation is considered a Level 3 valuation technique. We are in the process of obtaining necessary information and evaluating the values assigned to investment in hotel properties and property level working capital balances. 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	$867
Buildings and improvements	13,917
Furniture, fixtures, and equipment	401
	15,185
Net other assets and liabilities	(39)

The results of operations of the hotel properties have been included in our results of operations since August 5, 2015. For both the three and nine months ended September 30, 2015, we have included total revenue of $1.1 million and net income of $284,000, in our consolidated statements of operations. The unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.
Hotel Indigo - Atlanta

On October 15, 2015, we acquired a 100% interest in the Hotel Indigo ("Indigo Atlanta") in Atlanta, Georgia for total consideration of $26.4 million. As part of the transaction, we assumed a mortgage loan of approximately $16.0 million. See Note 17. The results of operations of the hotel property will be included in our results of operations beginning October 15, 2015. The

unaudited proforma results of operations as if the acquisition had occurred on January 1, 2014 are included in the pro forma table below.

Intangible Assets and Intangible Liabilities

The intangible assets and intangible liabilities of our new acquisitions noted above represent the above-market rate leases and below-market rate leases that were determined based on the comparison of rent due under the lease contracts assumed in the acquisitions to market rates for the remaining duration of the lease contracts and are amortized over their respective lease terms with expiration dates ranging from 2024 to 2102. For the three and nine months ended September 30, 2015, net amortization related to intangibles was a reduction in lease expense of $117,000.

Estimated future net amortization expense for intangible assets and intangible liabilities for each of the next five years is as follows (in thousands):

	Intangible Assets	Intangible Liabilities
2015	$49	$99
2016	197	395
2017	197	395
2018	197	395
2019	197	395
Thereafter	10,556	14,914
Total	$11,393	$16,593

Pro Forma Financial Results

The following table reflects the unaudited pro forma results of operations as if all acquisitions had occurred and the applicable indebtedness was incurred on January 1, 2014 and the removal of $5.8 million of non-recurring transaction costs and gain on acquisition of the PIM Highland JV of $381.8 million. The table also reflects the removal of equity in earnings in unconsolidated entities of $2.1 million for the three months ended September 30, 2014, respectively, and the removal of equity in loss in unconsolidated entities of $3.8 million and equity in earnings in unconsolidated entity of $6.1 million for the nine months ended September 30, 2015 and 2014, respectively. These adjustments are directly attributable to the transactions for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total revenue	$367,189	$355,565	$1,116,208	$1,058,486
Net loss	(18,703)	(21,483)	(61,803)	(39,570)

4. Hotel Dispositions and Impairment Charges

Effective January 1, 2015, discontinued operations according to ASU 2014-08 are defined as the disposal 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. As a result, operations of hotels sold subsequent to December 31, 2014, that are not considered strategic shifts, will continue to be reported in continuing operations, while gains/losses on disposition will be included in gain/loss on sale of property, after continuing operations. For transactions that have been classified as discontinued operations for periods prior to ASU 2014-08, we will continue to present the operating results as discontinued operations in the statements of operations for all applicable periods presented.

In March 2015, we completed the sale of the Hampton Inn hotel in Terre Haute, Indiana. We included operations for this hotel through the date of disposition in income (loss) from continuing operations as shown in the consolidated statements of operations for the nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, as disposition of this hotel does not represent a strategic shift in our business.

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The following table includes condensed financial information from this hotel (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total hotel revenue	$—	$795	$361	$2,015
Total hotel operating expenses	—	(485)	(308)	(1,362)
Operating income	—	310	53	653
Property taxes, insurance and other	—	(41)	(40)	(129)
Depreciation and amortization	—	(198)	(164)	(526)
Interest expense and amortization of loan costs	—	(35)	—	(292)
Income (loss) from continuing operations	—	36	(151)	(294)
Loss on sale of hotel property	—	—	(1,130)	—
Net income (loss)	—	36	(1,281)	(294)
Net (income) loss from continuing operations attributable to redeemable noncontrolling interests in operating partnership	—	(5)	147	38
Loss from continuing operations attributable to the Company	$—	$31	$(1,134)	$(256)

In June 2015, we announced a plan to commence the process to list for sale a portfolio of approximately 24 select-service hotels. While we have determined this announcement does not meet the criteria to classify the approximately 24 select-service hotels as held for sale, we have concluded that these properties were not to be held long-term. Based on our impairment assessment of individual properties, we recorded an impairment charge of $19.9 million related to two hotel properties in the second quarter of 2015. The impairment charge occurred at the Residence Inn in Las Vegas, Nevada and the SpringHill Suites in Gaithersburg, Maryland, in the amounts of $17.1 million and $2.8 million, respectively. The impairment charges were based on methodologies discussed in Note 2, which are considered Level 3 valuation techniques. Our estimates of fair value reduced the respective carrying values of the Residence Inn in Las Vegas, Nevada and the SpringHill Suites in Gaithersburg, Maryland to $37.5 million and $15.3 million, respectively.
In July 2015, as previously discussed, we announced that our board of directors declared the distribution (1) to our stockholders of approximately 4.1 million shares of common stock of Ashford Prime to be received by Ashford Trust upon redemption of Ashford Prime OP common units and (2) to the common unitholders of Ashford Trust OP of our remaining common units of Ashford Prime OP. As a result of the distribution, we no longer retain an interest in Ashford Prime. The previously deferred gain of $599,000 from the sale of the Pier House Resort in March 2014 was recognized during the three and nine months ended September 30, 2015.

In November 2014, we completed the sale of the Homewood Suites hotel in Mobile, Alabama. Since this hotel sold prior to our adoption of ASU 2014-08, we will continue to present the operating results as discontinued operations in the statements of operations for all applicable periods presented. The following table includes condensed financial information from this hotel for the three and nine months ended September 30, 2014 (in thousands):

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Hotel revenues	$688	$2,149
Hotel operating expenses	(464)	(1,394)
Operating income	224	755
Property taxes, insurance and other	(30)	(94)
Depreciation and amortization	(83)	(240)
Interest expense and amortization of loan costs	(49)	(333)
Income from discontinued operations before income taxes	62	88
Income tax expense	—	—
Income (loss) from discontinued operations	62	88
Income from discontinued operations attributable to redeemable noncontrolling interests in operating partnership	(7)	(11)
Income from discontinued operations attributable to the Company	$55	$77

5. Note Receivable

At September 30, 2015 and December 31, 2014, we had one mezzanine loan receivable with a net carrying value of $3.7 million and $3.6 million, respectively, net of a valuation allowance of $7.2 million and $7.5 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.

6. Investment in Unconsolidated Entities

We held 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 had 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, were subject to the approval of an executive committee, which was comprised of four persons with us and our partner each designating two of those persons. As a result, we utilized the equity accounting method with respect to the PIM Highland JV.

As previously discussed, pursuant to the Agreement, we agreed to purchase and PRISA III agreed to sell all of PRISA III's right, title and interest in and to its approximately 28.26% interest in the PIM Highland JV. As of March 6, 2015, we own 100% of the PIM Highland JV. Prior to the acquisition of the remaining approximate 28.26% interest in the PIM Highland JV, we had a carrying value of $144.8 million at December 31, 2014. The acquisition-date fair value of the previous equity interest was $522.8 million and is included in the measurement of the consideration transferred. We recognized a gain of $381.8 million as a result of remeasuring our equity interest in PIM Highland JV before the business combination. See Note 3 for unaudited pro forma results of operations and Note 7 for indebtedness related to the PIM Highland JV.

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The following tables summarize the consolidated balance sheet as of December 31, 2014 and the consolidated statements of operations for the period from January 1, 2015 through March 5, 2015 and the three and nine months ended September 30, 2014 of the PIM Highland JV (in thousands):

PIM Highland JV
Condensed Consolidated Balance Sheet

	December 31, 2014
Total assets	$1,394,806
Total liabilities	1,166,682
Members' equity	228,124
Total liabilities and members' equity	$1,394,806
Our ownership interest in PIM Highland JV	$144,784

PIM Highland JV
Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Period from January 1 to March 5,	Nine Months Ended September 30,
	2015	2014	2015	2014
Total revenue	$—	$118,659	$76,695	$353,562
Total operating expenses	—	(99,074)	(69,949)	(294,740)
Operating income	—	19,585	6,746	58,822
Interest income and other	—	17	17	43
Interest expense, amortization and write-offs of deferred loan costs, discounts and premiums and exit fees	—	(14,570)	(10,212)	(44,904)
Other expenses	—	—	—	(44)
Income tax expense	—	(1,163)	(1,222)	(2,816)
Net income (loss)	$—	$3,869	$(4,671)	$11,101
Our equity in earnings (loss) of PIM Highland JV	$—	$2,128	$(3,836)	$6,102

As previously discussed, we announced that our board of directors had declared the distribution (1) to our stockholders of approximately 4.1 million shares of common stock of Ashford Prime to be received by Ashford Trust upon redemption of Ashford Prime OP common units and (2) to the common unitholders of Ashford Trust OP of our remaining common units of Ashford Prime OP. The distribution occurred on July 27, 2015, to stockholders and common unitholders of record as of the close of business of the New York Stock Exchange on July 20, 2015. As a result of the distribution, we have no ownership interest in Ashford Prime. At December 31, 2014, we held a 14.9% ownership interest in Ashford Prime OP.

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The following tables summarize the condensed consolidated balance sheets as of December 31, 2014 and the condensed consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014, of Ashford Prime OP (in thousands):

Ashford Hospitality Prime Limited Partnership
Condensed Consolidated Balance Sheet

	December 31, 2014
Total assets	$1,229,508
Total liabilities	805,510
Partners' capital	423,998
Total liabilities and partners' capital	$1,229,508
Our ownership interest in Ashford Prime OP	$54,907

Ashford Hospitality Prime Limited Partnership
Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total revenue	$90,759	$84,784	$261,385	$230,557
Total operating expenses	(77,503)	(70,086)	(220,796)	(196,270)
Operating income	13,256	14,698	40,589	34,287
Equity in loss of unconsolidated entity	(3,399)	—	(4,219)	—
Interest income	12	10	21	20
Other income (expense)	(59)	—	1,233	—
Interest expense and amortization and write-offs of loan costs	(9,348)	(10,137)	(28,114)	(29,159)
Unrealized loss on investments	(5,621)	—	(5,621)	—
Unrealized gain (loss) on derivatives	(2,061)	3	(2,101)	(63)
Income tax expense	(62)	(185)	(371)	(622)
Net income (loss)	(7,282)	4,389	1,417	4,463
(Income) loss from consolidated entities attributable to noncontrolling interests	(1,090)	154	(1,068)	741
Net income (loss) attributable to Ashford Prime OP	$(8,372)	$4,543	$349	$5,204
Our equity in earnings (loss) of Ashford Prime OP	$(453)	$703	$874	$692

On February 27, 2014, we announced that our Board of Directors had approved a plan to spin-off our asset management business into a separate publicly traded company in the form of a taxable special distribution. The spin-off was completed on November 12, 2014, with a pro-rata taxable distribution of Ashford Inc.'s common stock to our common stockholders of record as of November 11, 2014. The distribution was comprised of one share of Ashford Inc. common stock for every 87 shares of our common stock held by our stockholders. In addition for each common unit of our operating partnership, the holder received a common unit of the operating limited liability company subsidiary of Ashford Inc. Each holder of common units of the operating limited liability company of Ashford Inc. could exchange up to 99% of those units for shares of Ashford Inc. stock at the rate of one share of Ashford Inc. common stock for every 55 common units. The exchange occurred on November 12, 2014, simultaneously with the distribution to common stockholders. Following the spin-off, we continue to hold approximately 598,000 shares of Ashford Inc. common stock for the benefit of our common stockholders, which represented an approximate 30.1% ownership interest in Ashford Inc. at the time of the spin-off. In connection with the spin-off, we entered into an advisory agreement with Ashford Inc.

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The following tables summarize the condensed balance sheets as of September 30, 2015 and December 31, 2014 and the condensed statements of operations for the three and nine months ended September 30, 2015 and 2014 of Ashford Inc. (in thousands):

Ashford Inc.
Condensed Balance Sheets

	September 30, 2015	December 31, 2014
Total assets	$173,821	$49,230
Total liabilities	45,444	33,912
Redeemable noncontrolling interests in Ashford LLC	286	424
Total stockholders' equity of Ashford Inc.	26,091	14,981
Noncontrolling interests in consolidated entities	102,000	(87)
Total equity	128,091	14,894
Total liabilities and equity	$173,821	$49,230
Our ownership interest in Ashford Inc.	$5,857	$7,099

Ashford Inc.
Condensed Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total revenue	$14,496	$3,020	$42,103	$9,245
Total operating expenses	(13,219)	(11,882)	(45,600)	(40,360)
Operating income (loss)	1,277	(8,862)	(3,497)	(31,115)
Unrealized loss on investment in unconsolidated entity	(1,954)	—	(3,020)	—
Unrealized loss on investments	(7,861)	—	(10,851)	—
Realized gain on investments	35	—	1,070	—
Other	385	—	599	—
Income tax expense	(1,036)	(9)	(1,500)	(44)
Net loss	(9,154)	(8,871)	(17,199)	(31,159)
Loss from consolidated entities attributable to noncontrolling interests	9,208	170	13,323	170
Net loss attributable to redeemable noncontrolling interests in Ashford LLC	—	—	10	—
Net income (loss) attributable to Ashford Inc.	$54	$(8,701)	$(3,866)	$(30,989)
Our equity in earnings (loss) of Ashford Inc.	$16	$—	$(1,242)	$—

In June 2015, for consideration of certain marketable securities, we obtained a 52.4% ownership interest in the REHE Fund. The REHE Fund is managed by Ashford Investment Management, LLC ("AIM"), an indirect subsidiary of Ashford Inc. As of and for the nine months ended September 30, 2015, the REHE Fund was consolidated by Ashford Inc. The REHE Fund invests substantially all of its assets in the AIM Real Estate Hedged Equity Master Fund, LP (the "Master Fund"), and as a consequence of our investment in the REHE Fund, we obtained an indirect interest in the Master Fund. Our maximum exposure of loss is limited to our investment in the REHE Fund.

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The following tables summarize the consolidated balance sheet as of September 30, 2015 and the consolidated statements of operations for the three and nine months ended September 30, 2015 of the REHE Fund (in thousands):

AIM Real Estate Hedged Equity (U.S.) Fund, LP
Condensed Balance Sheet

	September 30, 2015
Total assets	$103,954
Total liabilities	11
Partners' capital	103,943
Total liabilities and partners' capital	$103,954
Our ownership interest in the AIM REHE Fund	$54,458

AIM Real Estate Hedged Equity (U.S.) Fund, LP
Condensed Statements of Operations

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Total investment income	$508	$732
Net expenses	(205)	(235)
Net investment income	303	497
Net unrealized loss on investments	(7,839)	(10,829)
Net realized gain on investments	29	1,064
Net loss attributable to the REHE Fund	$(7,507)	$(9,268)
Our equity in loss of the REHE Fund	$(3,932)	$(4,880)

The Master Fund generally invests in publicly traded equity securities and put and call options on publicly traded equity securities. The REHE Fund records its investment in the Master Fund at its proportionate share of net assets. Income (loss) and distributions are allocated to the REHE Fund's partners based on their ownership percentage of the REHE Fund. Our equity in loss in the REHE Fund represents our share of the REHE Fund's loss from June 1, 2015 through September 30, 2015. We generally may redeem our investment in the REHE Fund on the last business day of the month after providing a 45-day written notice. As of September 30, 2015, we have no unfunded commitments. We are not obligated to pay any portion of the management fee or the performance allocation in favor of the REHE Fund's investment manager and general partner, respectively, but do share pro rata in all other applicable expenses of the REHE Fund.

Additionally, as of September 30, 2015 and December 31, 2014, 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.

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

Indebtedness	Collateral	Maturity	Interest Rate	September 30, 2015	December 31, 2014
Mortgage loan	10 hotels	July 2015	5.22%	$—	$145,278
Mortgage loan (4)	5 hotels	November 2015	Greater of 6.40% or LIBOR (1) + 6.15%	—	211,000
Mortgage loan	8 hotels	December 2015	5.70%	91,098	92,772
Mortgage loan	5 hotels	February 2016	5.53%	103,362	105,164
Mortgage loan	5 hotels	February 2016	5.53%	74,251	75,546
Mortgage loan (2)(6)	5 hotels	February 2016	LIBOR (1) + 4.75%	200,000	200,000
Mortgage loan (2)	7 hotels	August 2016	LIBOR (1) + 4.35%	301,000	301,000
Mortgage loan (2)	5 hotels	August 2016	LIBOR (1) + 4.38%	62,900	62,900
Mortgage loan (2)	1 hotel	August 2016	LIBOR (1) + 4.20%	37,500	37,500
Mortgage loan (2)	8 hotels	January 2017	LIBOR (1) + 4.95%	376,800	—
Mortgage loan (5)	24 hotels	April 2017	LIBOR (1) + 4.39%	1,070,560	—
Mortgage loan (2)	1 hotel	April 2017	LIBOR (1) + 4.95%	33,300	—
Mortgage loan	5 hotels	April 2017	5.95%	110,707	111,869
Mortgage loan	5 hotels	April 2017	5.95%	99,508	100,552
Mortgage loan	5 hotels	April 2017	5.95%	151,413	153,002
Mortgage loan	7 hotels	April 2017	5.95%	121,113	122,384
Mortgage loan (2)	1 hotel	May 2017	LIBOR (1) + 5.10%	25,100	—
Mortgage loan (2)	1 hotel	June 2017	LIBOR (1) + 5.10%	43,750	—
Mortgage loan (2)	8 hotels	July 2017	LIBOR (1) + 4.09%	144,000	—
Mortgage loan (2)	1 hotel	July 2017	LIBOR (1) + 4.15%	35,200	—
Mortgage loan (2)	1 hotel	July 2017	LIBOR (1) + 5.10%	40,500	—
Mortgage loan	1 hotel	January 2018	4.38%	98,471	—
Mortgage loan	2 hotels	January 2018	4.44%	107,703	—
Mortgage loan (7)	1 hotel	July 2018	LIBOR (1) + 4.50%	21,200	—
Mortgage loan (7)	1 hotel	August 2018	LIBOR (1) + 4.95%	12,000	—
Mortgage loan (3)	1 hotel	July 2019	LIBOR (1) + 3.75%	5,524	5,525
Mortgage loan	1 hotel	November 2020	6.26%	98,800	99,780
Mortgage loan	1 hotel	January 2024	5.49%	10,566	10,673
Mortgage loan	1 hotel	January 2024	5.49%	7,240	7,313
Mortgage loan	1 hotel	May 2024	4.99%	6,771	6,845
Mortgage loan	3 hotels	August 2024	5.20%	67,520	67,520
Mortgage loan	2 hotels	August 2024	4.85%	12,500	12,500
Mortgage loan	3 hotels	August 2024	4.90%	24,980	24,980
Mortgage loan	3 hotels	February 2025	4.45%	54,397	—
Mortgage loan	2 hotels		4.45%	24,276	—

		February 2025			
Mortgage loan	2 hotels	February 2025	4.45%	21,031	—
				3,695,041	1,954,103
Premiums				3,344	—
Total				$3,698,385	$1,954,103

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(1) LIBOR rates were 0.193% and 0.171% at September 30, 2015 and December 31, 2014, respectively.
(2) This mortgage loan has three one-year extension options subject to satisfaction of certain conditions.
(3) This mortgage loan provides for an interest rate of LIBOR + 3.75% with a 0.25% LIBOR floor for the first 18 months and is fixed at 4.0% thereafter.
(4) 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.
(5) This mortgage loan has four one-year extension options subject to satisfaction of certain conditions.
(6) This mortgage loan has a LIBOR floor of 0.20%.
(7) This mortgage loan has two one-year extension options subject to satisfaction of certain conditions.

On January 2, 2015, we refinanced two mortgage loans totaling $356.3 million. The refinance included our $211.0 million mortgage loan due November 2015 and the $145.3 million mortgage loan due July 2015. The new loans initially totaled $477.3

million. The new loans included a $376.8 million mortgage loan due January 2017, a $54.8 million mortgage loan due February 2025, a $24.5 million mortgage loan due February 2025 and a $21.2 million mortgage loan due February 2025. The $376.8 million mortgage loan is interest only and provides for a floating interest rate of LIBOR + 4.95%. The stated maturity is January 2017, with three one-year extension options. The three mortgage loans totaling $100.5 million due February 2025 bear interest at a fixed rate of 4.45%. The stated maturity date for each of these loans is February 2025. The new loans continue to be secured by the same 15 hotel properties.

On March 25, 2015, we completed the financing of a $33.3 million mortgage loan, secured by the Memphis Marriott. The mortgage loan is interest only and provides for a floating interest rate of LIBOR + 4.95%. The stated maturity is April 2017, with three one-year extension options.

As previously discussed in Note 1, pursuant to the Agreement, we acquired the remaining approximate 28.26% interest in the PIM Highland JV. The transaction closed on March 6, 2015. Subsequent to the close of the transaction, $907.6 million of assumed mortgage loans due March 2015 were refinanced with a $1.07 billion non-recourse mortgage loan due April 2017. The new loan provides for an interest rate of LIBOR plus 4.39%. Additionally we assumed two mortgage loans which include a $99.3 million mortgage due January 2018 with a fixed interest rate of 4.38% and a $108.6 million mortgage loan due January 2018 with a fixed interest rate of 4.44%.

On April 17, 2015, we completed the financing of a $25.1 million mortgage loan, secured by the Lakeway Resort. The mortgage loan is interest only and provides for a floating interest rate of LIBOR + 5.10%. The stated maturity is May 2017, with three one-year extension options.

On June 3, 2015, we completed the financing of a $43.8 million mortgage loan, secured by the Le Pavillon. The mortgage loan is interest only and provides for a floating interest rate of LIBOR + 5.10%. The stated maturity is June 2017, with three one-year extension options.

On June 17, 2015, we completed the financing of two mortgage loans totaling $179.2 million, secured by the Rockbridge Portfolio. The financing includes a $144.0 million mortgage loan, secured by eight of the nine hotel properties. The mortgage loan is interest only and provides for a floating interest rate of LIBOR + 4.09%. The stated maturity is July 2017, with three one-year extension options. The financing also includes a $35.2 million mortgage loan, secured by the Sheraton Ann Arbor hotel in Ann Arbor, Michigan. The mortgage loan is interest only and provides for a floating rate of LIBOR + 4.15%. The stated maturity is July 2017, with three one-year extension options.

On June 24, 2015, we completed the financing of a $21.2 million mortgage loan, secured by the Hampton Inn Gainesville. The mortgage loan is interest only and provides for a floating interest rate of LIBOR + 4.50%. The stated maturity is July 2018, with two one-year extension options.

On July 1, 2015, we completed the financing of a $40.5 million mortgage loan, secured by the W Atlanta. The mortgage loan is interest only and provides for a floating interest rate of LIBOR + 5.10%. The stated maturity is July 2017, with three one-year extension options.

On August 5, 2015, we completed the financing of a $12.0 million mortgage loan, secured by the Hilton Garden Inn - Wisconsin Dells. The mortgage loan is interest only and provides for a floating interest rate of LIBOR + 4.95%. The stated maturity is August 2018, with two one-year extension options.

During the three and nine months ended September 30, 2015, we recognized premium amortization of $365,000 and $976,000, respectively. The amortization of the premium is computed using a method that approximates the effective interest method, which is included in interest expense and amortization of premiums and loan costs in the consolidated statements of operations.

We are required to maintain certain financial ratios under various debt and related agreements. If we violate covenants in any debt or related agreement, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. 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 Ashford Trust OP, our operating partnership, and the liabilities of such

subsidiaries do not constitute the obligations of Ashford Trust or Ashford Trust OP. 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, 2015, we were in compliance in all material respects with all covenants or other requirements set forth in our debt and related agreements as amended.

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8. 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 stockholders 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.

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,	
	2015	2014	2015	2014
Income (loss) allocated to common stockholders:				
Income (loss) from continuing operations attributable to the Company	$(16,321)	$(13,550)	$292,931	$(17,546)
Less: Dividends on preferred stock	(8,490)	(8,490)	(25,471)	(25,471)
Less: Dividends on common stock	(11,281)	(10,661)	(35,216)	(30,930)
Less: Dividends on unvested restricted shares	(176)	(73)	(517)	(231)
Less: Undistributed income from continuing operations allocated to unvested shares	—	—	(2,713)	—
Undistributed income (loss)	(36,268)	(32,774)	229,014	(74,178)
Add back: Dividends on common stock	11,281	10,661	35,216	30,930
Distributed and undistributed income (loss) from continuing operations - basic	$(24,987)	$(22,113)	$264,230	$(43,248)
Add back: Income from continuing operations allocated to operating partnership units	—	—	39,616	—
Distributed and undistributed net income (loss) - diluted	$(24,987)	$(22,113)	$303,846	$(43,248)
Income from discontinued operations allocated to common stockholders:				
Income from discontinued operations attributable to the Company	$—	$55	$—	$77
Weighted average shares outstanding:				
Weighted average common shares outstanding - basic	95,888	90,322	97,061	86,961
Effect of assumed conversion of operating partnership units	—	—	18,499	—
Weighted average shares outstanding - diluted	95,888	90,322	115,560	86,961
Basic income (loss) per share:				
Income (loss) from continuing operations allocated to common stockholders per share	$(0.26)	$(0.24)	$2.72	$(0.50)
Income from discontinued operations allocated to common stockholders per share	—	—	—	—
Net income (loss) allocated to common stockholders per share	$(0.26)	$(0.24)	$2.72	$(0.50)
Diluted income (loss) per share:				
Income (loss) from continuing operations allocated to common stockholders per share	$(0.26)	$(0.24)	$2.63	$(0.50)

Income from discontinued operations allocated to common stockholders per share	—	—	—	—
Net income (loss) allocated to common stockholders per share	$(0.26)	$(0.24)	$2.63	$(0.50)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income (loss) from continuing operations allocated to common stockholders is not adjusted for:				
Income allocated to unvested restricted shares	$176	$73	$3,230	$231
Net loss attributable to noncontrolling interest in operating partnership units	(3,193)	(2,592)	—	(4,245)
Total	$(3,017)	$(2,519)	$3,230	$(4,014)
Weighted average diluted shares are not adjusted for:				
Effect of unvested restricted shares	543	148	440	111
Effect of assumed conversion of operating partnership units	18,581	19,926	—	19,725
Total	19,124	20,074	440	19,836

9. 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 primarily use interest rate derivatives and interest rate floors to hedge our debt and our cash flows. The interest rate derivatives currently include interest rate caps and interest rate floors. These derivatives are subject to master netting settlement arrangements. As of September 30, 2015, maturities on these instruments range from November 2015 to July 2020. To mitigate the nonperformance risk, we routinely rely on a third party's analysis of the creditworthiness of the counterparties, which supports our belief that the counterparties' nonperformance risk is limited. All derivatives are recorded at fair value.

For the nine months ended September 30, 2015, we entered into interest rate caps with notional amounts totaling $1.8 billion and strike rates ranging from 1.50% to 3.00%. These interest rate caps had effective dates from January 2015 to August 2015, and maturity dates from January 2017 to August 2018, for a total cost of $1.8 million. These instruments were not designated as a cash flow hedges. These instruments cap the interest rates on our mortgage loans with principal balances of $1.8 billion and maturity dates from January 2017 to August 2018. We also entered into interest rate floors with notional amounts totaling $6.0 billion and strike rates ranging from (0.25)% to zero percent. These interest rate floors had effective dates from April 2015 to July 2015, and maturity dates from April 2020 to July 2020, for a total cost of $9.4 million.

For the nine months ended September 30, 2014, we entered into interest rate caps with notional amounts totaling $736.1 million and strike rates ranging from 2.00% to 2.59%. These interest rate caps had effective dates from January 2014 to August 2014, and maturity dates from May 2015 to August 2016, for a total cost of $661,000. These instruments were not designated as cash flow hedges. At September 30, 2014, we had instruments capping the interest rates on our mortgage loans with principal balances totaling $601.4 million and maturity dates from February 2016 to August 2016.

Credit Default Swap Derivatives—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 was approximately $3.2 million as of September 30, 2015. Cash collateral is posted by us as well as our counterparties. 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 counterparties when the change in market value is over $250,000.

In April 2015, February 2015 and August 2011, we entered into credit default swap transactions for notional amounts of $45.0 million, $45.0 million and $100.0 million, respectively, to hedge financial and capital market risk for upfront costs of $1.1 million, $1.6 million and $8.2 million, respectively, that was subsequently returned to us as collateral by our counterparties. The

net carrying value of these credit default swaps was an asset of $783,000 and liability of $184,000 as of September 30, 2015 and December 31, 2014, 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 $992,000 and $797,000 for the three and nine months ended September 30, 2015 and an unrealized gain of $86,000 and an unrealized loss of $331,000 for the three and nine months ended September 30, 2014, respectively, which are included in “unrealized loss on derivatives” in the consolidated statements of operations.

Futures Contracts—In September 2015, we entered into Eurodollar futures for upfront costs, including commissions, of $743,000 and maturity dates ranging from September 2016 to March 2017. The carrying value of these futures contracts was an asset of $625,000 as of September 30, 2015, which are included in “derivative assets, net” in the consolidated balance sheets. No unrealized gain or loss was recognized for the three and nine ended September 30, 2015.

Marketable Securities and Liabilities Associated with Marketable Securities and other—We invested in publicly traded equity securities and put and call options on certain publicly traded equity securities, which were considered derivatives. At September 30, 2015, we had no investments in these derivatives. At December 31, 2014, we had investments in these derivatives totaling $654,000 and liabilities of $997,000.

10. 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 interest rate floors are determined by obtaining the last market bid prices from several counterparties for a similar investment as of the measurement date. The bids (the Level 2 inputs) used in the calculation of fair value are reviewed across each counterparty and are accessed individually to determine the relevant fair value of each floor.

Fair values of futures contracts are valued at their last reported settlement price as of the measurement date (Level 1 inputs). The fair value of futures contracts have minimal counterparty risk since futures contracts are exchange-traded

and the exchange’s clearinghouse, as the counterparty to all exchange-traded futures, guarantees the futures against default.
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).

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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, 2015, the LIBOR interest rate forward curve (Level 2 inputs) assumed an uptrend from 0.19% to 1.43% 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)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting[4]	Total	
September 30, 2015:						
Assets						
Derivative assets:						
Interest rate derivatives - non-hedge	$—	$4,164	$—	$—	$4,164	(1)
Credit default swaps	—	3,911	—	(3,128)	783	(1)
Futures contracts	625	—	—	—	625	(1)
Total	$625	$8,075	$—	$(3,128)	$5,572	
December 31, 2014:						
Assets						
Derivative assets:						
Interest rate derivatives - non-hedge	$—	$182	$—	$—	$182	(1)
Equity put options	653	—	—	—	653	(2)
Equity call options	1	—	—	—	1	(2)
Non-derivative assets:						
Equity securities	57,941	—	—	—	57,941	(2)
U.S. treasury securities	4,622	—	—	—	4,622	(2)
Total	63,217	182	—	—	63,399	
Liabilities						
Derivative liabilities:						
Credit default swaps	—	379	—	(563)	(184)	(3)
Short equity put options	(216)	—	—	—	(216)	(3)
Short equity call options	(781)	—	—	—	(781)	(3)
Non-derivative liabilities:						
Short equity securities	(17)	—	—	—	(17)	(3)
Margin account balance	(5,003)	—	—	—	(5,003)	(3)
Total	(6,017)	379	—	(563)	(6,201)	

Net	$57,200	$561	$—	$(563)	$57,198

(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, 2015 and 2014 (in thousands):

	Gain (Loss) Recognized in Income		Reclassified from Accumulated OCI into Interest Expense	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Assets				
Derivative assets:				
Interest rate derivatives	$(3,742)			