ASHFORD HOSPITALITY TRUST INC
Form 10-Q
August 07, 2013

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 June 30, 2013

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	80,566,496
(Class)	Outstanding at August 5, 2013

ASHFORD HOSPITALITY TRUST, INC
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2013

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2013	December 31, 2012
Assets	(Unaudited)	
Cash and cash equivalents	$250,464	$185,935
Marketable securities	24,521	23,620
Total cash, cash equivalents and marketable securities	274,985	209,555
Investment in hotel properties, net	2,938,552	2,872,304
Restricted cash	77,954	84,786
Accounts receivable, net of allowance of $364 and $265, respectively	37,540	35,116
Inventories	2,296	2,111
Notes receivable, net of allowance of $8,138 and $8,333, respectively	11,404	11,331
Investment in unconsolidated joint ventures	154,173	158,694
Deferred costs, net	14,186	17,194
Prepaid expenses	15,277	10,145
Derivative assets, net	26	6,391
Other assets	5,565	4,594
Intangible asset, net	2,676	2,721
Due from affiliates	2,369	1,168
Due from third-party hotel managers	55,155	48,619
Total assets	$3,592,158	$3,464,729
Liabilities and Equity		
Liabilities:		
Indebtedness	$2,381,932	$2,339,410
Accounts payable and accrued expenses	96,898	84,293
Dividends payable	20,585	18,258
Unfavorable management contract liabilities	8,847	11,165
Due to related party, net	782	3,725
Due to third-party hotel managers	2,038	1,410
Liabilities associated with marketable securities and other	1,666	1,641
Other liabilities	6,083	6,348
Total liabilities	2,518,831	2,466,250
Redeemable noncontrolling interests in operating partnership	182,289	151,179
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 June 30, 2013 and December 31, 2012	17	17
Series D Cumulative Preferred Stock, 9,468,706 shares issued and outstanding at June 30, 2013 and December 31, 2012	95	95
Series E Cumulative Preferred Stock, 4,630,000 shares issued and outstanding at June 30, 2013 and December 31, 2012	46	46

Common stock, $0.01 par value, 200,000,000 shares authorized, 124,896,765 shares issued, 79,316,147 and 68,150,617 shares outstanding at June 30, 2013 and December 31, 2012, respectively	1,249	1,249
Additional paid-in capital	1,866,293	1,766,168
Accumulated other comprehensive loss	(263)	(282)
Accumulated deficit	(835,308)	(770,467)
Treasury stock, at cost (45,580,618 shares and 56,746,148 shares at June 30, 2013 and December 31, 2012, respectively)	(142,245)	(164,884)
Total shareholders' equity of the Company	889,884	831,942
Noncontrolling interests in consolidated entities	1,154	15,358
Total equity	891,038	847,300
Total liabilities and equity	$3,592,158	$3,464,729

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
REVENUE	(Unaudited)		(Unaudited)	
Rooms	$205,740	$189,829	$389,209	$359,288
Food and beverage	43,234	41,943	82,884	81,650
Other	9,429	8,929	18,145	16,743
Total hotel revenue	258,403	240,701	490,238	457,681
Other	136	77	243	152
Total Revenue	258,539	240,778	490,481	457,833
EXPENSES				
Hotel operating expenses:				
Rooms	45,075	41,802	87,231	80,402
Food and beverage	27,616	26,950	54,791	53,951
Other expenses	73,356	71,171	141,648	136,265
Management fees	10,686	9,892	20,579	18,881
Total hotel operating expenses	156,733	149,815	304,249	289,499
Property taxes, insurance, and other	11,663	10,138	23,911	21,850
Depreciation and amortization	32,842	33,477	65,322	67,133
Impairment charges	(99)	(95)	(195)	(187)
Transaction costs	1,170	—	1,170	—
Corporate, general, and administrative	14,699	11,930	29,215	22,176
Total Operating Expenses	217,008	205,265	423,672	400,471
OPERATING INCOME	41,531	35,513	66,809	57,362
Equity in earnings (loss) of unconsolidated joint ventures	2,367	23	(4,521)	(10,281)
Interest income	13	22	49	54
Other income	310	6,703	6,132	14,317
Interest expense and amortization of loan costs	(36,026)	(36,284)	(71,406)	(71,160)
Write-off of loan costs and exit fees	—	—	(1,971)	—
Unrealized gain (loss) on marketable securities	(919)	1,628	1,782	3,413
Unrealized gain (loss) on derivatives	789	(7,458)	(6,360)	(17,399)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	8,065	147	(9,486)	(23,694)
Income tax expense	(465)	(1,366)	(1,069)	(2,245)
INCOME (LOSS) FROM CONTINUING OPERATIONS	7,600	(1,219)	(10,555)	(25,939)
Income (loss) from discontinued operations	—	(4,721)	—	(4,554)
NET INCOME (LOSS)	7,600	(5,940)	(10,555)	(30,493)
(Income) loss from consolidated entities attributable to noncontrolling interests	8	(54)	715	224
Net (income) loss attributable to redeemable noncontrolling interests in operating partnership	(502)	1,180	2,260	4,238
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	7,106	(4,814)	(7,580)	(26,031)
Preferred dividends	(8,491)	(8,490)	(16,981)	(16,822)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(1,385)	$(13,304)	$(24,561)	$(42,853)

INCOME (LOSS) PER SHARE - BASIC AND DILUTED:

Basic:				
Loss from continuing operations attributable to common shareholders	$(0.02)	$(0.14)	$(0.36)	$(0.58)
Income (loss) from discontinued operations attributable to common shareholders	—	(0.06)	—	(0.06)
Loss attributable to common shareholders	$(0.02)	$(0.20)	$(0.36)	$(0.64)
Weighted average common shares outstanding – basic	68,489	67,639	68,088	67,396
Diluted:				
Loss from continuing operations attributable to common shareholders	$(0.02)	$(0.14)	$(0.36)	$(0.58)
Income (loss) from discontinued operations attributable to common shareholders	—	(0.06)	—	(0.06)
Loss attributable to common shareholders	$(0.02)	$(0.20)	$(0.36)	$(0.64)
Weighted average common shares outstanding – diluted	68,489	67,639	68,088	67,396
Dividends declared per common share	$0.12	$0.11	$0.24	$0.22
Amounts attributable to common shareholders:				
Income (loss) from continuing operations	$7,106	$(678)	$(7,580)	$(22,043)
Income (loss) from discontinued operations	—	(4,136)	—	(3,988)
Preferred dividends	(8,491)	(8,490)	(16,981)	(16,822)
Net loss attributable to common shareholders	$(1,385)	$(13,304)	$(24,561)	$(42,853)

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Net income (loss)	$7,600	$(5,940)	$(10,555)	$(30,493)
Other comprehensive income (loss), net of tax:				
Change in unrealized loss on derivatives	—	(102)	(2)	(111)
Reclassification to interest expense	16	11	24	23
Total other comprehensive income (loss)	16	(91)	22	(88)
Comprehensive income (loss)	7,616	(6,031)	(10,533)	(30,581)
Less: Comprehensive (income) loss attributable to noncontrolling interests in consolidated entities	8	(54)	715	224
Less: Comprehensive (income) loss attributable to redeemable noncontrolling interests in operating partnership	(504)	1,191	2,257	4,249
Comprehensive income (loss) attributable to the Company	$7,120	$(4,894)	$(7,561)	$(26,108)

See Notes to Consolidated Financial Statements.

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

	Preferred Stock													
	Series A		Series D		Series E		Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		N In In C E
	Shares	Amounts	Shares	Amounts	Shares	Amounts	Shares	Amounts				Shares	Amounts	
Balance at January 1, 2013	1,657	$17	9,469	$95	4,630	$46	124,897	$1,249	$1,766,168	$(770,467)	$(282)	(56,746)	$(164,884)	$
Equity-based compensation	—	—	—	—	—	—	—	—	1,184	—	—	—	—	—
Forfeitures of restricted common shares	—	—	—	—	—	—	—	—	3	—	—	(1)	(3)	—
Issuance of restricted shares/units	—	—	—	—	—	—	—	—	(540)	—	—	198	540	—
Issuances of preferred stock	—	—	—	—	—	—	—	—	244	—	—	—	—	—
Purchases of Treasury Shares	—	—	—	—	—	—	—	—	—	—	—	(32)	(391)	—
Reissuances of Treasury Shares	—	—	—	—	—	—	—	—	103,398	—	—	11,000	22,493	—
Dividends declared- common stock	—	—	—	—	—	—	—	—	—	(17,718)	—	—	—	—
Dividends declared- Preferred Stock- Series A	—	—	—	—	—	—	—	—	—	(1,771)	—	—	—	—
Dividends declared- Preferred Stock- Series D	—	—	—	—	—	—	—	—	—	(10,001)	—	—	—	—
Dividends declared – Preferred Stock- Series E	—	—	—	—	—	—	—	—	—	(5,209)	—	—	—	—
Net unrealized loss on derivative instruments	—	—	—	—	—	—	—	—	—	—	(2)	—	—	—
Reclassification to interest	—	—	—	—	—	—	—	—	—	—	21	—	—	—

expense														
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(1
Redemption value adjustment	—	—	—	—	—	—	—	—	—	(22,562)	—	—	—	—
Unvested operating partnership units adjustment	—	—	—	—	—	—	—	—	(4,164)	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	—	(7,580)	—	—	—	(7
Balance at June 30, 2013	1,657	$17	9,469	$95	4,630	$46	124,897	$1,249	$1,866,293	$(835,308)	$(263)	(45,581)	$(142,245)	$

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30, 2013	2012
Cash Flows from Operating Activities	(Unaudited)	
Net loss	$(10,555)	$(30,493)
Adjustments to reconcile net loss to net cash flow provided by operating activities:		
Depreciation and amortization	65,322	68,539
Impairment charges	(195)	3,933
Amortization of loan costs, write-off of loan costs, and exit fees	5,755	2,678
Equity in loss of unconsolidated joint ventures	4,521	10,281
Income from financing derivatives	(6,215)	(15,935)
Gain on disposition of hotel properties	(76)	—
Realized and unrealized gains on marketable securities	(1,388)	(1,730)
Purchases of marketable securities	(14,255)	(32,739)
Sales of marketable securities	14,124	32,538
Net settlement of trading derivatives	229	(1,435)
Unrealized loss on derivatives	6,360	17,399
Equity-based compensation	12,893	9,369
Changes in operating assets and liabilities, exclusive of effect of hotel acquisition:		
Restricted cash	6,832	7,511
Accounts receivable and inventories	(4,071)	(12,070)
Prepaid expenses and other assets	(5,528)	(3,249)
Accounts payable and accrued expenses	13,698	14,817
Due to/from affiliates	(1,201)	(1,053)
Due to/from related parties	(2,943)	(239)
Due to/from third-party hotel managers	(5,908)	1,176
Other liabilities	(2,548)	(1,094)
Net cash provided by operating activities	74,851	68,204
Cash Flows from Investing Activities		
Proceeds from payments of notes receivable	122	123
Net proceeds from sales of hotel properties	307	—
Acquisition of hotel property, net of cash acquired	(88,204)	—
Improvements and additions to hotel properties	(44,850)	(44,086)
Net cash used in investing activities	(132,625)	(43,963)
Cash Flows from Financing Activities		
Borrowings on indebtedness	199,875	135,000
Repayments of indebtedness	(157,353)	(180,912)
Payments of loan costs	(2,876)	(3,666)
Payments of dividends	(37,509)	(35,044)
Purchases of treasury shares	(391)	—
Payments for derivatives	(36)	(137)
Cash income from derivatives	7,878	16,028
Issuance of common stock	—	—
Issuance of preferred stock	244	15,983

Issuances of treasury stock	125,891	—
Contributions from noncontrolling interests in consolidated entities	—	300
Distributions to noncontrolling interests in consolidated entities	(13,489)	—
Other	69	64
Net cash provided by (used in) financing activities	122,303	(52,384)
Net increase (decrease) in cash and cash equivalents	64,529	(28,143)
Cash and cash equivalents at beginning of period	185,935	167,609
Cash and cash equivalents at end of period	$250,464	$139,466
Supplemental Cash Flow Information		
Interest paid	$65,701	$68,873
Income taxes paid (refunded)	$936	$(204)
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Accrued interest added to principal of indebtedness	$—	$2,397

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

As of June 30, 2013, we owned interests in the following hotel properties (all located in the United States) and notes receivable:

- 95 consolidated hotel properties ("legacy hotel properties"), including 91 directly owned and four owned through majority-owned investments in consolidated entities, which represent 20,176 total rooms (or 19,915 net rooms excluding those attributable to our partners),
- 28 hotel properties owned through a 71.74% common equity interest and a 50.0% preferred equity interest in an unconsolidated joint venture (“PIM Highland JV”), which represent 8,084 total rooms (or 5,800 net rooms excluding those attributable to our joint venture partner),
- 92 hotel condominium units at WorldQuest Resort in Orlando, Florida, and
- a mezzanine loan with a carrying value of $3.3 million and a note with the city of Philadelphia, Pennsylvania of $8.1 million.

For federal income tax purposes, we have elected to be treated as a REIT, which imposes limitations related to operating hotels. As of June 30, 2013, our 95 legacy hotel properties were leased or owned by our wholly owned subsidiaries that are treated as taxable REIT subsidiaries for federal income tax purposes (collectively, these subsidiaries are referred to as “Ashford TRS”). Ashford TRS then engages third-party or affiliated hotel management companies to operate the hotels under management contracts. Hotel operating results related to these properties are included in the consolidated statements of operations. As of June 30, 2013, the 28 hotel properties owned by our unconsolidated joint venture, PIM Highland JV, are leased to its wholly owned subsidiary that is treated as a taxable REIT subsidiary for federal income tax purposes.

As of June 30, 2013, 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 54 of our 95 legacy hotel properties, 21 of the 28 PIM Highland JV hotel properties, and WorldQuest Resort. Third-party management companies managed the remaining hotel properties.

2. Significant Accounting Policies

Basis of Presentation – The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These consolidated financial statements include the accounts of Ashford Hospitality Trust, Inc., its majority-owned subsidiaries, and its majority-owned entities in which it has a controlling interest. All significant intercompany accounts and transactions between consolidated entities have been eliminated in these consolidated financial statements. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in our 2012 Annual Report to Shareholders on Form 10-K and Form 10-K/A filed with the Securities and Exchange Commission (“SEC”) on March 1, 2013 and March 12, 2013, 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 six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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- Marriott International, Inc. (“Marriott”) currently manages 32 of our legacy hotel properties. There were eight additional hotel properties managed by Marriott until May 31, 2013. For these 40 Marriott-managed hotels, the 2012 fiscal year reflects twelve weeks of operations in each of the first three quarters of the year and 16 weeks for the fourth quarter of the year. Beginning in 2013, the fiscal quarters end on March 31st, June 30th, September 30th and December 31st. Therefore, in any given quarterly period, period-over-period results will have different ending dates. For Marriott-managed hotels, the 2013 and 2012 fiscal years began on December 29, 2012 and December 31, 2011, respectively. The second quarters of 2013 and 2012 began on April 1, 2013 and March 24, 2012, respectively and ended on June 30, 2013 and June 15, 2012, respectively. As a result, the quarter ended June 30, 2013 contained 91 days while the quarter ended June 15, 2012 contained 84 days and the six month periods contained 184 days and 168 days, respectively. Prior results have not been adjusted.

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.

Investments in Hotel Properties, net – Hotel properties are generally stated at cost. However, four hotel properties contributed upon Ashford'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 Investment in Hotel Properties – Hotel properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of the hotel is measured by comparison of the carrying amount of the hotel to the estimated future undiscounted cash flows, which take into account current market conditions and our intent with respect to holding or disposing of the hotel. If our analysis indicates that the carrying value of the hotel is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the property's net book value exceeds its estimated fair value, or fair value, less cost to sell. In evaluating impairment of hotel properties, we make many assumptions and estimates, including projected cash flows, expected holding period, and expected useful life. Fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third-party appraisals, where considered necessary. No impairment charges were recorded for investment in hotel properties included in continuing operations for the three and six months ended June 30, 2013 and 2012.

Notes Receivable – Mezzanine loan financing, classified as notes receivable, represents loans held for investment and intended to be held to maturity. Accordingly, these notes are 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 six months ended June 30, 2013 and 2012.

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 June 30, 2013 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 Notes 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 six months ended June 30, 2013 and 2012. Valuation adjustments of $99,000 and $195,000 on previously impaired notes were credited to impairment charges during the three and six months ended June 30, 2013, respectively. Valuation adjustments of $95,000 and $187,000 on previously impaired notes were credited to impairment charges during the three and six months ended June 30, 2012, respectively.

Investments in Unconsolidated Joint Ventures – Investments in unconsolidated joint ventures, in which we have ownership interests ranging from 14.4% to 71.74%, are accounted for under the equity method of accounting by recording the initial investment and our percentage of interest in the joint ventures' net income (loss). We review investments in our unconsolidated joint ventures for impairment in each reporting period. 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 joint ventures. No such impairments were recorded in the three and six months ended June 30, 2013 and 2012.

Our investments in unconsolidated joint ventures are considered to be variable interests in the underlying entities. VIEs, 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 the VIE operates as designed, and (iii) an 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 our unconsolidated joint ventures' activities and operations, we are not considered to be the primary beneficiary of these joint ventures. Although we have a 71.74% majority ownership in PIM Highland JV, all major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs and incurring obligations and expenditures, are subject to the approval of an executive committee, which is comprised of four persons with us and our joint venture partner each designating two of those persons. As a result, we utilize the equity accounting method with respect to PIM Highland JV, which had a carrying value of $154.2 million at June 30, 2013 based on our share of the joint venture's equity. We will evaluate the 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.

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

During the three and six months ended June 30, 2012, discontinued operations included two hotel properties disposed of in 2012. The Doubletree Guest Suites hotel in Columbus, Ohio was sold in November 2012 and the Hilton El

Conquistador hotel in Tucson, Arizona was disposed of in December 2012. For the three and six months ended June 30, 2012, we recognized an impairment charge of $4.1 million on the Hilton El Conquistador hotel. There were no assets held for sale as of June 30, 2013 and December 31, 2012.

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

Revenue Recognition – Hotel revenues, including room, food, beverage, and ancillary revenues such as Internet access, laundry, parking, and space rentals, are recognized when services have been rendered. Interest income is recognized when earned.

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We discontinue recording interest and amortizing discounts/premiums when the contractual payment of interest and/or principal is not received when contractually due. Sales taxes collected from customers and submitted to taxing authorities are not recorded in revenue.

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

All derivatives are recorded at fair value in accordance with the applicable authoritative accounting guidance. Interest rate derivatives and credit default swaps are reported as “Derivative assets, net” or “Derivative liabilities” 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 loss on derivatives” in the consolidated statements of operations.

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

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

Recently Adopted Accounting Standards – In December 2011, the Financial Accounting Standards Board issued accounting guidance to require disclosures about offsetting assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master-netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements that are either netted on the balance sheet or subject to an enforceable master-netting agreement or similar arrangement. The new accounting guidance is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013 and the disclosures should be reported retrospectively for all comparative periods presented. We adopted this accounting guidance on January 1, 2013. The adoption of this accounting guidance did not have any impact on our financial position or results of operations.

Reclassifications – Certain amounts in the consolidated financial statements for the three and six months ended June 30, 2012 have been reclassified for discontinued operations. Additionally, certain amounts due from affiliates have been reclassified in the 2012 consolidated statement of cashflows. These reclassifications had no effect on our cash flows, equity, or net income (loss) previously reported.

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3. Summary of Significant Transactions

Refinanced our $141.7 Million Mortgage Loan - On February 26, 2013, we refinanced our $141.7 million loan due August 2013, which had an outstanding balance of $141.0 million, with a $199.9 million loan due February 2018. The new loan provides for an interest rate of LIBOR + 3.50%, with no LIBOR floor. The new loan continues to be secured by the Capital Hilton in Washington, DC and the Hilton La Jolla Torrey Pines in La Jolla, CA. We have a 75% ownership interest in the properties, with Hilton holding the remaining 25%. The excess loan proceeds above closing costs and reserves were distributed to the partners on a pro rata basis. Our share of the excess loan proceeds was approximately $40.5 million, which was added to our unrestricted cash balance.

Acquisition of the Pier House Resort - On May 14, 2013, we acquired a 100% interest in the Pier House Resort in Key West, Florida, for a contractual purchase price of $90.0 million in cash and incurred transaction costs of approximately $747,000, which are included in transaction costs. The purchase price has been allocated to the assets acquired and liabilities assumed on a preliminary basis using estimated fair value information currently available. We are in the process of evaluating the values assigned to investments in hotel properties, property level working capital balances and any potential intangibles. Thus, the balances recorded are subject to change and could result in adjustments. Any change to the amounts recorded within the investments in hotel properties will also impact the deprecation and amortization expense included on our consolidated statement of operations.

Planned Spin-off of an 8-hotel Portfolio - On June 17, 2013, we announced that our Board of Directors had approved a plan to spin-off an 80% ownership interest in an 8-hotel portfolio, totaling 3,146 rooms (2,912 net rooms excluding those attributable to our partners), to holders of our common stock in the form of a taxable special distribution. The distribution will be comprised of common stock in Ashford Hospitality Prime, Inc. (“Ashford Prime”), a newly formed company to which we plan to contribute the portfolio interests. This distribution will be made on a pro rata basis to holders of our common stock as of the distribution record date. A Form 10 registration statement has been filed with the SEC. The Form 10 registration statement must become effective before the spin-off can be completed. The spin-off is expected to take place by the end of the third quarter and completion is subject to third party consents, the execution of inter-company agreements, arrangement of adequate financing arrangements and other related matters. Ashford Prime is expected to qualify as a real estate investment trust (“REIT”) for federal income tax purposes, and intends to file an application to list its shares of common stock on the New York Stock Exchange, under the symbol “AHP.” The proposed transaction also includes options to purchase the Marriott Crystal Gateway in Arlington, Virginia and the Pier House Resort in Key West, Florida. Ashford Prime is expected to have an initial annual dividend policy of a minimum of $0.04 per Ashford Hospitality Trust, Inc. share equivalent.

The net assets of the eight hotel properties in the spin-off will be included in "assets held and used" until the spin-off is completed and the assets have been disposed of in accordance with the applicable accounting guidance. The operating results of the hotel properties in our consolidated statements of operations will be evaluated at the time the disposal is completed for inclusion in discontinued operations, in accordance with the applicable accounting guidance. The Marriott Crystal Gateway in Arlington, Virginia and the Pier House Resort in Key West, Florida are included in "assets held and used" and continuing operations as they do not meet the requirements to be classified as "held for sale" or "discontinued operations" in accordance with the applicable accounting guidance.

Common Stock Offering - On June 20, 2013, we commenced a follow-on public offering of 11.0 million shares of our common stock at $12.00 per share for gross proceeds of $132.0 million. The aggregate proceeds, net of the 4.25% underwriting discount and other expenses of $500,000, were approximately $125.9 million. The offering settled on

June 26, 2013. We granted the underwriters a 30-day option to purchase up to an additional 1.65 million shares of our common stock. Subsequent to June 30, 2013 the underwriters partially exercised their option and purchased an additional 1.25 million shares of our common stock at a price of $12.00 per share less the underwriting discount and dividend resulting in additional proceeds of approximately $14.2 million. See Note 17.

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4. Investments in Hotel Properties, net

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

	June 30, 2013	December 31, 2012
Land	$523,708	$483,242
Buildings and improvements	2,820,311	2,779,589
Furniture, fixtures, and equipment	215,204	224,907
Construction in progress	8,997	10,499
Condominium properties	12,590	12,690
Total cost	3,580,810	3,510,927
Accumulated depreciation	(642,258)	(638,623)
Investments in hotel properties, net	$2,938,552	$2,872,304

Acquisition of the Pier House Resort - On May 14, 2013 we acquired a 100% interest in the Pier House Resort in Key West, Florida, for a contractual purchase price of $90.0 million in cash. In connection with the acquisition, we incurred transaction costs of $747,000, which are included in transaction costs on the consolidated statement of operations. The purchase price has been allocated to the assets acquired and liabilities assumed on a preliminary basis using estimated fair value information currently available. We are in the process of evaluating the values assigned to investments in hotel properties, property level working capital balances and any potential intangibles. 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 the depreciation and amortization expense included on our consolidated statements of operations.

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

Land	$40,466
Buildings and improvements	40,466
Furniture, fixtures, and equipment	8,993
	89,925
Net other assets and liabilities	(1,691)
Total	$88,234

The results of operations of the hotel property have been included in our results of operations since May 14, 2013. For both the three and six months ended June 30, 2013, we have included revenues of $2.4 million and net income of $575,000 in the consolidated statements of operations.

The following table reflects the unaudited pro forma results of operations as if the acquisition had occurred on January 1, 2012, reflecting the addition of the Pier House operating results for the applicable periods from January 1, 2012 through May 13, 2013 and the removal of the $747,000 of transaction costs for the three and six months ended June 30, 2013 (in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,

	2013	2012	2013	2012
Total revenue	$261,248	$245,742	$499,142	$468,333
Income (loss) from continuing operations	$9,436	$513	$(6,132)	$(21,985)
Net income (loss)	$9,436	$(4,208)	$(6,132)	$(26,539)

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5. Notes Receivable

As of June 30, 2013 and December 31, 2012, we owned a note receivable of $8.1 million from the city of Philadelphia, Pennsylvania. The note bears interest at a rate of 12.85% and matures in 2018. The interest income recorded on the note receivable is offset against the interest expense recorded on the TIF loan of the same amount. See Note 8.

In addition, as of June 30, 2013 and December 31, 2012, we had one mezzanine loan receivable with a net carrying value of $3.3 million and $3.2 million, respectively, net of a valuation allowance of $8.1 million and $8.3 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 Joint Ventures

Effective March 10, 2011, PIM Highland JV, a 28 hotel portfolio, became an investment in unconsolidated joint venture when we acquired 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. Although we have majority ownership in PIM Highland JV, all major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs and incurring obligations and expenditures, are subject to the approval of an executive committee, which is comprised of four persons with us and our joint venture partner each designating two of those persons. As a result, we utilize the equity accounting method with respect to PIM Highland JV, which had a carrying value of $154.2 million and $158.7 million at June 30, 2013 and December 31, 2012, respectively.

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

The following tables summarize the consolidated balance sheets as of June 30, 2013 and December 31, 2012 and the consolidated statements of operations for the three and six months ended June 30, 2013 and 2012 of the PIM Highland JV (in thousands):

PIM Highland JV
Condensed Consolidated Balance Sheets

	June 30, 2013	December 31,

		2012
Total assets	$1,416,682	$1,417,204
Total liabilities	1,180,613	1,176,298
Members' equity	236,069	240,906
Total liabilities and members' equity	$1,416,682	$1,417,204
Our ownership interest in PIM Highland JV	$154,173	$158,694

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PIM Highland JV
Condensed Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Total revenue	$118,263	$112,802	$220,536	$206,054
Total expenses	(97,305)	(95,169)	(192,065)	(185,236)
Operating income	20,958	17,633	28,471	20,818
Interest income and other	23	33	41	64
Interest expense, amortization and write-offs of deferred loan costs, discounts and premiums and exit fees	(16,149)	(15,886)	(31,851)	(31,411)
Other expenses	—	(11)	—	(64)
Income tax expense	(782)	(1,089)	(1,498)	(2,463)
Net income (loss)	$4,050	$680	$(4,837)	$(13,056)
Our equity in earnings (loss) of PIM Highland JV	$2,367	$23	$(4,521)	$(10,281)

Additionally, as of June 30, 2013 and December 31, 2012, 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.

7. Assets Held for Sale and Discontinued Operations

During the three and six months ended June 30, 2012, discontinued operations included two hotel properties disposed of in 2012. The Doubletree Guest Suites hotel in Columbus, Ohio was sold in November 2012 and the Hilton El Conquistador hotel in Tucson, Arizona was disposed of in December 2012.

During the second quarter of 2012, we determined the hotel property in Tucson, Arizona was not to be held long-term as operating cash flows were not anticipated to cover principal and interest payments of the related debt secured by this hotel. In addition, regarding this loan, we ceased making principal and interest payments after July 31, 2012. Based on our assessment, which included marketing this hotel for sale, we concluded that the carrying value of this asset would not be recoverable. Consequently, in the second quarter of 2012, we recognized an impairment charge of $4.1 million related to this hotel, which reduced its carrying value to $19.7 million and represented our estimate of its fair value. The impairment charge was based on methodologies discussed in Note 2, which are considered Level 3 valuation techniques. There were no assets held for sale as of June 30, 2013 and December 31, 2012.

The following table summarizes the operating results of the discontinued hotel properties (in thousands):

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Hotel revenues	$8,355	$17,187
Hotel operating expenses	(7,557)	(14,751)
Operating income	798	2,436
Property taxes, insurance, and other	(387)	(830)

Depreciation and amortization	(707)	(1,406)
Impairment charges	(4,120)	(4,120)
Interest expense and amortization of loan costs	(305)	(634)
Loss from discontinued operations before income tax expense	(4,721)	(4,554)
Income tax expense	—	—
Loss from discontinued operations	(4,721)	(4,554)
Loss from discontinued operations attributable to redeemable noncontrolling interest in operating partnership	585	566
Loss from discontinued operations attributable to the Company	$(4,136)	$(3,988)

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8. Indebtedness

Indebtedness consisted of the following (in thousands):

Indebtedness	Collateral	Maturity	Interest Rate	June 30, 2013	December 31, 2012
Mortgage loan [5]	2 hotels	August 2013	LIBOR [1] + 2.75%	$—	$141,667
Mortgage loan [3]	5 hotels	March 2014	LIBOR [1] + 4.50%	170,682	173,180
Mortgage loan [2]	9 hotels	May 2014	LIBOR [1] + 6.50%	135,000	135,000
Mortgage loan	1 hotel	May 2014	8.32%	5,198	5,285
Senior credit facility [4]	Various	September 2014	LIBOR [1] + 2.75% to 3.50%	—	—
Mortgage loan [2]	5 hotels	November 2014	Greater of 6.40% or LIBOR [1] + 6.15%	211,000	211,000
Mortgage loan	8 hotels	December 2014	5.75%	103,523	104,680
Mortgage loan	10 hotels	July 2015	5.22%	151,044	152,513
Mortgage loan	8 hotels	December 2015	5.7%	95,910	96,907
Mortgage loan	5 hotels	February 2016	5.53%	109,154	110,169
Mortgage loan	5 hotels	February 2016	5.53%	90,522	91,364
Mortgage loan	5 hotels	February 2016	5.53%	78,412	79,140
Mortgage loan [6]	1 hotel	April 2017	5.91%	34,523	34,735
Mortgage loan	2 hotels	April 2017	5.95%	126,519	127,289
Mortgage loan	3 hotels	April 2017	5.95%	257,455	259,021
Mortgage loan	5 hotels	April 2017	5.95%	114,039	114,732
Mortgage loan	5 hotels	April 2017	5.95%	102,503	103,126
Mortgage loan	5 hotels	April 2017	5.95%	155,970	156,918
Mortgage loan	7 hotels	April 2017	5.95%	124,758	125,517
Mortgage loan [5]	2 hotels	February 2018	LIBOR [1] + 3.50%	199,275	—
TIF loan [6] [7]	1 hotel	June 2018	12.85%	8,098	8,098
Mortgage loan	1 hotel	November 2020	6.26%	101,916	102,562
Mortgage loan	1 hotel	April 2034	Greater of 6.00% or Prime + 1.00%	6,431	6,507
Total				$2,381,932	$2,339,410

[1] LIBOR rates were 0.195% and 0.209% at June 30, 2013 and December 31, 2012, respectively.
[2] These mortgage loans have three one-year extension options subject to satisfaction of certain conditions.
[3] This mortgage loan has a one-year extension option subject to satisfaction of certain conditions.
[4] Our borrowing capacity under our senior credit facility is $165.0 million. We have an option, subject to lender approval, to further expand the facility to an aggregate size of $225.0 million. We may use up to $10.0 million for standby letters of credit.
[5] On February 26, 2013, we refinanced our $141.7 million loan due August 2013 with a $199.9 million loan due February 2018. The new loan provides for an interest rate of LIBOR + 3.50%, with no LIBOR floor.
[6] These loans are collateralized by the same property.
[7] The interest expense from the TIF loan is offset against interest income recorded on the note receivable of the same amount. See Note 5.

On February 26, 2013, we refinanced our $141.7 million loan due August 2013, which had an outstanding balance of $141.0 million, with a $199.9 million loan due February 2018. The new loan provides for an interest rate of LIBOR + 3.50%, with no LIBOR floor. The new loan continues to be secured by the Capital Hilton in Washington, DC and the Hilton La Jolla Torrey Pines in La Jolla, CA. We have a 75% ownership interest in the properties, with Hilton holding the remaining 25%. The excess loan proceeds above closing costs and reserves were distributed to the partners on a pro rata basis. Our share of the excess loan proceeds was approximately $40.5 million, which was added to our unrestricted cash balance.

We are required to maintain certain financial ratios under various debt and derivative agreements. If we violate covenants in any debt or derivative agreement, we could be required to repay a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of certain debt covenants may result in us being unable to borrow unused amounts under a line of credit, even if repayment of some or all borrowings is not required. The assets of certain of our subsidiaries are pledged under non-recourse indebtedness and are not available to satisfy the debts and other obligations of Ashford or AHLP, our operating partnership, and the liabilities of such subsidiaries do not constitute the obligations of Ashford or AHLP. Presently, our existing financial covenants are non-recourse and primarily relate to maintaining minimum debt coverage ratios, maintaining an overall minimum net worth, maintaining a maximum loan-to-value ratio, and maintaining an overall minimum total assets. As of June 30, 2013, we were in compliance in all material respects with all covenants or other requirements set forth in our debt and related agreements as amended.

We have derivative agreements that incorporate the loan covenant provisions of our senior credit facility requiring us to maintain certain minimum financial covenant ratios with respect to our indebtedness. Failure to comply with these covenant provisions would result in us being in default on any derivative instrument obligations covered by the applicable agreement. At June 30, 2013, we were in compliance with all the covenants under the senior credit facility and the fair value of derivatives that incorporate our senior credit facility covenant provisions was a liability of $190,000.

9. Income (Loss) Per Share

Basic income (loss) per common share is calculated using the two-class method by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is calculated using the two-class method, or treasury stock method if more dilutive, and reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares, whereby such exercise or conversion would result in lower income per share. 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Loss from continuing operations allocated to common shareholders:				
Loss from continuing operations attributable to the Company	$7,106	$(678)	$(7,580)	$(22,043)
Less: Dividends on preferred stocks	(8,491)	(8,490)	(16,981)	(16,822)
Less: Dividends on common stock	(9,467)	(7,442)	(17,606)	(14,838)
Less: Dividends on unvested restricted shares	(51)	(56)	(112)	(160)
Undistributed loss from continuing operations	(10,903)	(16,666)	(42,279)	(53,863)
Add back: Dividends on common stock	9,467	7,442	17,606	14,838
Distributed and undistributed loss from continuing operations - basic and diluted	$(1,436)	$(9,224)	$(24,673)	$(39,025)
Income from discontinued operations allocated to common shareholders:				
Income from discontinued operations - basic and diluted	$—	$(4,136)	$—	$(3,988)
Weighted average shares outstanding:				
Weighted average shares outstanding - basic and diluted	68,489	67,639	68,088	67,396
Basic loss per share:				
Loss from continuing operations allocated to common shareholders per share	$(0.02)	$(0.14)	$(0.36)	$(0.58)
Income from discontinued operations allocated to common shareholders per share	—	(0.06)	—	(0.06)
Net loss allocated to common shareholders per share	$(0.02)	$(0.20)	$(0.36)	$(0.64)
Diluted loss per share:				
Loss from continuing operations allocated to common shareholders per share	$(0.02)	$(0.14)	$(0.36)	$(0.58)

Income from discontinued operations allocated to common shareholders per share	—	(0.06)	—	(0.06)
Net loss allocated to common shareholders per share	$(0.02)	$(0.20)	$(0.36)	$(0.64)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Loss from continuing operations allocated to common shareholders is not adjusted for:				
Income allocated to unvested restricted shares	$51	$56	$112	$160
Income (loss) attributable to noncontrolling interest in operating partnership units	502	(1,180)	(2,260)	(4,238)
Total	$553	$(1,124)	$(2,148)	$(4,078)
Weighted average diluted shares are not adjusted for:				
Effect of unvested restricted shares	106	101	126	266
Effect of assumed conversion of operating partnership units	18,894	17,577	18,430	17,129
Total	19,000	17,678	18,556	17,395

10. Derivative Instruments and Hedging

Interest Rate Derivatives – We are exposed to risks arising from our business operations, economic conditions, and financial markets. To manage these risks, we use interest rate derivatives to hedge our debt and potentially improve cash flows. We also use non-hedge derivatives to capitalize on the historical correlation between changes in LIBOR and RevPAR. Interest rate derivatives may include interest rate swaps, caps, floors and flooridors. Our derivatives are subject to master-netting settlement arrangements. The maturities on these instruments range from May 2014 to March 2015. To mitigate nonperformance risk, we routinely rely on a third party's analysis of the creditworthiness of the counterparties, which supports our belief that the counterparties' nonperformance risk is limited. All derivatives are recorded at fair value.

Credit Default Swap Derivatives – In August 2011, we entered into credit default swap transactions for a notional amount of $100.0 million to hedge financial and capital market risk for an upfront cost of $8.2 million that was subsequently returned to us as collateral by our counterparty. A credit default swap is a derivative contract that functions like an insurance policy against the credit risk of an entity or obligation. The seller of protection assumes the credit risk of the reference obligation from the buyer (us) of protection in exchange for annual premium payments. If a default or a loss, as defined in the credit default swap agreements, occurs on the underlying bonds, then the buyer of protection is protected against those losses. The only liability for us, the buyer, is the annual premium and any change in value of the underlying CMBX index (if the trade is terminated prior to maturity). For all CMBX trades completed to date, we were the buyer of protection. Credit default swaps are subject to master-netting settlement arrangements and credit support annexes. Assuming the underlying bonds pay off at par over their remaining average life, our total exposure for these trades is approximately $8.5 million. Cash collateral is posted by us as well as our counterparty. We offset the fair value of the derivative and the obligation/right to return/reclaim cash collateral. The change in market value of credit default swaps is settled net through posting cash collateral or reclaiming cash collateral between us and our counterparty when the change in market value is over $250,000. Credit default swaps had a net carrying value of a liability of $190,000 as of June 30, 2013, which is included in "Liabilities associated with marketable securities and other" in the consolidated balance sheets. At December 31, 2012, credit default swaps had a carrying value of an asset of $170,000, which is included in "Derivative assets, net" in the consolidated balance sheets. We recognized unrealized gains (losses) of $773,000 and $(131,000) for the three and six months ended June 30, 2013, respectively, and $487,000 and $(1.7) million for the three and six months ended June 30, 2012, respectively, that are included in "Unrealized gain (loss) on derivatives" in the consolidated statements of operations.

Marketable Securities and Liabilities Associated with Marketable Securities and other – We invest in public securities, including stocks and put and call options, which are considered derivatives. At June 30, 2013, we had investments in these derivatives totaling $862,000 and liabilities of $79,000. At December 31, 2012, we had investments in these derivatives totaling $612,000 and liabilities of $299,000.

11. Fair Value Measurements

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

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

Fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts/payments and the discounted expected variable cash payments/receipts. Fair values of interest rate caps, floors, flooridors, and corridors are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below the strike rates of the floors or rise above the strike rates of the caps. Variable interest rates used in the calculation of projected receipts and payments on the swaps, caps, and floors are based on an expectation of future interest rates derived from observable market interest rate curves (LIBOR forward curves) and volatilities (Level 2 inputs). We also incorporate credit valuation adjustments (Level 3 inputs) to appropriately reflect both our own nonperformance risk and the respective counterparty’s nonperformance risk.

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

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

When a majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. However, when valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties, which we consider significant (10% or more) to the overall valuation of our derivatives, the derivative valuations in their entirety are classified in Level 3 of the fair value hierarchy. Transfers of inputs between levels are determined at the end of each reporting period. In determining the fair values of our derivatives at June 30, 2013, the LIBOR interest rate forward curve (Level 2 inputs) assumed an uptrend from 0.19% to 0.32% 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.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Counterparty and Cash Collateral Netting (4)	Total	
June 30, 2013:					
Assets					
Derivative Assets:					
Interest rate derivatives - non-hedges	$—	$24	$—	$24	(1)
Interest rate derivatives - hedges	—	2	—	2	(1)
Equity put and call options	862	—	—	862	(2)
Non-derivative Assets:					
Equity and US treasury securities	23,659	—	—	23,659	(2)
Total	24,521	26	—	24,547	
Liabilities					
Derivative Liabilities:					
Credit default swaps	—	2,802	(2,992)	(190)	(3)
Short-equity call options	(79)	—	—	(79)	(3)
Non-derivative Liabilities:					
Margin account balance	(1,397)	—	—	(1,397)	(3)
Total	(1,476)	2,802	(2,992)	(1,666)	
Net	$23,045	$2,828	$(2,992)	$22,881	
December 31, 2012:					
Assets					
Derivative Assets:					
Interest rate derivatives - non-hedges	$—	$10,617	$—	$10,617	(1)
Interest rate derivatives - hedges	—	4	—	4	(1)
Credit default swaps	—	2,933	(2,763)	170	(1)
Equity put and call options	612	—	—	612	(2)
Non-derivative Assets:					
Equity and US treasury securities	23,008	—	—	23,008	(2)
Total	23,620	13,554	(2,763)	34,411	
Liabilities					
Derivative Liabilities:					
Interest rate derivatives - non-hedges	—	(4,400)	—	(4,400)	(1)
Short-equity put options	(7)	—	—	(7)	(3)
Short-equity call options	(292)	—	—	(292)	(3)
Non-derivative Liabilities:					
Margin account balance	(1,342)	—	—	(1,342)	(3)
Total	(1,641)	(4,400)	—	(6,041)	

Net	$21,979	$9,154	$(2,763)	$28,370

(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.

Effect of Fair-Value-Measured Assets and Liabilities on Consolidated Statements of Operations

The following tables summarizes the effect of fair-value-measured assets and liabilities on the consolidated statements of operations for the three and six months ended June 30, 2013 and 2012 (in thousands):

	Gain (Loss) Recognized In Income		Interest Savings (Cost) Recognized In Income		Reclassified from Accumulated OCI into Interest Expense	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2013	2012	2013	2012	2013	2012
Assets						
Derivative Assets:						
Interest rate derivatives	$16	$(13,034)	$—	$13,477	$16	$11
Equity put and call options	(18)	(963)	—	—	—	—
Non-derivative Assets:						
Equity and US treasury securities	(1,466)	1,391	—	—	—	—
Total	(1,468)	(12,606)	—	13,477	16	11
Liabilities						
Derivative Liabilities:						
Interest rate derivatives	—	5,089	—	(5,511)	—	—
Credit default swaps	750	487	—	—	—	—
Short-equity put options	—	317	—	—	—	—
Short-equity call options	670	(420)	—	—	—	—
Total	1,420	5,473	—	(5,511)	—	—
Net	$(48)	$(7,133)	$—	$7,966	$16	$11
Total combined						
Interest rate derivatives	$16	$(7,945)	$—	$7,966	$16	$11
Credit default swaps	773	487	—	—	—	—
Total derivatives	789 (1)	(7,458) (1)	— (2)	7,966 (2)	16	11
Unrealized gain (loss) on marketable securities	(919) (3)	1,628 (3)	—	—	—	—
Realized gain (loss) loss on marketable securities	82 (2) (4)	(1,303) (2)	—	—	—	—
Net	$(48)	$(7,133)	$—	$7,966	$16	$11

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	Gain (Loss) Recognized In Income		Interest Savings (Cost) Recognized In Income		Reclassified from Accumulated OCI into Interest Expense	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012	2013	2012
Assets						
Derivative Assets:						
Interest rate derivatives	$(10,629)	$(22,433)	$10,639	$26,830	$24	$23
Put and call options	186	(2,330)	—	—	—	—
Non-derivative Assets:						
Equity and US treasury securities	1,110	4,015	—	—	—	—
Total	(9,333)	(20,748)	10,639	26,830	24	23
Liabilities						
Derivative Liabilities:						
Interest rate derivatives	4,400	6,742	(4,424)	(10,895)	—	—
Credit default swaps	(175)	(1,708)	—	—	—	—
Short-equity put options	7	830	—	—	—	—
Short-equity call options	85	(783)	—	—	—	—
Non-derivative Liabilities:						
Short-equity securities		—	—	—	—	—
Total	4,317	5,081	(4,424)	(10,895)	—	—
Net	$(5,016)	$(15,667)	$6,215	$15,935	$24	$23
Total combined						
Interest rate derivatives	$(6,229)	$(15,691)	$6,215	$15,935	$24	$23
Credit default swaps	(131)	(1,708)				
Total derivatives	(6,360) (1)	(17,399) (1)	6,215 (2)	15,935 (2)	24	23
Unrealized gain on marketable securities	1,782 (3)	3,413 (3)	—	—	—	—
Realized loss on marketable securities	(438) (2) (4)	(1,681) (2)	—	—	—	—
Net	$(5,016)	$(15,667)	$6,215	$15,935	$24	$23

(1) Reported as “Unrealized loss on derivatives” in the consolidated statements of operations.
(2) Included in “Other income” in the consolidated statements of operations.
(3) Reported as “Unrealized gain on marketable securities” in the consolidated statements of operations.
(4) Includes cost of $23 and $44 for the three and six months ended June 30, 2013 associated with credit default swaps.

For the three and six months ended June 30, 2013, the change in fair values of our interest rate derivatives that were recognized as change in other comprehensive income totaled $0 and $(2,000), respectively. For the three and six months ended June 30, 2012, the change in fair values of our interest rate derivatives that were recognized as change in other comprehensive income totaled $(102,000) and $(111,000), respectively. During the next twelve months, we expect $177,000 of accumulated comprehensive loss will be reclassified to interest expense.

12. Summary of Fair Value of Financial Instruments

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

	June 30, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets and liabilities measured at fair value:				
Marketable securities	$24,521	$24,521	$23,620	$23,620
Derivative assets, net	$26	$26	$6,391	$6,391
Liabilities associated with marketable securities and other	$1,666	$1,666	$1,641	$1,641
Financial assets not measured at fair value:				
Cash and cash equivalents	$250,464	$250,464	$185,935	$185,935
Restricted cash	$77,954	$77,954	$84,786	$84,786
Accounts receivable	$37,540	$37,540	$35,116	$35,116
Notes receivable	$11,404	$14,136 to $15,625	$11,331	$14,385 to $15,899
Due from affiliates	$2,369	$2,369	$1,168	$1,168
Due from third-party hotel managers	$55,155	$55,155	$48,619	$48,619
Financial liabilities not measured at fair value:				
Indebtedness	$2,381,932	$2,322,867 to $2,567,380	$2,339,410	$2,266,991 to $2,505,622
Accounts payable and accrued expenses	$96,898	$96,898	$84,293	$84,293
Dividends payable	$20,585	$20,585	$18,258	$18,258
Due to related party, net	$782	$782	$3,725	$3,725
Due to third-party hotel managers	$2,038	$2,038	$1,410	$1,410

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

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

Notes receivable. Fair values of notes receivable may be determined using similar loans with similar collateral. We relied on our internal analysis of what we believe a willing buyer would pay for these notes. We estimated the fair value of notes receivable to be approximately 24.0% to 37.0% higher than the carrying value of $11.4 million at June 30, 2013 and approximately 27.0% to 40.3% higher than the carrying value of $11.3 million at December 31,

2012. This is considered a Level 2 valuation technique.

Marketable securities. Marketable securities consist of US treasury bills, public equity securities, and equity put and call options. The fair value of these investments is based on quoted market closing prices at the balance sheet dates. See Notes 2, 10 and 11 for a complete description of the methodology and assumptions utilized in determining fair values.

Indebtedness. Fair value of indebtedness is determined using future cash flows discounted at current replacement rates for these instruments. Cash flows are determined using a forward interest rate yield curve. Current replacement rates are determined by using the U.S. Treasury yield curve or the index to which these financial instruments are tied and adjusted for credit spreads. Credit spreads take into consideration general market conditions, maturity, and collateral. We estimated the fair value of total indebtedness to be approximately 97.5% to 107.8% of the carrying value of $2.4 billion at June 30, 2013 and approximately 96.9% to 107.1% of the carrying value of $2.3 billion at December 31, 2012. This is considered a Level 2 valuation technique.

Derivative assets and liabilities associated with marketable securities and other. Fair values of interest rate derivatives are determined using the net present value of expected cash flows of each derivative based on the market-based interest rate curve and adjusted for credit spreads of us and our counterparties. Fair values of credit default swap derivatives are obtained from a third party who publishes the CMBX index composition and price data. Liabilities associated with marketable securities consists of a margin account balance, short public equity securities and short equity put and call options. Fair value is determined based on quoted market closing prices at the balance sheet dates. See Notes 2, 10 and 11 for a complete description of the methodology and assumptions utilized in determining fair values.

13. Redeemable Noncontrolling Interests in Operating Partnership

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

LTIP units, which are issued to certain executives and employees as compensation, have vesting periods ranging from three to five years. Additionally, certain independent members of the Board of Directors have elected to receive LTIP units as part of their compensation, which are fully vested upon grant. Upon reaching economic parity with common units, each vested LTIP unit can be converted by the holder into one common partnership unit of the operating partnership which can then be redeemed for cash or, at our election, settled in our common stock. As of June 30, 2013, we have issued 7.0 million LTIP units in total, of which all but 142,000 units issued in May 2013 and 1.2 million units issued in May 2011 had reached full economic parity with the common units. All LTIP units issued had an aggregate value of $69.2 million at the date of grant which is being amortized over their vesting periods. Compensation expense of $3.8 million and $11.7 million was recognized for the three and six months ended June 30, 2013, respectively and $4.1 million and $7.6 million was recognized for the three and six months ended June 30, 2012, respectively. The unamortized value of LTIP units was $28.5 million at June 30, 2013, which will be amortized over periods from 0.7 to 2.9 years. During the three and six months ended June 30, 2013, no operating partnership units were presented for redemption or converted to shares of our common stock.

Redeemable noncontrolling interests, including vested LTIP units, in our operating partnership as of June 30, 2013 and December 31, 2012 were $182.3 million and $151.2 million, respectively, which represents ownership of our operating partnership of 14.48% and 12.92%, respectively. The carrying value of redeemable noncontrolling interests as of June 30, 2013 and December 31, 2012 included adjustments of $132.5 million and $110.0 million, respectively, to reflect the excess of the redemption value over the accumulated historical costs. Redeemable noncontrolling interests were allocated net income (loss) of $502,000 and $(2.3) million for the three and six months ended June 30, 2013, respectively and $(1.2) million and $(4.2) million for the three and six months ended June 30, 2012, respectively. We declared cash distributions to operating partnership units of $2.6 million and $5.1 million for the three and six months ended June 30, 2013, respectively and $2.3 million and $4.5 million for the three and six months ended June 30, 2012, respectively. These distributions are recorded as a reduction of redeemable noncontrolling interests in the operating partnership.

14. Equity and Equity-Based Compensation

Equity Offering - On June 20, 2013, we commenced a follow-on public offering of 11.0 million shares of common stock at $12.00 per share for gross proceeds of $132.0 million. . The aggregate proceeds net of underwriting discount and other expenses were approximately $125.9 million. The offering settled on June 26, 2013. We granted the underwriters a 30-day option to purchase up to an additional 1.65 million shares of common stock. Subsequent to June 30, 2013 the underwriters partially exercised their option and purchased an additional 1.25 million shares of our common stock at a price of $12.00 per share less the underwriting discount and dividend resulting in additional net proceeds of approximately $14.2 million. See Note 17.

At-the-Market Preferred Stock Offering – On March 2, 2012, we commenced issuances of preferred stock under our at-the-market (“ATM”) program with an investment banking firm pursuant to which we may issue up to 700,000 shares of 8.55%

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Series A Cumulative Preferred Stock and up to 700,000 shares of 8.45% Series D Cumulative Preferred Stock at market prices up to $30.0 million in total proceeds. There were no issuances during the six months ended June 30, 2013. During the three and six months ended June 30, 2012, we issued 48,575 and 169,306 shares of 8.55% Series A Cumulative Preferred Stock for $1.2 million and $4.2 million gross proceeds, respectively, and 252,227 and 501,909 shares of 8.45% Series D Cumulative Preferred Stock for $6.2 million and $12.3 million gross proceeds, respectively. Such proceeds, net of commissions and other expenses, were $7.3 million and $16.0 million for the three and six months ended June 30, 2012, respectively.

Common Dividends – For 2013 and 2012, the Board of Directors declared quarterly dividends of $0.12 and $0.11 per outstanding common share, respectively, with an annualized target of $0.48 per share for 2013.

Equity-Based Compensation – We recognized compensation expense related to restricted shares of our common stock of $740,000 and $1.2 million for the three and six months ended June 30, 2013, respectively, and $170,000 and $1.8 million for the three and six months ended June 30, 2012, respectively. As of June 30, 2013, the unamortized cost of the unvested shares of restricted stock was $3.8 million, which is being amortized over periods from 0.8 to 2.7 years.

Preferred Dividends – During the three months ended June 30, 2013, the Board of Directors declared quarterly dividends of $0.5344 per share for our 8.55% Series A preferred stock, $0.5281 per share for our 8.45% Series D preferred stock, and $0.5625 per share for our 9.00% Series E preferred stock. During the three months ended June 30, 2012, the Board of Directors declared quarterly dividends of $0.5344 per share for our 8.55% Series A preferred stock, $0.5281 per share for our 8.45% Series D preferred stock and $0.5625 per share for our 9.00% Series E preferred stock.

Noncontrolling Interests in Consolidated Entities – Noncontrolling entity partners, which have ownership interests ranging from 15% to 25% in four hotel properties and a total carrying value of $1.2 million and $15.4 million at June 30, 2013 and December 31, 2012, respectively, are reported in equity in the consolidated balance sheets. Noncontrolling interests in consolidated entities were allocated income (loss) of $(8,000) and $(715,000) for the three and six months ended June 30, 2013, respectively, and $54,000 and $(224,000) for the three and six months ended June 30, 2012, respectively.

15. Commitments and Contingencies

Restricted Cash – Under certain management and debt agreements for our hotel properties existing at June 30, 2013, escrow payments are required for insurance, real estate taxes, and debt service. In addition, for certain properties based on the terms of the underlying debt and management agreements, we escrow 3% to 6% of gross revenues for capital improvements.

Franchise Fees – Under franchise agreements for our hotel properties existing at June 30, 2013, we pay franchisor royalty fees between 3% and 6% of gross room revenue and, in some cases, food and beverage revenues. Additionally, we pay fees for marketing, reservations, and other related activities aggregating between 1% and 4% of gross room revenue and, in some cases, food and beverage revenues. These franchise agreements expire on varying dates between 2015 and 2030. When a franchise term expires, the franchisor has no obligation to renew the franchise. A franchise termination could have a material adverse effect on the operations or the underlying value of the affected hotel due to loss of associated name recognition, marketing support, and centralized reservation systems provided by the franchisor. A franchise termination could also have a material adverse effect on cash available for distribution to shareholders. In addition, if we breach the franchise agreement and the franchisor terminates a franchise prior to its expiration date, we may be liable for up to three times the average annual fees incurred for that property.

Our continuing operations incurred franchise fees of $8.2 million and $15.4 million for the three and six months ended June 30, 2013, respectively, and $7.8 million and $14.9 million for the three and six months ended June 30, 2012, respectively.

Management Fees – Under management agreements for our hotel properties existing at June 30, 2013, we pay a) monthly property management fees equal to the greater of $10,000 (CPI adjusted since 2003) or 3% of gross revenues, or in some cases 2% to 7% of gross revenues, as well as annual incentive management fees, if applicable, b) market service fees on approved capital improvements, including project management fees of up to 4% of project costs, for certain hotels, and c) other general fees at current market rates as approved by our independent directors, if required. These management agreements expire from 2014 through 2041, with renewal options. If we terminate a management agreement prior to its expiration, we may be liable for estimated management fees through the remaining term and liquidated damages or, in certain circumstances, we may substitute a new management agreement.

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Income Taxes – We and our subsidiaries file income tax returns in the federal jurisdiction and various states. Tax years 2009 through 2012 remain subject to potential examination by certain federal and state taxing authorities.

In September 2010, the Internal Revenue Service ("IRS") completed an audit of one of our taxable REIT subsidiaries that leases two of our hotel properties for the tax year ended December 31, 2007. The IRS issued a notice of proposed adjustment based on Internal Revenue Code (IRC) Section 482 that reduced the amount of rent we charged the taxable REIT subsidiary ("TRS"). We own a 75% interest in the hotel properties and the TRS at issue. In connection with the TRS audit, the IRS selected our REIT for audit for the same tax year. In October 2011, the IRS issued an income tax adjustment to the REIT as an alternative to the TRS proposed adjustment. The REIT adjustment is based on the REIT 100% federal excise tax on our share of the amount by which the rent was held to be greater than the arm's length rate. We strongly disagreed with the IRS' position and appealed our cases to the IRS Appeals Office. In determining amounts payable by our TRS subsidiaries under our leases, we engaged a third party to prepare a transfer pricing study which concluded that the lease terms were consistent with arms' length terms as required by applicable Treasury regulations. We believe the IRS transfer pricing methodologies applied in the audits contained flaws and that the IRS adjustments to the rent charged were inconsistent with the U.S. federal tax laws related to REITs and true leases. The IRS Appeals Office reviewed our cases in 2012. In July 2013, the IRS Appeals Office issued "no-change letters" for the TRS and the REIT indicating that the 2007 tax returns were accepted as filed and the examinations resulted in no deficiencies. U.S. federal income tax assessment statutes of limitations generally limit the time the IRS has to make assessments to within three years after a return is due or filed, whichever is later. As a result, the IRS requested and we agreed to extend the assessment statute of limitations for both the TRS and the REIT for the 2007 tax year to March 31, 2014. Accordingly, the IRS has the right to reopen the cases until March 31, 2014. However, the IRS typically only reopens closed cases in very limited circumstances, none of which we believe are applicable to our cases.

In June 2012, the IRS completed audits of the same TRS and our REIT for the tax years ended December 31, 2008 and 2009. With respect to the 2009 tax year, the IRS has not proposed any adjustments to the TRS or the REIT. For the 2008 tax year, the IRS has issued notices of proposed adjustments for both the REIT and the TRS. The REIT adjustment is for $3.3 million of U.S. federal excise taxes and represents the amount by which the IRS asserts that the rent charged to the TRS was greater than the arms' length rate pursuant to IRC Section 482. The TRS adjustment is for $1.6 million of additional income which would equate to approximately $467,000 of additional U.S. federal income taxes and potential state income taxes of $83,000, net of federal benefit. The TRS adjustment represents the IRS' imputation of compensation to the TRS under IRC Section 482 for agreeing to be a party to the lessor entity's bank loan agreement. We own a 75% interest in the lessor entity. We strongly disagree with both of the IRS adjustments for the reasons noted under the 2007 audits, and in addition, we believe the IRS has misinterpreted certain terms of the lease, third party hotel management, and bank loan agreements. We have filed a written protest and requested an IRS Appeals Office review. The IRS has granted the Appeals Office review and has assigned the same Appeals team that oversaw our 2007 cases to our 2008 cases. The initial Appeals conference for the 2008 cases is scheduled to occur in August 2013. In March 2012, the IRS requested and we consented to extend the statute of limitations for the TRS and REIT for the 2008 tax year to March 31, 2013. In January 2013, the IRS requested and we agreed to extend the statute of limitations to March 31, 2014.

With respect to the 2008 IRS audit, we believe we will substantially prevail in the eventual settlement of the audit and that the settlement will not have a material adverse effect on our financial condition and results of operations. We have concluded that the positions reported on the tax returns under audit by the IRS are, solely on their technical merits, more-likely-than-not to be sustained upon examination.

If, prior to August 29, 2013, we dispose of the four remaining properties contributed in connection with our initial public offering in 2003 in exchange for units of the operating partnership, we may be obligated to indemnify the contributors, including our Chairman and Chief Executive Officer and our Chairman Emeritus, each of whom have substantial ownership interests, against the tax consequences of the sale. In addition, we agreed to use commercially reasonable efforts to maintain non-recourse mortgage indebtedness of at least $16.0 million through August 29, 2013, which allows contributors of the Las Vegas hotel property to defer gain recognition in connection with their contribution. Additionally, if we sell or transfer the Marriott Crystal Gateway in Arlington, Virginia prior to July 2016, we would be required to indemnify the entity from which we acquired the property if, as a result of such transactions, such entity would recognize a gain for federal tax purposes.

In general, tax indemnities equal the federal, state, and local income tax liabilities the contributor or their specified assignee incurs with respect to the gain allocated to the contributor. The contribution agreements' terms generally require us to gross up tax indemnity payments for the amount of income taxes due as a result of such tax indemnities.

Potential Pension Liabilities – Upon our 2006 acquisition of a hotel property, certain employees of such hotel were unionized and covered by a multi-employer defined benefit pension plan. At that time, no unfunded pension liabilities existed. Subsequent to our acquisition, a majority of employees, who are employees of the hotel manager, Remington Lodging, petitioned the employer to withdraw recognition of the union. As a result of the decertification petition, Remington Lodging withdrew recognition of the union. At the time of the withdrawal, the National Retirement Fund, the union's pension fund, indicated unfunded pension liabilities existed. The National Labor Relations Board ("NLRB") filed a complaint against Remington Lodging seeking, among other things, that Remington Lodging's withdrawal of recognition was unlawful. Pending the final determination of the NLRB complaint, including appeals, the pension fund entered into a settlement agreement with Remington Lodging on November 1, 2011, providing that (a) Remington Lodging will continue to make monthly pension fund payments pursuant to the collective bargaining agreement, and (b) if the withdrawal of recognition is ultimately deemed lawful, Remington Lodging will have an unfunded pension liability equal to $1.7 million minus the monthly pension payments made by Remington Lodging since the settlement agreement. To illustrate, if Remington Lodging - as of the date a final determination occurs - has made monthly pension payments equaling $100,000, Remington Lodging's remaining withdrawal liability shall be the unfunded pension liability of $1.7 million minus $100,000 (or $1.6 million). This remaining unfunded pension liability shall be paid to the pension fund in annual installments of $84,000 (but may be made monthly or quarterly, at Remington Lodging's election), which shall continue for the remainder of the twenty-(20)-year capped period, unless Remington Lodging elects to pay the unfunded pension liability amount earlier. We agreed to indemnify Remington Lodging for the payment of the unfunded pension liability as set forth in the settlement agreement.

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

16. Segment Reporting

We operate in two business segments within the hotel lodging industry: direct hotel investments and hotel financing. Direct hotel investments refers to owning hotels through either acquisition or new development. We report operating results of direct hotel investments on an aggregate basis as substantially all of our hotel investments have similar economic characteristics and exhibit similar long-term financial performance. Hotel financing refers to owning subordinate hotel-related mortgages through acquisition or origination. We do not allocate corporate-level accounts to our operating segments, including corporate, general, and administrative expenses, non-operating interest income, interest expense and amortization of loan costs, and income tax expense/benefit. Financial information related to our reportable segments was as follows (in thousands):

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

	Direct Hotel Investments	Hotel Financing	Corporate	Consolidated
Three Months Ended June 30, 2013:				
Total revenue	$258,539	$—	$—	$258,539
Total hotel operating expenses	156,733	—	—	156,733
Property taxes, insurance, and other	11,663	—	—	11,663
Depreciation and amortization	32,842	—	—	32,842
Impairment charges	—	(99)	—	(99)
Transaction costs	1,170	—	—	1,170
Corporate, general, and administrative	—	—	14,699	14,699
Total expenses (income)	202,408	(99)	14,699	217,008
Operating income (loss)	56,131	99	(14,699)	41,531
Equity in earnings of unconsolidated joint ventures	2,367	—	—	2,367
Interest income	—	—	13	13
Other income	—	—	310	310
Interest expense and amortization of loan costs	—	—	(36,026)	(36,026)
Unrealized loss on marketable securities	—	—	(919)	(919)
Unrealized gain on derivatives	—	—	789	789
Income (loss) from continuing operations before income taxes	58,498	99	(50,532)	8,065
Income tax expense			(465)	(465)
Income (loss) from continuing operations	$58,498	$99	$(50,997)	$7,600
As of June 30, 2013:				
Total assets	$3,285,389	$3,773	$302,996	$3,592,158

	Direct Hotel Investments	Hotel Financing	Corporate	Consolidated
Three Months Ended June 30, 2012:				
Total revenue	$240,778	$—	$—	$240,778
Total hotel operating expenses	149,815	—	—	149,815
Property taxes, insurance, and other	10,138	—	—	10,138
Depreciation and amortization	33,477	—	—	33,477
Impairment charges	—	(95)	—	(95)
Corporate, general, and administrative	—	—	11,930	11,930
Total expenses (income)	193,430	(95)	11,930	205,265
Operating income (loss)	47,348	95	(11,930)	35,513
Equity in earnings of unconsolidated joint ventures	23	—	—	23
Interest income	—	—	22	22
Other income	—	—	6,703	6,703
Interest expense and amortization of loan costs	—	—	(36,284)	(36,284)
Unrealized gain on marketable securities	—	—	1,628	1,628
Unrealized loss on derivatives	—	—	(7,458)	(7,458)
	47,371	95	(47,319)	147

Income (loss) from continuing operations before income taxes				
Income tax expense	—	—	(1,366)	(1,366)
Income (loss) from continuing operations	$47,371	$95	$(48,685)	$(1,219)
As of June 30, 2012:				
Total assets	$3,279,468	$3,632	$241,579	$3,524,679

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

	Direct Hotel Investments	Hotel Financing	Corporate	Consolidated
Six Months Ended June 30, 2013:				
Total revenue	$490,481	$—	$—	$490,481
Total hotel operating expenses	304,249	—	—	304,249
Property taxes, insurance, and other	23,911	—	—	23,911
Depreciation and amortization	65,322	—	—	65,322
Impairment charges	—	(195)	—	(195)
Transaction costs	1,170	—	—	1,170
Corporate, general, and administrative	—	—	29,215	29,215
Total expenses (income)	394,652	(195)	29,215	423,672
Operating income (loss)	95,829	195	(29,215)	66,809
Equity in loss of unconsolidated joint ventures	(4,521)	—	—	(4,521)
Interest income	—	—	49	49
Other income	—	—	6,132	6,132
Interest expense and amortization of loan costs	—	—	(71,406)	(71,406)
Write-off of loan costs and exit fees	—	—	(1,971)	(1,971)
Unrealized gain on marketable securities	—	—	1,782	1,782
Unrealized loss on derivatives	—	—	(6,360)	(6,360)
Income (loss) from continuing operations before income taxes	91,308	195	(100,989)	(9,486)
Income tax expense	—	—	(1,069)	(1,069)
Income (loss) from continuing operations	$91,308	$195	$(102,058)	$(10,555)

	Direct Hotel Investments	Hotel Financing	Corporate	Consolidated
Six Months Ended June 30, 2012:				
Total revenue	$457,833	$—	$—	$457,833
Total hotel operating expenses	289,499	—	—	289,499
Property taxes, insurance, and other	21,850	—	—	21,850
Depreciation and amortization	67,133	—	—	67,133
Impairment charges	—	(187)	—	(187)
Corporate, general, and administrative	—	—	22,176	22,176
Total expenses (income)	378,482	(187)	22,176	400,471
Operating income (loss)	79,351	187	(22,176)	57,362
Equity in loss of unconsolidated joint ventures	(10,281)	—	—	(10,281)
Interest income	—	—	54	54
Other income	—	—	14,317	14,317
Interest expense and amortization of loan costs	—	—	(71,160)	(71,160)
Unrealized gain on marketable securities	—	—	3,413	3,413
Unrealized loss on derivatives	—	—	(17,399)	(17,399)
Income (loss) from continuing operations before income taxes	69,070	187	(92,951)	(23,694)
Income tax expense	—	—	(2,245)	(2,245)

Income (loss) from continuing operations	$69,070	$187	$(95,196)	$(25,939)

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17. Subsequent Events

On July 19, 2013, the underwriters partially exercised their option to purchase an additional 1.25 million shares of our common stock at a price of $12.00 per share less the underwriting discount and dividend resulting in additional net proceeds of approximately $14.2 million.

Subsequent to June 30, 2013, our Board of Directors determined that our dividend will remain at $0.12 per outstanding common share per quarter for the remainder of 2013, even after the spin-off of Ashford Prime. In December 2013, we will provide our dividend policy for 2014. However, the adoption of a dividend policy is subject to review and does not commit our Board of Directors to declare future dividends.

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

FORWARD-LOOKING STATEMENTS

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

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

- factors discussed our Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange commission on March 1, 2013, including those set forth under the sections titled “Risk Factors,” “Management's Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” and “Properties,” as updated in this Form 10-Q;
- general and economic business conditions affecting the lodging and travel industry;
- general volatility of the capital markets and the market price of our common stock;
- changes in our business or investment strategy;
- availability, terms, and deployment of capital;
- availability of qualified personnel;
- changes in our industry and the market in which we operate, interest rates, or general or local economic conditions; and
- the degree and nature of our competition.

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

EXECUTIVE OVERVIEW

General

We believe improvements in the economy will continue to positively impact the lodging industry and hotel operating results for several years to come, and we will continue to seek ways to benefit from the cyclical nature of the hotel industry. We believe that in the prior cycle, hotel values and cash flows, for the most part, peaked in 2007, and we believe the hotel industry may exceed these cash flows and values during the next cyclical peak.

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

- acquisition of hotel properties;
- disposition of hotel properties;
- investing in securities;
- pursuing capital market activities to enhance long-term shareholder value;
- preserving capital, enhancing liquidity, and continuing current cost-saving measures;
- implementing selective capital improvements designed to increase profitability;
- implementing effective asset management strategies to minimize operating costs and increase revenues;
- financing or refinancing hotels on competitive terms;
- utilizing hedges and derivatives to mitigate risks; and
- making other investments or divestitures that our Board of Directors deems appropriate.

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

LIQUIDITY AND CAPITAL RESOURCES

Our cash position from operations is affected primarily by macro industry movements in occupancy and rate as well as our ability to control costs. Further, interest rates greatly affect the cost of our debt service as well as the financial hedges we put in place. We monitor industry fundamentals and interest rates very closely. Capital expenditures above our reserves will affect cash flow as well.

Certain of our loan agreements contain cash trap provisions that may get triggered if the performance of our hotels decline. When these provisions are triggered, substantially all of the profit generated by our hotels is deposited directly into lockbox accounts and then swept into cash management accounts for the benefit of our various lenders. Cash is distributed to us only after the triggered cash trap provision has been cured and certain items are paid, including deposits into ground leasing and maintenance reserves and the payment of debt service, insurance, taxes, operating expenses, and extraordinary capital expenditures and ground leasing expenses. This could affect our liquidity and our ability to make distributions to our stockholders.
Also, we have entered into certain customary guaranty agreements pursuant to which we guaranty payment of any recourse liabilities of our subsidiaries or joint ventures that may result from non-recourse carve-outs, which include, but are not limited to fraud, misrepresentation, willful misconduct resulting in waste, misappropriations of rents following an event of default, voluntary bankruptcy filings, unpermitted transfers of collateral, and certain environmental liabilities. Certain of these guarantees represent a guaranty of material amounts, and if we are required to make payments under those guarantees, our liquidity could be adversely affected.

As of June 30, 2013, the borrowing capacity under our senior credit facility is $165.0 million. We have an option, subject to lender approval, to further expand the facility to an aggregate size of $225.0 million. We may use up to $10.0 million for standby letters of credit.

On June 20, 2013, we commenced a follow-on public offering of 11.0 million shares of our common stock at $12.00 per share for gross proceeds of $132.0 million. The aggregate proceeds, net of the 4.25% underwriting discount of and other expenses of $500,000, were approximately $125.9 million. The offering settled on June 26, 2013. We granted the underwriters a 30-day option to purchase up to an additional 1.65 million shares of our common stock. Subsequent to June 30, 2013, the underwriters exercised their option to purchase an additional 1.25 million shares of our common stock at a price of $12.00 per share less the underwriting discount and dividend resulting in additional net proceeds of approximately $14.2 million.

In September 2011, we entered into an at-the-market (“ATM”) program with an investment banking firm, pursuant to which we may issue up to 700,000 shares of 8.55% Series A Cumulative Preferred Stock and up to 700,000 shares of 8.45% Series D Cumulative Preferred Stock at market prices up to $30.0 million in total proceeds. The ATM program remains in effect until such time that either party elects to terminate or the share or dollar thresholds are reached. On March 2, 2012, we commenced issuances of preferred stock and during the six months ended June 30, 2012, we issued 169,306 shares of 8.55% Series A Cumulative Preferred Stock for gross proceeds of $4.2 million and 501,909 shares of 8.45% Series D Cumulative Preferred Stock for gross proceeds of $12.3 million. The aggregate proceeds, net of commissions and other expenses, were $16.0 million during the six months ended June 30, 2012. During the first and second quarters of 2013 no shares were issued.

In September 2010, we entered into an ATM program with an investment banking firm to offer for sale from time to time up to $50.0 million of our common stock at market prices. No shares have been sold under this ATM program since its inception.

On February 26, 2013, we refinanced our $141.7 million loan due August 2013, which had an outstanding balance of $141.0 million, with a $199.9 million loan due February 2018. The new loan provides for an interest rate of LIBOR +

3.50%, with no LIBOR floor. The new loan continues to be secured by the Capital Hilton in Washington, DC and the Hilton La Jolla Torrey Pines in La Jolla, CA. We have a 75% ownership interest in the properties, with Hilton holding the remaining 25%. The excess loan proceeds above closing costs and reserves were distributed to the partners on a pro rata basis. Our share of the excess loan proceeds was approximately $40.5 million, which was added to our unrestricted cash balance.

Our principal sources of funds to meet our cash requirements include: positive cash flow from operations, capital market activities, property refinancing proceeds, asset sales, and net cash derived from interest rate derivatives. Additionally, our principal uses of funds are expected to include possible operating shortfalls, owner-funded capital expenditures, new investments, debt interest and principal payments and dividends. Items that impacted our cash flow and liquidity during the periods indicated are summarized as follows:

Net Cash Flows Provided by Operating Activities. Net cash flows provided by operating activities, pursuant to our Consolidated Statements of Cash Flows which includes changes in balance sheet items, were $74.9 million and $68.2 million for the six months ended June 30, 2013 and 2012, respectively. The increase in cash flows from operating activities was primarily due to increased hotel EBITDA. Cash flows from operations are also impacted by changes in restricted cash due to the timing of cash deposits for certain loans and capital expenditures as well as the timing of collecting receivables from hotel guests, paying vendors and settling with hotel managers.

Net Cash Flows Used in Investing Activities. For the six months ended June 30, 2013, investing activities used net cash flows of $132.6 million, which primarily consisted of $88.2 million for the acquistion of the Pier House Resort and $44.9 million of capital improvements made to various hotel properties offset by cash inflows of $429,000, primarily attributable to cash proceeds received from the sale of two Worldquest condominium units. For the six months ended June 30, 2012, investing activities used net cash flows of $44.0 million. Cash outlays primarily consisted of $44.1 million for capital improvements made to various hotel properties.

Net Cash Flows Provided by (Used in) Financing Activities. For the six months ended June 30, 2013, net cash flows provided by financing activities were $122.3 million. Cash inflows consisted primarily of $199.9 million in borrowings on indebtedness, $125.9 million from our follow-on public offering and $7.9 million in proceeds from the counterparties of our interest rate derivatives. Cash inflows were partially offset by cash outlays primarily consisting of $157.4 million for repayments of indebtedness, $37.5 million for dividend payments to common and preferred shareholders and unit holders, $13.5 million for distributions to noncontrolling interests in consolidated entities and $2.9 million for payments of loan costs and prepayment penalties. For the six months ended June 30, 2012, net cash flows used in financing activities were $52.4 million. Cash outlays primarily consisted of $35.0 million for dividend payments to common and preferred stockholders and unit holders, $180.9 million for repayments of indebtedness and capital leases and $3.7 million for payments of deferred loan costs. These cash outlays were partially offset by cash inflows of $16.0 million from issuance of our Series A and Series E preferred stock under our ATM program, $16.0 million in proceeds from the counterparties of our interest rate derivatives and $135.0 million in borrowings on indebtedness.

We are required to maintain certain financial ratios under various debt and derivative agreements. If we violate covenants in any debt or derivative agreement, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of certain debt covenants may result in us being unable to borrow unused amounts under a line of credit, even if repayment of some or all borrowings is not required. In any event, financial covenants under our current or future debt obligations could impair our planned business strategies by limiting our ability to borrow (i) beyond certain amounts or (ii) for certain purposes. Presently, our existing financial debt covenants 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 June 30, 2013, we were in compliance in all material respects with all covenants or other requirements set forth in our debt and related agreements as amended.

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

At June 30, 2013, our only recourse obligation is our $165.0 million senior credit facility held by six banks, which expires in September 2014. Currently, there is no outstanding balance on this credit facility. The primary covenants of this senior credit facility include (i) the minimum fixed charge coverage ratio, as defined, of 1.25x through expiration (ours was 1.37x at June 30, 2013); and (ii) the maximum leverage ratio, as defined, of 65% (ours was 57.38% at June 30, 2013). In the event we borrow on this credit facility, we may be unable to refinance a portion or all of this senior credit facility before maturity. However, if it becomes necessary to pay down the principal balance, if any, at maturity, we believe we will be able to accomplish that with cash on hand, cash flows from operations, equity raises, or, to the extent necessary, asset sales.

Based on our current level of operations, management believes that our cash flow from operations, our existing cash balances, and availability under our senior credit facility ($165.0 million at June 30, 2013) will be adequate to meet upcoming anticipated requirements for interest and principal payments on debt, working capital, and capital expenditures for the next 12 months. With respect to upcoming maturities, we will continue to proactively address our 2014 maturities. No assurances can be given that we will obtain additional financings or, if we do, what the amount and terms will be. Our failure to obtain future financing under favorable terms could adversely impact our ability to execute our business strategy. In addition, we may selectively pursue debt financing on individual properties.

We are committed to an investment strategy where we will opportunistically pursue hotel-related investments as suitable situations arise. Funds for future hotel-related investments are expected to be derived, in whole or in part, from cash on hand, future borrowings under a credit facility or other loans, or proceeds from additional issuances of common stock, preferred stock, or other securities, asset sales, and joint ventures. However, we have no formal commitment or understanding to invest in additional assets, and there can be no assurance that we will successfully make additional investments. We may, when conditions are suitable, consider additional capital raising opportunities.

Our existing hotels are mostly located in developed areas with competing hotel properties. Future occupancy, ADR, and RevPAR of any individual hotel could be materially and adversely affected by an increase in the number or quality of competitive hotel properties in its market area. Competition could also affect the quality and quantity of future investment opportunities.

Dividend Policy. During the six months ended June 30, 2013 and 2012, the Board of Directors declared quarterly dividends of $0.12 and $0.11 per outstanding common share, respectively. In December 2012, the Board of Directors approved our 2013 dividend policy which anticipates a quarterly dividend payment of $0.12 per share for the remainder of 2013. However, the adoption of a dividend policy does not commit our Board of Directors to declare future dividends. The Board of Directors will continue to review our dividend policy on a quarterly basis. We may incur indebtedness to meet distribution requirements imposed on REITs under the Internal Revenue Code to the extent that working capital and cash flow from our investments are insufficient to fund required distributions. Alternatively, we may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements. We may pay dividends in excess of our cash flow.

RESULTS OF OPERATIONS

Marriott International, Inc. (“Marriott”) currently manages 32 of our properties. There were eight additional properties that were managed by Marriott through May 31, 2013. For these 40 hotels, the 2012 fiscal year reflects twelve weeks of operations for each of the first three quarters of the year and sixteen weeks for the fourth quarter of the year. Beginning in 2013, the fiscal quarters end on March 31st, June 30th, September 30th and December 31st. Therefore, in any given quarterly period, period-over-period results will have different ending dates. For Marriott-managed hotels, the 2013 and 2012 fiscal years began on December 29, 2012 and December 31, 2011, respectively. The second quarters of 2013 and 2012 began on April 1, 2013 and March 24, 2012, respectively and ended on June 30, 2013 and June 15, 2012, respectively. As a result, the quarter ended June 30, 2013 contained 91 days while the quarter ended June 15, 2012 contained 84 days and the six month periods contained 184 days and 168 days, respectively. Prior results have not been adjusted.
RevPAR is a commonly used measure within the hotel industry to evaluate hotel operations. RevPAR is defined as the product of the average daily room rate (“ADR”) charged and the average daily occupancy achieved. RevPAR does not include revenues from food and beverage or parking, telephone, or other guest services generated by the property. Although RevPAR does not include these ancillary revenues, it is generally considered the leading indicator of core revenues for many hotels. We also use RevPAR to compare the results of our hotels between periods and to analyze results of our comparable hotels (comparable hotels represent hotels we have owned for the entire year). RevPAR improvements attributable to increases in occupancy are generally accompanied by increases in most categories of variable operating costs. RevPAR improvements attributable to increases in ADR are generally accompanied by increases in limited categories of operating costs, such as management fees and franchise fees.

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The following table summarizes changes in key line items from our consolidated statements of operations (in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Favorable/ (Unfavorable) Change	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Favorable/ (Unfavorable) Change
Total revenue	$258,539	$240,778	$17,761	$490,481	$457,833	$32,648
Total hotel operating expenses	$(156,733)	$(149,815)	$(6,918)	$(304,249)	$(289,499)	$(14,750)
Property taxes, insurance, and other	$(11,663)	$(10,138)	$(1,525)	$(23,911)	$(21,850)	$(2,061)
Depreciation and amortization	$(32,842)	$(33,477)	$635	$(65,322)	$(67,133)	$1,811
Impairment charges	$99	$95	$4	$195	$187	$8
Transaction costs	$(1,170)	$—	$(1,170)	$(1,170)	$—	$(1,170)
Corporate, general, and administrative	$(14,699)	$(11,930)	$(2,769)	$(29,215)	$(22,176)	$(7,039)
Operating income	$41,531	$35,513	$6,018	$66,809	$57,362	$9,447
Equity in earnings (loss) of unconsolidated joint ventures	$2,367	$23	$2,344	$(4,521)	$(10,281)	$5,760
Interest income	$13	$22	$(9)	$49	$54	$(5)
Other income	$310	$6,703	$(6,393)	$6,132	$14,317	$(8,185)
Interest expense and amortization of loan costs	$(36,026)	$(36,284)	$258	$(71,406)	$(71,160)	$(246)
Write-off of loan costs and exit fees	$—	$—	$—	$(1,971)	$—	$(1,971)
Unrealized gain (loss) on marketable securities	$(919)	$1,628	$(2,547)	$1,782	$3,413	$(1,631)
Unrealized gain (loss) on derivatives	$789	$(7,458)	$8,247	$(6,360)	$(17,399)	$11,039
Income tax expense	$(465)	$(1,366)	$901	$(1,069)	$(2,245)	$1,176
Income (loss) from continuing operations	$7,600	$(1,219)	$8,819	$(10,555)	$(25,939)	$15,384
Loss from discontinued operations	$—	$(4,721)	$4,721	$—	$(4,554)	$4,554
Net income (loss)	$7,600	$(5,940)	$13,540	$(10,555)	$(30,493)	$19,938
(Income) loss from consolidated entities attributable to noncontrolling interests	$8	$(54)	$62	$715	$224	$491
Net (income) loss attributable to redeemable noncontrolling interests in operating partnership	$(502)	$1,180	$(1,682)	$2,260	$4,238	$(1,978)
Net income (loss) attributable to the Company	$7,106	$(4,814)	$11,920	$(7,580)	$(26,031)	$18,451

The following table illustrates key performance indicators for the 95 hotel properties included in continuing operations for the three and six months ended June 30, 2013. The results of the Pier House Resort ("Pier House") are included since its acquisition in May 2013:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
RevPar (revenue per available room)	$111.75	$107.35	$105.61	$101.57
Occupancy	78.70 %	78.60 %	75.00 %	74.80 %
ADR (average daily rate)	$142.07	$136.60	$140.75	$135.72

Comparison of the Three Months Ended June 30, 2013 and 2012

Income from continuing operations represents the operating results of 95 hotel properties and Worldquest included in continuing operations for the three months ended June 30, 2013. The results of Pier House are included since its acquisition in May 2013.

Revenue. Rooms revenue for the three months ended June 30, 2013 (the “2013 quarter”) increased $15.9 million, or 8.4%, to $205.7 million from $189.8 million for the three months ended June 30, 2012 (the “2012 quarter”). During the 2013 quarter, we experienced a 10 basis point increase in occupancy and a 4.0% increase in room rates. Our Marriott-managed hotels experienced an increase in rooms revenue of $11.3 million which is due to the change in Marriott's fiscal periods which resulted in seven more days in the 2013 quarter when compared to the 2012 quarter. Additionally, the Marriott-managed hotels experienced higher occupancy and room rates in the 2013 quarter. We also experienced higher rooms revenue of $1.8 million as a result of the Pier House acquisition. Food and beverage revenue experienced an increase of $1.3 million, or 3.1%. Food and beverage

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revenue at our Marriott-managed hotels increased $1.2 million due primarily to the additional days in the 2013 quarter while Pier House added an additional $388,000 of food and beverage revenue. Food and beverage revenue at the remaining hotels experienced a small decrease. Other hotel revenue, which consists mainly of Internet access, parking, and spa, experienced an increase of $500,000. We experienced an increase of $606,000 at our Marriott-managed hotels and a $166,000 increase at Pier House. We experienced a slight decrease at our remaining hotels. Other revenue was $136,000 and $77,000 for the 2013 quarter and the 2012 quarter, respectively.

Hotel Operating Expenses. Hotel operating expenses consist of direct expenses from departments associated with revenue streams and indirect expenses associated with support departments and management fees. We experienced increases of $4.2 million in direct expenses and $2.7 million in indirect expenses and management fees in the 2013 quarter. The Marriott-managed hotels experienced increases of $3.4 million in direct expenses and $2.9 million in indirect expenses and management fees, which is primarily attributed to the seven additional days in the 2013 quarter and higher occupancy. Pier House incurred direct expenses of $677,000 and $601,000 in indirect expenses and management fees. The remaining hotel properties experienced increases in direct expenses of $172,000 and decreases of $813,000 in indirect expenses and management fees. Direct expenses were 30.0% and 30.5% of total hotel revenue for the 2013 quarter and the 2012 quarter, respectively.

Property Taxes, Insurance, and Other. Property taxes, insurance, and other increased $1.5 million for the 2013 quarter to $11.7 million primarily due to higher property taxes as a result of increased property value assessments related to certain hotels and a credit to uninsured losses in the 2012 quarter.

Depreciation and Amortization. Depreciation and amortization decreased $635,000 for the 2013 quarter compared to the 2012 quarter primarily due to lower depreciation for certain assets that became fully depreciated since June 30, 2012.

Impairment Charges. We recorded credits to impairment charges of $99,000 and $95,000 for the 2013 quarter and 2012 quarter, respectively, for cash received and resulting valuation adjustments on previously impaired mezzanine loans.

Transaction Costs. We recorded transaction costs of $1.2 million for the 2013 quarter which included $747,000 related to the Pier House acquisition and $423,000 related to costs associated with other miscellaneous items.

Corporate, General, and Administrative. Corporate, general, and administrative expenses increased to $14.7 million for the 2013 quarter compared to $11.9 million for the 2012 quarter. The increase is primarily attributable to $3.9 million of costs associated with the proposed spin-off of certain hotel properties partially offset by lower professional fees.

Equity in Earnings of Unconsolidated Joint Ventures. We recorded equity in earnings of unconsolidated joint ventures of $2.4 million and $23,000 for the 2013 quarter and the 2012 quarter, respectively.

Interest Income. Interest income was $13,000 and $22,000 for the 2013 quarter and the 2012 quarter, respectively.

Other Income. Other income was $310,000 and $6.7 million for the 2013 quarter and the 2012 quarter, respectively. The decrease in other income is primarily attributable to the expiration of non-hedge interest rate swaps in the first quarter of 2013. The non-hedge interest rate swaps provided no income in the 2013 quarter compared to income of $8.0 million in the 2012 quarter. Other income also includes a realized gain on marketable securities of $82,000 for the 2013 quarter compared to a realized loss on marketable securities of $1.3 million for the 2012 quarter.

Interest Expense and Amortization of Loan Costs. Interest expense and amortization of loan costs decreased $258,000 to $36.0 million for the 2013 quarter from $36.3 million for the 2012 quarter. The decrease is primarily due to lower interest expense resulting from a decrease in the weighted average interest rate of our debt in the 2013 quarter compared to the 2012 quarter offset by higher loan cost amortization. The average LIBOR rates for the 2013 quarter and the 2012 quarter were 0.20% and 0.24%, respectively.

Unrealized Gain (Loss) on Marketable Securities. Unrealized gain (loss) on investments of $(919,000) and $1.6 million for the 2013 quarter and the 2012 quarter, respectively, are based on changes in closing market prices during the quarter.

Unrealized Gain (Loss) on Derivatives. For the 2013 quarter, we recorded an unrealized gain of $789,000, consisting of $16,000 related to interest rate derivatives and $773,000 related to credit default swaps. The majority of our interest rate derivatives expired in the first quarter of 2013. In the 2012 quarter, we recorded an unrealized loss of $7.5 million, consisting of a $7.9 million loss related to interest rate derivatives and a $487,000 gain related to credit default swaps. The fair value of interest rate derivatives is primarily based on movements in the LIBOR forward curve and the passage of time. The fair value of credit default swaps is based on the change in value of CMBX indices.

Income Tax Expense. We recorded income tax expense of $465,000 and $1.4 million for the 2013 quarter and the 2012 quarter, respectively. The decrease in income tax expense is primarily due to an increase in certain indirect expenses recognized by our TRS subsidiaries.

Loss from Discontinued Operations. For the 2012 quarter, loss from discontinued operations was $4.7 million related to the Doubletree Guest Suites hotel in Columbus, Ohio and the Hilton El Conquistador hotel in Tucson, Arizona. These properties were disposed in the fourth quarter of 2012.

(Income) Loss from Consolidated Entities Attributable to Noncontrolling Interests. Noncontrolling interest partners in consolidated entities were allocated (income) loss of $8,000 and $(54,000) during the 2013 quarter and the 2012 quarter, respectively.

Net (Income) Loss Attributable to Redeemable Noncontrolling Interests in Operating Partnership. Noncontrolling interests in operating partnership were allocated net (income) loss of $(502,000) and $1.2 million in the 2013 quarter and the 2012 quarter, respectively. Redeemable noncontrolling interests represented ownership interests of 14.48% and 12.42% in the operating partnership at June 30, 2013 and 2012, respectively.

Comparison of the Six Months Ended June 30, 2013 and 2012

Income from continuing operations represents the operating results of 95 hotel properties and Worldquest included in continuing operations for the six months ended June 30, 2013. The results of Pier House are included since its acquisition in May 2013.

Revenue. Rooms revenue for the six months ended June 30, 2013 (the “2013 period”) increased $29.9 million, or 8.3%, to $389.2 million from $359.3 million for the six months ended June 30, 2012 (the “2012 period”). During the 2013 period, we experienced a 20 basis point increase in occupancy and a 3.7% increase in room rates. Our Marriott-managed hotels experienced an increase in rooms revenue of $24.8 million which is due to the change in Marriott's fiscal periods which resulted in 16 more days in the 2013 period when compared to the 2012 period. Additionally, the Marriott-managed hotels experienced higher occupancy and room rates in the 2013 period. We also experienced higher rooms revenue of $1.8 million as a result of the Pier House acquisition. Food and beverage revenue experienced an increase of $1.2 million, or 1.5%. Food and beverage revenue at our Marriott-managed hotels increased $3.8 million due primarily to the additional days in the 2013 period while Pier House added an additional $388,000 of food and beverage revenue. Food and beverage revenue at the remaining hotels decreased $3.0 million due to events at certain hotels during the 2012 period that did not reoccur in the 2013 period. Other hotel revenue, which consists mainly of Internet access, parking, and spa, experienced an increase of $1.4 million. Of this increase, $1.2 million occurred at our Marriott-managed hotels and $166,000 at Pier House. Other revenue was 243,000 and 152,000 for the 2013 period and the 2012 period, respectively.

Hotel Operating Expenses. Hotel operating expenses consist of direct expenses from departments associated with revenue streams and indirect expenses associated with support departments and management fees. We experienced increases of $8.0 million in direct expenses and $6.8 million in indirect expenses and management fees in the 2013 period. The Marriott-managed hotels experienced increases of $8.1 million in direct expenses and $6.8 million in indirect expenses and management fees, which is primarily attributed to the 16 additional days in the 2013 period and higher occupancy. Pier House incurred direct expenses of $677,000 and $601,000 in indirect expenses and management fees. The remaining hotel properties experienced decreases in direct expenses of $854,000 and decreases of $604,000 in indirect expenses. The decrease in direct expenses is primarily due to lower food and beverage expense due to events at certain hotels during the 2012 period that did not reoccur in the 2013 period partially offset by higher rooms expense due to higher occupancy. Direct expenses were 30.9% and 31.3% of total hotel revenue for the 2013 period and the 2012 period, respectively.

Property Taxes, Insurance, and Other. Property taxes, insurance, and other increased $2.1 million for the 2013 period to $23.9 million primarily due to higher property taxes as a result of increased property value assessments related to certain hotels and a credit to uninsured losses in the 2012 period.

Depreciation and Amortization. Depreciation and amortization decreased $1.8 million for the 2013 period compared to the 2012 period primarily due to lower depreciation for certain assets that became fully depreciated since June 30, 2012.

Impairment Charges. We recorded credits to impairment charges of $195,000 and $187,000 for the 2013 period and 2012 period, respectively, for cash received and resulting valuation adjustments on previously impaired mezzanine loans.

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Transaction Costs. We recorded transaction costs of $1.2 million for the 2013 period which included $747,000 related to the Pier House acquisition and $423,000 related to costs associated with other miscellaneous items.

Corporate, General, and Administrative. Corporate, general, and administrative expenses increased to $29.2 million for the 2013 period compared to $22.2 million for the 2012 period. Non-cash equity-based compensation experienced an increase of $3.5 million primarily due to additional expense associated with accelerated vestings of LTIP units of our Chairman Emeritus as a result of his retirement and his new role. Additionally, corporate, general, and administrative expenses increased $3.5 million during the 2013 period compared to the 2012 due to $3.9 million of costs associated with the proposed spin-off of certain hotel properties and higher salaries and benefits of $945,000 partially offset by lower professional fees.

Equity in Loss of Unconsolidated Joint Ventures. We recorded equity in loss of unconsolidated joint ventures of $4.5 million and $10.3 million for the 2013 period and the 2012 period, respectively.

Interest Income. Interest income was $49,000 and $54,000 for the 2013 period and the 2012 period, respectively.

Other Income. Other income was $6.1 million and $14.3 million for the 2013 period and the 2012 period, respectively. Other income primarily represents income from non-hedge interest rate swaps of $6.2 million and $15.9 million in the 2013 period and 2012 period, respectively, of the which the decrease is primarily attributable to derivatives that have expired since June 30, 2012. Other income also includes $438,000 and $1.7 million of realized losses on marketable securities for the 2013 period and the 2012 period, respectively.

Interest Expense and Amortization of Loan Costs. Interest expense and amortization of loan costs increased $246,000 to $71.4 million for the 2013 period from $71.2 million for the 2012 period. The increase is primarily due to higher loan cost amortization of $1.1 million partially offset by lower interest expense resulting from a decrease in the weighted average interest rate of our debt in the 2013 period. The average LIBOR rates for the 2013 period and the 2012 period were 0.20% and 0.25%, respectively.

Write-off of Loan Costs and Exit Fees. In the 2013 period, we refinanced our $141.7 million loan, with an outstanding balance of $141.0 million, due August 2013 with a $199.9 million loan due February 2018. As a result, we wrote-off the unamortized loan costs of $472,000 and incurred additional loan costs of $1.5 million.

Unrealized Gain on Marketable Securities. Unrealized gain on investments of $1.8 million and $3.4 million for the 2013 period and the 2012 period, respectively, are based on changes in closing market prices during the period.

Unrealized Loss on Derivatives. For the 2013 period, we recorded an unrealized loss of $6.4 million, consisting of $6.2 million related to interest rate derivatives and $131,000 related to credit default swaps. In the 2012 period, we recorded an unrealized loss of $17.4 million, consisting of $15.7 million related to interest rate derivatives and $1.7 million related to credit default swaps. The fair value of interest rate derivatives is primarily based on movements in the LIBOR forward curve and the passage of time. The fair value of credit default swaps is based on the change in value of CMBX indices.

Income Tax Expense. We recorded income tax expense of $1.1 million and $2.2 million for the 2013 period and the 2012 period, respectively. The decrease in income tax expense is primarily due to an increase in certain indirect expenses recognized by our TRS subsidiaries.

Loss from Discontinued Operations. For the 2012 period, loss from discontinued operations was $4.6 million related to the Doubletree Guest Suites hotel in Columbus, Ohio and the Hilton El Conquistador hotel in Tucson, Arizona. These properties were disposed in the fourth quarter of 2012.

Loss from Consolidated Entities Attributable to Noncontrolling Interests. Noncontrolling interest partners in consolidated entities were allocated loss of $715,000 and $224,000 during the 2013 period and the 2012 period, respectively.

Net Loss Attributable to Redeemable Noncontrolling Interests in Operating Partnership. Noncontrolling interests in operating partnership were allocated net loss of $2.3 million and $4.2 million in the 2013 period and the 2012 period, respectively. Redeemable noncontrolling interests represented ownership interests of 14.48% and 12.42% in the operating partnership at June 30, 2013 and 2012, respectively.

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SEASONALITY

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

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE-SHEET ARRANGEMENTS

There have been no material changes since December 31, 2012, outside of the ordinary course of business, to contractual obligations specified in the table of contractual obligations included in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2012 Form 10-K. We currently have no off-balance-sheet arrangements with any party nor do we anticipate any such arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies that are critical or most important to understanding our financial condition and results of operations and that require management to make the most difficult judgments are described in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 1, 2013. There have been no material changes in these critical accounting policies.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In December 2011, the FASB issued accounting guidance to require disclosures about offsetting assets and liabilities. Entities are required to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master-netting arrangement. This scope includes financial instruments, derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities-borrowing and securities-lending arrangements. The new accounting guidance is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013 and the disclosures should be reported retrospectively for all comparative periods presented. We adopted this accounting guidance on January 1, 2013. The adoption of this accounting guidance did not have any impact on our financial position or results of operations.

NON-GAAP FINANCIAL MEASURES

The following non-GAAP presentations of EBITDA, Adjusted EBITDA, FFO, and Adjusted FFO are made to assist our investors in evaluating our operating performance.

EBITDA is defined as net income (loss) attributable to the Company before interest expense and amortization of loan costs, interest income other than interest income from mezzanine loans, income taxes, depreciation and amortization, impairment of assets, and noncontrolling interests in the operating partnership and after adjustments for unconsolidated joint ventures. We adjust EBITDA to exclude certain additional items such as gains or losses on sales of properties, write-off of loan costs, premiums, and exit fees, acquisition-related costs, non-cash items, and various other items which are detailed in the following table. We present EBITDA and Adjusted EBITDA because we believe these measurements a) more accurately reflect the ongoing performance of our hotel assets and other investments, b) provide more useful information to investors as indicators of our ability to meet our future debt payment and working capital requirements, and c) provide an overall evaluation of our financial condition. EBITDA and Adjusted EBITDA as calculated by us may not be comparable to EBITDA and Adjusted EBITDA reported by other companies that do not define EBITDA and Adjusted EBITDA exactly as we define the terms. EBITDA and Adjusted EBITDA do not represent cash generated from operating activities determined in accordance with GAAP and should not be considered as an alternative to a) GAAP net income or loss as an indication of our financial performance or b) GAAP cash flows from operating activities as a measure of our liquidity.

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The following table reconciles net income (loss) to EBITDA and Adjusted EBITDA (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss)	$7,600	$(5,940)	$(10,555)	$(30,493)
(Income) loss from consolidated entities attributable to noncontrolling interests	8	(54)	715	224
Net (income) loss attributable to redeemable noncontrolling interests in operating partnership	(502)	1,180	2,260	4,238