

ASHFORD HOSPITALITY TRUST INC  
Form 10-K  
March 01, 2019  
Table of Contents

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

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

75254

Dallas, Texas

(Address of principal executive offices)

(Zip code)

(972) 490-9600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Stock New York Stock Exchange

Preferred Stock, Series D New York Stock Exchange

Preferred Stock, Series F New York Stock Exchange

Preferred Stock, Series G New York Stock Exchange

Preferred Stock, Series H New York Stock Exchange

Preferred Stock, Series I New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files)  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form

10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “small reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 30, 2018, the aggregate market value of 93,379,634 shares of the registrant’s common stock held by non-affiliates was approximately \$756,375,000.

As of February 27, 2019, the registrant had 101,006,162 shares of common stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant’s definitive Proxy Statement pertaining to the 2019 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Form 10-K.

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Table of Contents

ASHFORD HOSPITALITY TRUST, INC.  
 YEAR ENDED DECEMBER 31, 2018  
 INDEX TO FORM 10-K

	Page
PART I	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	9
Item 1B. <u>Unresolved Staff Comments</u>	37
Item 2. <u>Properties</u>	38
Item 3. <u>Legal Proceedings</u>	41
Item 4. <u>Mine Safety Disclosures</u>	41
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	41
Item 6. <u>Selected Financial Data</u>	45
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	46
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	69
Item 8. <u>Financial Statements and Supplementary Data</u>	70
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	124
Item 9A. <u>Controls and Procedures</u>	124
Item 9B. <u>Other Information</u>	126
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	126
Item 11. <u>Executive Compensation</u>	126
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	126

Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>126</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>126</u>
PART IV	
Item 15. <u>Financial Statement Schedules and Exhibits</u>	<u>126</u>
Item 16. <u>Form 10-K Summary</u>	<u>126</u>

SIGNATURES

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## Table of Contents

This Annual Report is filed by Ashford Hospitality Trust, Inc., a Maryland corporation (the “Company”). Unless the context otherwise requires, all references to the Company include those entities owned or controlled by the Company. In this report, the terms “the Company,” “Ashford Trust,” “we,” “us” or “our” mean Ashford Hospitality Trust, Inc. and all entities included in its consolidated financial statements.

### FORWARD-LOOKING STATEMENTS

Throughout this Annual Report on Form 10-K and documents incorporated herein by reference, we make forward-looking statements that are subject to risks and uncertainties. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “anticipate,” “estimate,” “approximately,” “believe,” “could,” “project,” “predict,” or other similar words or expressions. Additionally, statements regarding the following subjects are forward-looking by their nature:

- our business and investment strategy;
- anticipated or expected purchases or sales of assets;
- our projected operating results;
- completion of any pending transactions;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- market trends;
- projected capital expenditures;
- anticipated acquisitions or dispositions; and
- the impact of technology on our operations and business.

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

- the factors discussed in this Annual Report under the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” and “Properties”, as updated in our subsequent Quarterly Reports on Form 10-Q and other filings under the Securities Exchange Act of 1934, as amended (the “Exchange Act”);
- general and economic business conditions affecting the lodging and travel industry;
- general volatility of the capital markets and the market price of our common and preferred stock;
- changes in our business or investment strategy;
- availability, terms, and deployment of capital;
- unanticipated increases in financing and other costs, including a rise in interest rates;
- availability of qualified personnel to our advisor;
- changes in our industry and the market in which we operate, interest rates, or local economic conditions;
- the degree and nature of our competition;
- actual and potential conflicts of interest with Braemar Hotels & Resorts, Ashford Inc., Ashford LLC, Remington Lodging & Hospitality, LLC, our executive officers and our non-independent directors;
- changes in personnel of Ashford LLC or the lack of availability of qualified personnel;
- changes in governmental regulations, accounting rules, tax rates and similar matters;
- legislative and regulatory changes, including changes to the Internal Revenue Code of 1986, as amended (the “Code”), and related rules, regulations and interpretations governing the taxation of real estate investment trusts (“REITs”); and
- limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for federal income tax purposes.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Annual Report on Form 10-K. The matters summarized under “Item 1A. Risk Factors”, and elsewhere,

could cause our actual results and performance to differ significantly from those contained in our forward-looking statements. Accordingly, we cannot

2

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Table of Contents

guarantee future results or performance. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our views as of the date of this Annual Report on Form 10-K. Furthermore, we do not intend to update any of our forward-looking statements after the date of this Annual Report on Form 10-K to conform these statements to actual results and performance, except as may be required by applicable law.

3

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## Table of Contents

### PART I

#### Item 1. Business

##### GENERAL

Ashford Hospitality Trust, Inc., together with its subsidiaries, is an externally-advised REIT focused on investing opportunistically in the hospitality industry with a focus predominantly on full-service upscale and upper upscale hotels in the U.S. that have a revenue per available room (“RevPAR”) generally less than two times the U.S. national average. Additional information can be found on our website at [www.ahltreit.com](http://www.ahltreit.com). We were formed as a Maryland corporation in May 2003 and commenced operations in August 2003, as a self-advised REIT. In November 2014, we completed the spin-off of our asset management business, forming Ashford Inc. as a separate publicly traded company, and we became advised by Ashford Hospitality Advisors LLC (“Ashford LLC”), a subsidiary of Ashford Inc. We continue to own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership (“Ashford Trust OP”), our operating partnership. Ashford OP General Partner LLC, a wholly-owned subsidiary of the Company, serves as the sole general partner of our operating partnership.

Our hotel properties are primarily branded under the widely recognized upscale and upper upscale brands of Hilton, Hyatt, Marriott, and Intercontinental Hotel Group. As of December 31, 2018, we owned interests in the following assets:

119 consolidated hotel properties, including 117 directly owned and two owned through a majority-owned investment in a consolidated entity, which represent 25,087 total rooms (or 25,060 net rooms excluding those attributable to our partner);

90 hotel condominium units at WorldQuest Resort in Orlando, Florida (“WorldQuest”);

a 25.0% ownership in Ashford Inc. common stock with a carrying value of \$1.9 million and a fair value of \$31.0 million; and

a 16.3% ownership in OpenKey with a carrying value of \$2.6 million.

For federal income tax purposes, we have elected to be treated as a REIT, which subjects us to limitations related to operating hotels. As of December 31, 2018, our 119 hotel properties were leased or owned by our wholly-owned or majority-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.

We are advised by Ashford LLC through an advisory agreement. All of the hotel properties in our portfolio are currently asset-managed by Ashford LLC. We do not have any employees. All of the services that might be provided by employees are provided to us by Ashford LLC.

We do not operate any of our hotel properties directly; instead we employ hotel management companies to operate them for us under management contracts. As of December 31, 2018, Remington Lodging & Hospitality, LLC, together with its affiliates (“Remington Lodging”), which is beneficially wholly owned by Mr. Monty J. Bennett, our Chairman, and Mr. Archie Bennett, Jr., our Chairman Emeritus, managed 81 of our 119 hotel properties and WorldQuest. Third-party management companies managed the remaining hotel properties.

Ashford Inc. also provides other products and services to us or our hotel properties through certain entities in which Ashford Inc. has an ownership interest. These products and services include project management services, mortgage placement services, audiovisual services, real estate advisory services, investment management services and mobile key technology. Mr. Monty J. Bennett is chairman and chief executive officer of Ashford Inc. See note 20 to our consolidated financial statements.

##### BUSINESS STRATEGIES

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

acquisition of hotel properties that will be accretive to our portfolio;

disposition of non-core hotel properties;

pursuing capital market activities to enhance long-term stockholder value;

preserving capital, enhancing liquidity, and continuing current cost saving measures;



- implementing selective capital improvements designed to increase profitability and to maintain the quality of our assets;
- implementing effective asset management strategies to minimize operating costs and increase revenues;

## Table of Contents

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.

While our current investment strategy is focused on direct hotel investments, as the business cycle and the hotel markets continue to change, we may invest in a variety of lodging-related assets based upon our evaluation of diverse market conditions including our cost of capital and the expected returns from those investments. Our investments may include: (i) direct hotel investments; (ii) mezzanine financing through origination or acquisition; (iii) first-lien mortgage financing through origination or acquisition; (iv) sale-leaseback transactions; and (v) other hospitality transactions.

Our strategy is designed to take advantage of lodging industry conditions and adjust to changes in market circumstances over time. Our assessment of market conditions will determine asset reallocation strategies. While we seek to capitalize on favorable market fundamentals, conditions beyond our control may have an impact on overall profitability and our investment returns. We will continue to seek ways to benefit from the cyclical nature of the hotel industry.

Combining lodging-related equity and debt investments seeks, among other things, to:

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

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

To take full advantage of future investment opportunities in the lodging industry, we intend to invest according to the asset allocation strategies described below. However, due to ongoing changes in market conditions, we will continually evaluate the appropriateness of our investment strategies. Our board of directors may change any or all of these strategies at any time without stockholder approval or notice.

**Direct Hotel Investments**—In selecting hotels to acquire, we target hotels that offer either a high current return or the opportunity to increase in value through repositioning, capital investments, market-based recovery, or improved management practices. Our direct hotel acquisition strategy primarily targets full-service upscale and upper upscale hotels with RevPAR less than twice the national average in primary, secondary, and resort markets, typically throughout the U.S and will seek to achieve both current income and appreciation. In addition, we will continue to assess our existing hotel portfolio and make strategic decisions to sell certain under-performing or non-strategic hotels that do not fit our investment strategy or criteria due to micro or macro market changes or other reasons.

**Mezzanine Financing**—Subordinated loans, or mezzanine loans, that we acquire or originate may relate to a diverse segment of hotels that are located across the U.S. These mezzanine loans are secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels. In certain market conditions, we may refocus our efforts on the acquisition or origination of mezzanine loans. Given the greater repayment risks of these types of loans, to the extent we acquire or originate them in the future, we seek to have a more conservative approach in underwriting these assets. Mezzanine loans that we acquire in the future may be secured by individual assets as well as cross-collateralized portfolios of assets.

**First Mortgage Financing**—From time to time, we may acquire or originate first mortgages. When dynamics in the capital markets and the hotel industry make first-mortgage investments more attractive, we may acquire, potentially at a discount to par, or originate loans secured by first priority mortgages on hotels. We may be subject to certain state-imposed licensing regulations related to commercial mortgage lenders, with which we intend to comply. However, because we are not a bank or a federally chartered lending institution, we are not subject to state and federal regulatory constraints imposed on such entities.

**Sale-Leaseback Transactions**—To date, we have not participated in any sale-leaseback transactions of hotel properties. However, if the lodging industry fundamentals shift such that sale-leaseback transactions become more attractive investments, we may purchase hotels and lease them back to their existing hotel owners.

**Other Transactions**—We may also invest in other lodging related assets or businesses that offer diversification, attractive risk adjusted returns, and/or capital allocation benefits.

## BUSINESS SEGMENTS

We currently operate in one business segment within the hotel lodging industry: direct hotel investments. A discussion of our operating segment is incorporated by reference to note 19 to our consolidated financial statements set forth in Part II, Item 8. Financial Statements and Supplementary Data.

## Table of Contents

### FINANCING STRATEGY

We utilize debt to increase equity returns. When evaluating our future level of indebtedness and making decisions regarding the incurrence of indebtedness, our board of directors considers a number of factors, including:

- our leverage levels across the portfolio;
- the purchase price of our investments to be acquired with debt financing;
- impact on financial covenants;
- cost of debt;
- loan maturity schedule;
- the estimated market value of our investments upon refinancing;
- the ability of particular investments, and our Company as a whole, to generate cash flow to cover expected debt service; and
- trailing twelve months net operating income of the hotel to be financed.

We may incur debt in the form of purchase money obligations to the sellers of properties, publicly or privately placed debt instruments, or financing from banks, institutional investors, or other lenders. Any such indebtedness may be secured or unsecured by mortgages or other interests in our properties. This indebtedness may be recourse, non-recourse, or cross-collateralized. If recourse, such recourse may include our general assets or be limited to the particular investment to which the indebtedness relates. In addition, we may invest in properties or loans subject to existing loans secured by mortgages or similar liens on the properties, or we may refinance properties acquired on a leveraged basis. We may also from time to time receive additional capital from our advisor in the form of enhanced return funding pursuant to our Enhanced Return Funding Program Agreement with Ashford LLC.

We may use the proceeds from any borrowings for working capital, consistent with industry practice, to:

- purchase interests in partnerships or joint ventures;
- finance the origination or purchase of debt investments; or
- finance acquisitions, expand, redevelop or improve existing properties, or develop new properties or other uses.

In addition, if we do not have sufficient cash available, we may need to borrow to meet taxable income distribution requirements under the Internal Revenue Code. 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 our individual properties and debt investments.

### DISTRIBUTION POLICY

In December 2018, the board of directors approved our dividend policy for 2019 and we expect to pay a quarterly dividend of \$0.12 per share on our common stock and operating partnership units during 2019. No assurance can be given that our dividend policy, including our dividend policy for 2019, will not change in the future. The adoption of a dividend policy does not commit our board of directors to declare future dividends or the amount thereof. The board of directors will continue to review our dividend policy on a quarterly basis. In December 2017, the board of directors approved our dividend policy for 2018 with an annualized target of \$0.48 per share on our common stock and operating partnership units. For the year ended December 31, 2018, we declared annual dividends of \$0.48 per share on our common stock and operating partnership units. 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. 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.

Distributions are authorized by our board of directors and declared by us based upon a variety of factors deemed relevant by our directors. No assurance can be given that our dividend policy, including our dividend policy for 2019, will not change in the future. The adoption of a dividend policy does not commit our board of directors to declare future dividends or the amount thereof. The board of directors will continue to review our dividend policy on at least a quarterly basis. Our ability to pay distributions to our stockholders will depend, in part, upon our receipt of distributions from our operating partnership. This, in turn, may depend upon receipt of lease payments with respect to our properties from indirect, wholly-owned subsidiaries of our operating partnership and the management of our

properties by our property managers. Distributions to our stockholders are generally taxable to our stockholders as ordinary income. However, since a portion of our investments are equity ownership interests in hotels, which result in depreciation and non-cash charges against our income, a portion of our distributions may constitute a non-taxable return of capital, to the extent of a stockholder's tax basis in the stock. To the extent that it is consistent with maintaining our REIT status, we may maintain accumulated earnings of Ashford TRS in that entity.

## Table of Contents

Our charter allows us to issue preferred stock with a preference on distributions, such as our Series D, Series F, Series G, Series H and Series I preferred stock. The partnership agreement of our operating partnership also allows the operating partnership to issue units with a preference on distributions. The issuance of these series of preferred stock and units together with any similar issuance in the future, given the dividend preference on such stock or units, could limit our ability to make a dividend distribution to our common stockholders.

### COMPETITION

The hotel industry is highly competitive and the hotels in which we invest are subject to competition from other hotels for guests. Competition is based on a number of factors, most notably convenience of location, availability of rooms, brand affiliation, price, range of services, guest amenities or accommodations offered and quality of customer service. Competition is often specific to the individual markets in which our properties are located and includes competition from existing and new hotels. Increased competition could have a material adverse effect on the occupancy rate, average daily room rate and rooms revenue per available room of our hotels or may require us to make capital improvements that we otherwise would not have to make, which may result in decreases in our profitability. Our principal competitors include other hotel operating companies, ownership companies and national and international hotel brands. We face increased competition from providers of less expensive accommodations, such as select-service hotels or independent owner-managed hotels, during periods of economic downturn when leisure and business travelers become more sensitive to room rates. We also experience competition from alternative types of accommodations such as home sharing companies.

### EMPLOYEES

We have no employees. Our appointed officers are provided by Ashford LLC, a subsidiary of Ashford Inc. (collectively, our “advisor”). Services which would otherwise be provided by employees are provided by Ashford LLC and by our executive officers. Ashford LLC has approximately 116 full-time employees. These employees directly or indirectly perform various acquisition, development, asset management, capital markets, accounting, tax, risk management, legal, redevelopment, and corporate management functions pursuant to the terms of our advisory agreement.

### ENVIRONMENTAL MATTERS

Under various federal, state, and local laws and regulations, an owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on such property. These laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances. Furthermore, a person who arranges for the disposal of a hazardous substance or transports a hazardous substance for disposal or treatment from property owned by another may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner’s ability to sell the affected property or to borrow using the affected property as collateral. In connection with the ownership and operation of our properties, we, our operating partnership, or Ashford TRS may be potentially liable for any such costs. In addition, the value of any lodging property loan we originate or acquire would be adversely affected if the underlying property contained hazardous or toxic substances.

Phase I environmental assessments, which are intended to identify potential environmental contamination for which our properties may be responsible, have been obtained on substantially all of our properties. Such Phase I environmental assessments included:

- historical reviews of the properties;
- reviews of certain public records;
- preliminary investigations of the sites and surrounding properties;
- screening for the presence of hazardous substances, toxic substances, and underground storage tanks; and
- the preparation and issuance of a written report.

Such Phase I environmental assessments did not include invasive procedures, such as soil sampling or ground water analysis. Such Phase I environmental assessments have not revealed any environmental liability that we believe would have a material adverse effect on our business, assets, results of operations, or liquidity, and we are not aware of any

such liability. To the extent Phase I environmental assessments reveal facts that require further investigation, we would perform a Phase II environmental assessment. However, it is possible that these environmental assessments will not reveal all environmental liabilities. There may be material environmental liabilities of which we are unaware, including environmental liabilities that may have arisen since the environmental assessments were completed or updated. No assurances can be given that (i) future laws, ordinances, or regulations will not impose any material environmental liability, or (ii) the current environmental condition of our properties will not be

7

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Table of Contents

affected by the condition of properties in the vicinity (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

We believe our properties are in compliance in all material respects with all federal, state, and local ordinances and regulations regarding hazardous or toxic substances and other environmental matters. Neither we nor, to our knowledge, any of the former owners of our properties have been notified by any governmental authority of any material noncompliance, liability, or claim relating to hazardous or toxic substances or other environmental matters in connection with any of our properties.

INSURANCE

We maintain comprehensive insurance, including liability, property, workers' compensation, rental loss, environmental, terrorism, cyber security and, when available on commercially reasonable terms, flood, wind and earthquake insurance, with policy specifications, limits, and deductibles customarily carried for similar properties. Certain types of losses (for example, matters of a catastrophic nature such as acts of war or substantial known environmental liabilities) are either uninsurable or require substantial premiums that are not economically feasible to maintain. Certain types of losses, such as those arising from subsidence activity, are insurable only to the extent that certain standard policy exceptions to insurability are waived by agreement with the insurer. We believe, however, that our properties are adequately insured, consistent with industry standards.

FRANCHISE LICENSES

We believe that the public's perception of quality associated with a franchisor can be an important feature in the operation of a hotel. Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity, and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards, and centralized reservation systems.

As of December 31, 2018, we owned interests in 119 hotel properties, 112 of which operated under the following franchise licenses or brand management agreements:

Embassy Suites is a registered trademark of Hilton Hospitality, Inc.

Hilton is a registered trademark of Hilton Hospitality, Inc.

Hilton Garden Inn is a registered trademark of Hilton Hospitality, Inc.

Hampton Inn is a registered trademark of Hilton Hospitality, Inc.

Homewood Suites is a registered trademark of Hilton Hospitality, Inc.

Marriott is a registered trademark of Marriott International, Inc.

SpringHill Suites is a registered trademark of Marriott International, Inc.

Residence Inn by Marriott is a registered trademark of Marriott International, Inc.

Courtyard by Marriott is a registered trademark of Marriott International, Inc.

Fairfield Inn by Marriott is a registered trademark of Marriott International, Inc.

TownePlace Suites is a registered trademark of Marriott International, Inc.

Renaissance is a registered trademark of Marriott International, Inc.

Ritz-Carlton is a registered trademark of Marriott International, Inc.

Hyatt Regency is a registered trademark of Hyatt Hotels Corporation.

Le Meridien is a registered trademark of Marriott International, Inc.

Sheraton is a registered trademark of Marriott International, Inc.

W is a registered trademark of Marriott International, Inc.

Westin is a registered trademark of Marriott International, Inc.

Crowne Plaza is a registered trademark of InterContinental Hotels Group.

Hotel Indigo is a registered trademark of InterContinental Hotels Group.

One Ocean is a registered trademark of Remington Hotels, LLC

Tribute Portfolio is a registered trademark of Marriott International, Inc.



## Table of Contents

Our management companies, including Remington Lodging, must operate each hotel pursuant to the terms of the related franchise or brand management agreement and must use their best efforts to maintain the right to operate each hotel pursuant to such terms. In the event of termination of a particular franchise or brand management agreement, our management companies must operate any affected hotels under another franchise or brand management agreement, if any, that we enter into. We anticipate that many of the additional hotels we acquire could be operated under franchise licenses or brand management agreements as well.

Our franchise licenses and brand management agreements generally specify certain management, operational, recordkeeping, accounting, reporting, and marketing standards and procedures with which the franchisee or brand operator must comply, including requirements related to:

- training of operational personnel;
- safety;
- maintaining specified insurance;
- types of services and products ancillary to guestroom services that may be provided;
- display of signage; and
- type, quality, and age of furniture, fixtures, and equipment included in guestrooms, lobbies, and other common areas.

### SEASONALITY

Our properties' operations historically have been seasonal as certain properties maintain higher occupancy rates during the summer months, while certain other properties maintain higher occupancy rates during the winter months. This seasonality pattern can cause fluctuations in our quarterly revenue. 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 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.

### ACCESS TO REPORTS AND OTHER INFORMATION

We maintain a website at [www.ahtreit.com](http://www.ahtreit.com). On our website, we make available free-of-charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file or furnish such material with the Securities and Exchange Commission (the "SEC"). All of our filed reports can also be obtained at the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, our Code of Business Conduct and Ethics, Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, Corporate Governance Guidelines, and Board Committee Charters are also available free-of-charge on our website or can be made available in print upon request.

### Item 1A. Risk Factors

#### RISKS RELATED TO OUR BUSINESS

A financial crisis or economic slowdown may harm the operating performance of the hotel industry generally. If such events occur, we may be harmed by declines in occupancy, average daily room rates and/or other operating revenues. The performance of the lodging industry has been closely linked with the performance of the general economy and, specifically, growth in the U.S. gross domestic product. A majority of our hotels are classified as upscale and upper upscale. In an economic downturn, these types of hotels may be more susceptible to a decrease in revenue, as compared to hotels in other categories that have lower room rates. This characteristic may result from the fact that upscale and upper upscale hotels generally target business and high-end leisure travelers. In periods of economic difficulties, business and leisure travelers may seek to reduce travel costs by limiting travel or seeking to reduce costs on their trips. Any economic recession will likely have an adverse effect on us.

Economic weakness in the U.S. economy, generally, or a recession would likely adversely affect our financial condition.

Failure of the hotel industry to exhibit sustained improvement or to improve as expected may adversely affect us.

A substantial part of our business plan is based on our belief that the lodging markets in which we invest will experience improving economic fundamentals in the future, despite that fundamentals have already substantially improved over the last several years. In particular, our business strategy is dependent on our expectation that key

industry performance indicators, especially RevPAR, will continue to improve. There can be no assurance as to whether or to what extent, hotel industry fundamentals will continue to improve. In the event conditions in the industry do not sustain improvement or improve as we expect, or deteriorate, we may be adversely affected.

9

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Table of Contents

The hotel industry is highly competitive and the hotels in which we invest are subject to competition from other hotels for guests.

The hotel business is highly competitive. Our hotel properties will compete on the basis of location, brand, room rates, quality, amenities, reputation and reservations systems, among many factors. There are many competitors in the hotel industry, and many of these competitors may have substantially greater marketing and financial resources than we have. This competition could reduce occupancy levels and rooms revenue at our hotels. Over-building in the lodging industry may increase the number of rooms available and may decrease occupancy and room rates. In addition, in periods of weak demand, as may occur during a general economic recession, profitability is negatively affected by the fixed costs of operating hotels. We also face competition from services such as home sharing companies.

Because we depend upon our advisor and its affiliates to conduct our operations, any adverse changes in the financial condition of our advisor or its affiliates or our relationship with them could hinder our operating performance.

We depend on our advisor to manage our assets and operations. Any adverse changes in the financial condition of our advisor or its affiliates or our relationship with our advisor could hinder its ability to manage us successfully.

We depend on our advisor's key personnel with long-standing business relationships. The loss of our advisor's key personnel could threaten our ability to operate our business successfully.

Our future success depends, to a significant extent, upon the continued services of our advisor's management team and the extent and nature of the relationships they have developed with hotel franchisors, operators, and owners and hotel lending and other financial institutions. The loss of services of one or more members of our advisor's management team could harm our business and our prospects.

The aggregate amount of fees and expense reimbursements paid to our advisor will exceed the average of internalized expenses of our industry peers (as provided in our advisory agreement), as a percentage of total market capitalization.

As a part of these fees, we must pay a minimum advisory fee to our advisor regardless of our performance.

Pursuant to the advisory agreement between us and our advisor, we must pay our advisor on a monthly basis a base management fee (subject to a minimum base management fee described below), that is based on a declining scale percentage of our total market capitalization (as defined in our advisory agreement) plus the Net Asset Fee Adjustment (as defined in our advisory agreement), an annual incentive fee that will be based on our achievement of certain minimum performance thresholds and certain expense reimbursements. The minimum base management fee is equal to the greater of (i) 90% of the base fee paid for the same month in the prior fiscal year; and (ii) 1/12<sup>th</sup> of the "G&A Ratio" for the most recently completed fiscal quarter multiplied by our total market capitalization on the last balance sheet date included in the most recent quarterly report on Form 10-Q or annual report on Form 10-K that we file with the SEC. The "G&A Ratio" is calculated as the simple average of the ratios of total general and administrative expenses paid, less any non-cash expenses but including any dead-deal costs, in the applicable quarter by each member of a select peer group, divided by the total market capitalization of such peer group member (as provided in our advisory agreement.) Since the base management fee is subject to this minimum amount and because a portion of such fees are contingent on our performance, the fees we pay to our advisor may fluctuate over time. However, regardless of our advisor's performance, the total amount of fees and reimbursements paid to our advisor as a percentage of market capitalization will never be less than the average of internalized expenses of our industry peers (as provided in our advisory agreement), and there may be times when the total amount of fees and incentives paid to our advisor greatly exceeds the average of internalized expenses of our industry peers.

Our advisor's entitlement to non-performance-based compensation, including the minimum base management fee, might reduce its incentive to devote its time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. Further, our incentive fee structure may induce our advisor to encourage us to acquire certain assets, including speculative or high risk assets, or to acquire assets with increased leverage, which could increase the risk to our portfolio.

Our joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on a co-venturer's financial condition and disputes between us and our co-venturers.

We have in the past and may continue to co-invest with third parties through partnerships, joint ventures or other entities, acquiring controlling or non-controlling interests in, or sharing responsibility for, managing the affairs of a property, partnership, joint venture or other entity. In such event, we may not be in a position to exercise sole

decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt, suffer a deterioration in their financial condition or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests

Table of Contents

or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, budgets, or financing, if neither we nor the partner or co-venturer has full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers or directors from focusing their time and effort on our business. Consequently, actions by, or disputes with, partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers.

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

Our business plan contemplates a period of continued growth in the next several years. We cannot assure you that we will be able to adapt our management, administrative, accounting, and operational systems, or our advisor will be able to hire and retain sufficient operational staff to successfully integrate and manage any future acquisitions of additional assets without operating disruptions or unanticipated costs. Acquisitions of any additional portfolios of properties or mortgages would generate additional operating expenses for us. Any future acquisitions may also require us to enter into property improvement plans that will increase our operating expenses. As we acquire additional assets, we will be subject to the operational risks associated with owning those assets. Our failure to successfully integrate any future acquisitions into our portfolio could have a material adverse effect on our results of operations and financial condition and our ability to pay dividends to our stockholders.

Because our board of directors and our advisor have broad discretion to make future investments, we may make investments that result in returns that are substantially below expectations or that result in net operating losses.

Our board of directors and our advisor have broad discretion, within the investment criteria established by our board of directors, to make additional investments and to determine the timing of such investments. In addition, our investment policies may be revised from time to time at the discretion of our board of directors, without a vote of our stockholders. Such discretion could result in investments with returns inconsistent with expectations.

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

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

Hotel franchise or license requirements or the loss of a franchise could adversely affect us.

We must comply with operating standards, terms, and conditions imposed by the franchisors of the hotel brands under which our hotels operate. Franchisors periodically inspect their licensed hotels to confirm adherence to their operating standards. The failure of a hotel to maintain standards could result in the loss or cancellation of a franchise license.

With respect to operational standards, we rely on our property managers to conform to such standards. Franchisors may also require us to make certain capital improvements to maintain the hotel in accordance with system standards, the cost of which can be substantial. It is possible that a franchisor could condition the continuation of a franchise based on the completion of capital improvements that our advisor or board of directors determines is not economically feasible in light of general economic conditions, the operating results or prospects of the affected hotel or other circumstances. In that event, our advisor or board of directors may elect to allow the franchise to lapse or be terminated, which could result in a termination charge as well as a change in brand franchising or operation of the hotel as an independent hotel. In addition, when the term of a franchise expires, the franchisor has no obligation to issue a new franchise.

The loss of a franchise could have a material adverse effect on the operations and/or the underlying value of the affected hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor.

Our investments are concentrated in particular segments of a single industry.

Nearly all of our business is hotel related. Our current strategy is predominantly to acquire upscale to upper upscale hotels, as well as when conditions are favorable to acquire first mortgages on hotel properties, invest in other mortgage-related instruments such as mezzanine loans to hotel owners and operators, and participate in hotel sale-leaseback transactions. Adverse conditions

Table of Contents

in the hotel industry will have a material adverse effect on our operating and investment revenues and cash available for distribution to our stockholders.

Our reliance on third party property managers, including Remington Lodging, to operate our hotels and for a substantial majority of our cash flow may adversely affect us.

Because U.S. federal income tax laws restrict REITs and their subsidiaries from operating or managing hotels, third parties must operate our hotels. A REIT may lease its hotels to taxable REIT subsidiaries in which the REIT can own up to a 100% interest. A taxable REIT subsidiary (“TRS”) pays corporate-level income tax and may retain any after-tax income. A REIT must satisfy certain conditions to use the TRS structure. One of those conditions is that the TRS must hire, to manage the hotels, an “eligible independent contractor” (“EIC”) that is actively engaged in the trade or business of managing hotels for parties other than the REIT. An EIC cannot (i) own more than 35% of the REIT, (ii) be owned more than 35% by persons owning more than 35% of the REIT, or (iii) provide any income to the REIT (i.e., the EIC cannot pay fees to the REIT, and the REIT cannot own any debt or equity securities of the EIC). Accordingly, while we may lease hotels to a TRS that we own, the TRS must engage a third-party operator to manage the hotels. Thus, our ability to direct and control how our hotels are operated is less than if we were able to manage our hotels directly. We have entered into management agreements with Remington Lodging, which is owned 100% by Messrs. Archie Bennett, Jr. and Monty J. Bennett, to manage 81 of our 119 hotel properties and the WorldQuest condominium properties as of December 31, 2018. We have hired unaffiliated third-party property managers to manage our remaining properties. We do not supervise any of the property managers or their respective personnel on a day-to-day basis, and we cannot assure you that the property managers will manage our properties in a manner that is consistent with their respective obligations under the applicable management agreement or our obligations under our hotel franchise agreements. We also cannot assure you that our property managers will not be negligent in their performance, will not engage in criminal or fraudulent activity, or will not otherwise default on their respective management obligations to us. If any of the foregoing occurs, our relationships with any franchisors may be damaged, we may be in breach of our franchise agreement, and we could incur liabilities resulting from loss or injury to our property or to persons at our properties. In addition, from time to time, disputes may arise between us and our third-party managers regarding their performance or compliance with the terms of the hotel management agreements, which in turn could adversely affect us. We generally will attempt to resolve any such disputes through discussions and negotiations; however, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to terminate our management agreement, litigate the dispute or submit the matter to third-party dispute resolution, the expense of which may be material and the outcome of which may adversely affect us.

Our cash flow from the hotels may be adversely affected if our managers fail to provide quality services and amenities or if they or their affiliates fail to maintain a quality brand name. In addition, our managers or their affiliates may manage, and in some cases may own, invest in or provide credit support or operating guarantees, to hotels that compete with hotel properties that we own or acquire, which may result in conflicts of interest and decisions regarding the operation of our hotels that are not in our best interests. Any of these circumstances could adversely affect us.

Our management agreements could adversely affect our sale or financing of hotel properties.

We have entered into management agreements, and acquired properties subject to management agreements, that do not allow us to replace hotel managers on relatively short notice or with limited cost or contain other restrictive covenants, and we may enter into additional such agreements or acquire properties subject to such agreements in the future. For example, the terms of a management agreement may restrict our ability to sell a property unless the purchaser is not a competitor of the manager, assumes the management agreement and meets other conditions. Also, the terms of a long-term management agreement encumbering our property may reduce the value of the property.

When we enter into or acquire properties subject to any such management agreements, we may be precluded from taking actions in our best interest and could incur substantial expense as a result of the agreements.

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

We are required to distribute to our stockholders at least 90% of our REIT taxable income, excluding net capital gains, each year to maintain our qualification as a REIT. As a result, our retained earnings available to fund acquisitions, development, or other capital expenditures are nominal. As such, we rely upon the availability of additional debt or equity capital to fund these activities. Our long-term ability to grow through acquisitions or development, which is an

important strategy for us, will be limited if we cannot obtain additional financing or equity capital. Market conditions may make it difficult to obtain financing or equity capital, and we cannot assure you that we will be able to obtain additional debt or equity financing or that we will be able to obtain it on favorable terms.



Table of Contents

We may not realize the anticipated benefits of the Enhanced Return Funding Program.

On June 26, 2018, we entered into the Enhanced Return Funding Program Agreement and Amendment No. 1 to the Amended and Restated Advisory Agreement (the “ERFP Agreement”) with Ashford Inc. and Ashford LLC, which generally provides that Ashford LLC will provide funding to facilitate the acquisition of properties by us that are recommended by Ashford LLC, in an aggregate amount of up to \$50 million (subject to increase to up to \$100 million by mutual agreement). Each funding by Ashford LLC will equal 10% of the property acquisition price and will be made either at the time of the property acquisition or at any time generally within the two-year period following the date of such acquisition, in exchange for furniture, fixtures & equipment (“FF&E”) for use at the acquired property or any other property owned by us. In connection with our acquisition of the Hilton Alexandria Old Town on June 29, 2018 and La Posada de Santa Fe on October 31, 2018, Ashford LLC became obligated to provide us with approximately \$11.1 million and \$5.0 million, respectively, in exchange for FF&E at our properties. As of December 31, 2018, Ashford Trust had received \$16.1 million of cash with respect to these acquisitions in exchange for FF&E that was subsequently leased back to Ashford Trust rent-free under the ERFP Agreement. Ashford LLC, however, is not required to commit to provide funding under the ERFP Agreement if its unrestricted cash balance, after taking into account the cash amount required for such funding, would be less than \$15.0 million. In addition, there can be no assurance that when FF&E is identified by us in connection with an ERFP funding that Ashford LLC will make the required payment to us on a timely basis or at all. Ashford LLC’s delay or failure to make the payment under the ERFP Agreement would negatively impact our ability to realize the intended benefits under the ERFP Agreement, which could result in a material adverse effect of our business, results of operations and financial condition. Furthermore, we may choose not to enforce, or to enforce less vigorously, our rights under the ERFP Agreement because of our desire to maintain our ongoing relationship with Ashford Inc. and Ashford LLC, and legal action against either party is likely to impact that relationship. In connection with our acquisitions of the Embassy Suites New York Midtown Manhattan on January 23, 2019 and the Hilton Santa Cruz/Scotts Valley on February 26, 2019, Ashford LLC is also obligated to provide us with approximately \$19.5 million and \$5.0 million, respectively in exchange for FF&E at our properties. As a result of the acquisitions of the Hilton Alexandria Old Town, La Posada de Santa Fe, the Embassy Suites New York Midtown Manhattan and the Hilton Santa Cruz/Scotts Valley, Ashford LLC has a remaining commitment to provide approximately \$9.4 million in ERFP fundings to us in respect of its initial \$50 million commitment. We compete with other hotels for guests and face competition for acquisitions and sales of hotel properties and of desirable debt investments.

The hotel business is competitive. Our hotels compete on the basis of location, room rates, quality, service levels, amenities, loyalty programs, reputation and reservation systems, among many other factors. New hotels may be constructed and these additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms. The result in some cases may be lower revenue, which would result in lower cash available to meet debt service obligations, operating expenses and requisite distributions to our stockholders.

We compete for hotel acquisitions with entities that have similar investment objectives as we do. This competition could limit the number of suitable investment opportunities offered to us. It may also increase the bargaining power of property owners seeking to sell to us, making it more difficult for us to acquire new properties on attractive terms or on the terms contemplated in our business plan. In addition, we compete to sell hotel properties. Availability of capital, the number of hotels available for sale and market conditions all affect prices. We may not be able to sell hotel assets at our targeted price.

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

Some of our competitors are larger than us, may have access to greater capital, marketing, and other financial resources, may have personnel with more experience than our officers, may be able to accept higher levels of debt or otherwise may tolerate more risk than us, may have better relations with hotel franchisors, sellers or lenders, and may

have other advantages over us in conducting certain business and providing certain services.

We face risks related to changes in the domestic and global political and economic environment, including capital and credit markets.

Our business may be impacted by domestic and global economic conditions. Political crises in the U.S. and other international countries or regions, including sovereign risk related to a deterioration in the credit worthiness or a default by local governments, may negatively affect global economic conditions and our business. If the U.S. or global economy experiences volatility or significant disruptions, such disruptions or volatility could hurt the U.S. economy and our business could be negatively impacted by reduced demand for business and leisure travel related to a slow-down in the general economy, by disruptions resulting from

Table of Contents

credit markets, higher operating costs and by liquidity issues resulting from an inability to access credit markets to obtain cash to support operations.

We are increasingly dependent on information technology, and potential cyber-attacks, security problems or other disruption and expanding social media vehicles present new risks.

As do most companies, our advisor and our various hotel managers rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, reservations, billing and operating data. Our advisor and our hotel managers purchase some of our information technology from vendors, on whom our systems depend, and our advisor relies on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential operator and other customer information, such as individually identifiable information, including information relating to financial accounts.

We often depend upon the secure transmission of this information over public networks. Our advisor's and our hotel managers' networks and storage applications may be subject to unauthorized access by hackers or others (through cyber-attacks, which are rapidly evolving and becoming increasingly sophisticated, or by other means) or may be breached due to operator error, malfeasance or other system disruptions. In some cases, it is difficult to anticipate or immediately detect such incidents and the damage caused thereby. Any significant breakdown, invasion, destruction, interruption or leakage of our advisor's or our hotel managers' systems could harm us.

In addition, the use of social media could cause us to suffer brand damage or information leakage. Negative posts or comments about us, our hotel managers or our hotels on any social networking website could damage our or our hotels' reputations. In addition, employees or others might disclose non-public sensitive information relating to our business through external media channels. The continuing evolution of social media will present us with new challenges and risks.

Changes in laws, regulations, or policies may adversely affect our business.

The laws and regulations governing our business or the regulatory or enforcement environment at the federal level or in any of the states in which we operate may change at any time and may have an adverse effect on our business. For example, the Patient Protection and Affordable Care Act of 2010, as it is phased in over time, will significantly affect the administration of health care services and could significantly impact our cost of providing employees with health care insurance. We are unable to predict how this or any other future legislative or regulatory proposals or programs will be administered or implemented or in what form, or whether any additional or similar changes to statutes or regulations, including the interpretation or implementation thereof, will occur in the future. Any such action could affect us in substantial and unpredictable ways and could have an adverse effect on our results of operations and financial condition. Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market and on our reputation generally. No assurance can be given that applicable laws or regulations will not be amended or construed differently or that new laws and regulations will not be adopted, either of which could materially adversely affect our business, financial condition or results of operations.

Our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting could result in misstatements of our results of operations, restatements of our financial statements or could otherwise materially adversely affect our business, reputation, results of operations, financial condition or liquidity.

The Company faces possible risks associated with the physical effects of climate change or other natural disasters. The Company cannot predict with certainty any impact, rate or timing related to possible changes in the climate or other natural disasters such as earthquakes, floods, tornadoes, hurricanes, snowstorms, etc. However, the physical

effects of climate change or other natural disasters could have a material adverse effect on the Company. To the extent climate change causes changes in weather patterns, its markets could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining hotel demand or the Company's inability to operate the affected hotels at all. Climate change also may have indirect effects on its business by increasing the cost of (or making unavailable) property insurance on terms the Company finds acceptable, increasing the cost of energy and increasing the cost of snow removal at its properties. There can be no assurance that climate change will not have a material adverse effect on the Company. Furthermore, while we seek to adequately insure our

## Table of Contents

hotel properties against natural disasters, no assurances can be made as to the sufficiency of such insurance or to what extent a market may recover following a natural disaster.

### RISKS RELATED TO OUR DEBT FINANCING

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

As of December 31, 2018, we had aggregated borrowings of approximately \$4.0 billion outstanding, including \$3.6 billion of variable interest rate debt. The interest we pay on variable-rate debt increases as interest rates increase above any floor rates, which may decrease cash available for distribution to our stockholders. We are also subject to the risk that we may not be able to meet our debt service obligations or refinance our debt as it becomes due. If we do not meet our debt service obligations, we risk the loss of some or all of our assets to foreclosure. Changes in economic conditions or our financial results or prospects could (i) result in higher interest rates on variable-rate debt, (ii) reduce the availability of debt financing generally or debt financing at favorable rates, (iii) reduce cash available for distribution to our stockholders, (iv) increase the risk that we could be forced to liquidate assets or repay debt, either of which could have a material adverse effect on us, and (v) create other challenging situations for us.

In addition, certain of our variable rate indebtedness uses LIBOR as a benchmark for establishing the rate of interest and may be hedged with LIBOR-based interest rate derivatives. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to be replaced with a new benchmark or to perform differently than in the past. The consequences of these developments cannot be entirely predicted, but could include an increase in the cost of our variable rate indebtedness.

Some of our debt agreements contain financial and other covenants. If we violate covenants in any debt agreements, including as a result of impairments of our hotel or mezzanine loan assets, 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 also prohibit us from borrowing unused amounts under our lines of credit, even if repayment of some or all the borrowings is not required. In any event, financial covenants under our current or future debt obligations could impair our planned business strategies by limiting our ability to borrow beyond certain amounts or for certain purposes. Our governing instruments do not contain any limitation on our ability to incur indebtedness.

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

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

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

We voluntarily elected to cease making payments on the mortgages securing four of our hotels during the last economic downturn, and we may voluntarily elect to cease making payments on additional mortgages in the future, which could reduce the number of hotels we own as well as our revenues and could affect our ability to raise equity or debt financing in the future or violate covenants in our debt agreements.

During the past economic crisis, we undertook a series of actions to manage the sources and uses of our funds in an effort to navigate through challenging market conditions while still pursuing opportunities to create long-term stockholder value. In this effort, we attempted to proactively address value and cash flow deficits among certain of our mortgaged hotels, with a goal of enhancing stockholder value through loan amendments, or in certain instances, consensual transfers of hotel properties to the lenders in satisfaction of the related debt, some of which resulted in impairment charges. The loans secured by these hotels, subject to certain customary exceptions, were non-recourse to us. We may continue to proactively address value and cash flow deficits in a similar manner as necessary and

appropriate.

We had approximately \$4.0 billion of mortgage debt outstanding as of December 31, 2018. We may face issues with these loans or with other loans or borrowings that we incur in the future, some of which issues may be beyond our control, including our ability to service payment obligations from the cash flow of the applicable hotel, or the inability to refinance existing debt at

15

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Table of Contents

the applicable maturity date. In such event, we may elect to default on the applicable loan and, as a result, the lenders would have the right to exercise various remedies under the loan documents, which would include foreclosure on the applicable hotels. Any such defaults, whether voluntary or involuntary, could result in a default under our other debt agreements, could have an adverse effect on our ability to raise equity or debt capital, could increase the cost of such capital or could otherwise have an adverse effect on our business, results of operations or financial condition.

Covenants, “cash trap” provisions or other terms in our loan agreements could limit our flexibility and adversely affect our financial condition or our qualification as a REIT.

Some of our loan agreements contain financial and other covenants. If we violate covenants in any debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. In any event, financial covenants under our current or future debt obligations could impair our planned business strategies by limiting our ability to borrow beyond certain amounts or for certain purposes.

Some of our loan agreements also contain cash trap provisions 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 not distributed to us at any time after the cash trap provisions have been triggered until we have cured performance issues. This could affect our liquidity and our ability to make distributions to our stockholders.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates and other risks and could reduce the overall returns on your investment.

We may use various financial instruments, including derivatives, to provide a level of protection against interest rate increases and other risks, but no hedging strategy can protect us completely. These instruments involve risks, such as the risk that the counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes or other risks and that a court could rule that such agreements are not legally enforceable. These instruments may also generate income that may not be treated as qualifying REIT income. In addition, the nature and timing of hedging transactions may influence the effectiveness of our hedging strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. Moreover, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the instruments that we use will adequately offset the risk of interest rate volatility or other risks or that our hedging transactions will not result in losses that may reduce the overall return on your investment.

**RISKS RELATED TO HOTEL INVESTMENTS**

We are subject to general risks associated with operating hotels.

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

- competition from other hotel properties in our markets;
- over-building of hotels in our markets, which results in increased supply and adversely affects occupancy and revenues at our hotels;
- dependence on business and commercial travelers and tourism;
- increases in operating costs due to inflation, increased energy costs and other factors that may not be offset by increased room rates;
- changes in interest rates and in the availability, cost and terms of debt financing;
- increases in assessed property taxes from changes in valuation or real estate tax rates;
- increases in the cost of property insurance;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- unforeseen events beyond our control, such as terrorist attacks, travel related health concerns which could reduce travel, including pandemics and epidemics such as H1N1 influenza (swine flu), avian flu, SARS and the Zika virus, imposition of taxes or surcharges by regulatory authorities, travel-related accidents, travel infrastructure interruptions and unusual weather patterns, including natural disasters such as wildfires, hurricanes, tsunamis or earthquakes;
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adverse effects of international, national, regional and local economic and market conditions and increases in energy costs or labor costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;



## Table of Contents

adverse effects of a downturn in the lodging industry; and

risks generally associated with the ownership of hotel properties and real estate, as we discuss in more detail below. These factors could adversely affect our hotel revenues and expenses, as well as the hotels underlying our mortgage and mezzanine loans, which in turn could adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

Four of our hotels are subject to ground leases; if we are found to be in breach of a ground lease or are unable to renew a ground lease, our business could be materially and adversely affected.

Four of our hotels are on land subject to ground leases. Accordingly, we only own a long-term leasehold or similar interest in those four hotels. If we are found to be in breach of a ground lease, we could lose the right to use the hotel. In addition, unless we can purchase a fee interest in the underlying land and improvements or extend the terms of these leases before their expiration, we will lose our right to operate these properties and our interest in the improvements upon expiration of the leases. We may not be able to renew any ground lease upon its expiration or if renewed, the terms may not be favorable. Our ability to exercise any extension options relating to our ground leases is subject to the condition that we are not in default under the terms of the ground lease at the time that we exercise such options. If we lose the right to use a hotel due to a breach or non-renewal of the ground lease, we would be unable to derive income from such hotel and would be required to purchase an interest in another hotel to attempt to replace that income, which could materially and adversely affect our business, operating results and prospects. Our ability to refinance a hotel property subject to a ground lease may be impacted as the lease term declines.

We may have to make significant capital expenditures to maintain our hotel properties, and any development activities we undertake may be more costly than we anticipate.

Our hotels have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. Managers or franchisors of our hotels also will require periodic capital improvements pursuant to the management agreements or as a condition of maintaining franchise licenses. Generally, we are responsible for the cost of these capital improvements. We may also develop hotel properties, timeshare units or other alternate uses of portions of our existing properties, including the development of retail, office or apartments, including through joint ventures. Such renovation and development involves substantial risks, including:

construction cost overruns and delays;

the disruption of operations and displacement of revenue at operating hotels, including revenue lost while rooms, restaurants or meeting space under renovation are out of service;

the cost of funding renovations or developments and inability to obtain financing on attractive terms;

the return on our investment in these capital improvements or developments failing to meet expectations;

governmental restrictions on the nature or size of a project;

inability to obtain all necessary zoning, land use, building, occupancy, and construction permits;

loss of substantial investment in a development project if a project is abandoned before completion;

acts of God such as earthquakes, hurricanes, floods or fires that could adversely affect a project;

environmental problems; and

disputes with franchisors or property managers regarding compliance with relevant franchise agreements or management agreements.

If we have insufficient cash flow from operations to fund needed capital expenditures, then we will need to obtain additional debt or equity financing to fund future capital improvements, and we may not be able to meet the loan covenants in any financing obtained to fund the new development, creating default risks.

In addition, to the extent that developments are conducted through joint ventures, this creates additional risks, including the possibility that our partners may not meet their financial obligations or could have or develop business interests, policies or objectives that are inconsistent with ours. See “Our joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on a co-venturer’s financial condition and disputes between us and our co-venturers.”

Any of the above factors could affect adversely our and our partners’ ability to complete the developments on schedule and along the scope that currently is contemplated, or to achieve the intended value of these projects. For these reasons, there can be no assurances as to the value to be realized by the company from these transactions or any future

similar transactions.

17

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## Table of Contents

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

The hotel industry is seasonal in nature. This seasonality can cause quarterly fluctuations in our financial condition and operating results, including in any distributions on our common stock. Our quarterly operating results may be adversely affected by factors outside our control, including weather conditions and poor economic factors in certain markets in which we operate. We can provide no assurances that our cash flows will be sufficient to offset any shortfalls that occur as a result of these fluctuations. As a result, we may have to reduce distributions or enter into short-term borrowings in certain quarters in order to make distributions to our stockholders, and we can provide no assurances that such borrowings will be available on favorable terms, if at all.

The cyclical nature of the lodging industry may cause fluctuations in our operating performance, which could have a material adverse effect on us.

The lodging industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, hotel operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the lodging industry's performance, and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will exceed supply and if so, for what period of time. An adverse change in lodging fundamentals could result in returns that are substantially below our expectations or result in losses, which could have a material adverse effect on us.

Many real estate costs are fixed, even if revenue from our hotels decreases.

Many costs, such as real estate taxes, insurance premiums and maintenance costs, generally are not reduced even when a hotel is not fully occupied, room rates decrease or other circumstances cause a reduction in revenues. In addition, newly acquired or renovated hotels may not produce the revenues we anticipate immediately, or at all, and the hotel's operating cash flow may be insufficient to pay the operating expenses and debt service associated with these new hotels. If we are unable to offset real estate costs with sufficient revenues across our portfolio, we may be adversely affected.

Our operating expenses may increase in the future which could cause us to raise our room rates, which may deplete room occupancy, or cause us to realize lower net operating income as a result of increased expenses that are not offset by increased room rates, in either case decreasing our cash flow and our operating results.

Operating expenses, such as expenses for fuel, utilities, labor and insurance, are not fixed and may increase in the future. To the extent such increases affect our room rates and therefore our room occupancy at our lodging properties, our cash flow and operating results may be negatively affected.

The increasing use of Internet travel intermediaries by consumers may adversely affect our profitability.

Some of our hotel rooms are booked through Internet travel intermediaries. As Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from our management companies. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality at the expense of brand identification. These intermediaries may hope that consumers will eventually develop brand loyalties to their reservations system rather than to the brands under which our properties are franchised. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of sales made through Internet intermediaries increases significantly, rooms revenue may be lower than expected, and we may be adversely affected. We may be adversely affected by increased use of business-related technology, which may reduce the need for business-related travel.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, hotel room demand may decrease and we may be adversely affected.

Our hotels may be subject to unknown or contingent liabilities which could cause us to incur substantial costs.

The hotel properties that we own or may acquire are or may be subject to unknown or contingent liabilities for which we may have no recourse, or only limited recourse, against the sellers. In general, the representations and warranties provided under the transaction agreements related to the sales of the hotel properties may not survive the closing of the transactions. While we will seek to require the sellers to indemnify us with respect to breaches of representations and warranties that survive, such

## Table of Contents

indemnification may be limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses. As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that may be incurred with respect to liabilities associated with these hotels may exceed our expectations, and we may experience other unanticipated adverse effects, all of which may adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

Future terrorist attacks or changes in terror alert levels could materially and adversely affect us.

Previous terrorist attacks and subsequent terrorist alerts have adversely affected the U.S. travel and hospitality industries since 2001, often disproportionately to the effect on the overall economy. The extent of the impact that actual or threatened terrorist attacks in the U.S. or elsewhere could have on domestic and international travel and our business in particular cannot be determined, but any such attacks or the threat of such attacks could have a material adverse effect on travel and hotel demand, our ability to finance our business and our ability to insure our hotels, which could materially adversely affect us.

During 2018, approximately 10% of our total hotel revenue was generated from nine hotels located in the Washington D.C. area, one of several key U.S. markets considered vulnerable to terrorist attack. Our financial and operating performance may be adversely affected by potential terrorist attacks. Terrorist attacks in the future may cause our results to differ materially from anticipated results. Hotels we own in other market locations may be subject to this risk as well.

We are subject to risks associated with the employment of hotel personnel, particularly with hotels that employ unionized labor.

Our third-party managers are responsible for hiring and maintaining the labor force at each of our hotels. Although we do not directly employ or manage employees at our hotels, we still are subject to many of the costs and risks generally associated with the hotel labor force, particularly those hotels with unionized labor. From time to time, hotel operations may be disrupted as a result of strikes, lockouts, public demonstrations or other negative actions and publicity. We also may incur increased legal costs and indirect labor costs as a result of contract disputes or other events. The resolution of labor disputes or re-negotiated labor contracts could lead to increased labor costs, either by increases in wages or benefits or by changes in work rules that raise hotel operating costs. We do not have the ability to affect the outcome of these negotiations. Our third party managers may also be unable to hire quality personnel to adequately staff hotel departments, which could result in a sub-standard level of service to hotel guests and hotel operations

### **RISKS RELATED TO CONFLICTS OF INTEREST**

Our agreements with our external advisor, as well as our mutual exclusivity agreement and management agreements with Remington Lodging and Premier Project Management LLC, a subsidiary of Ashford Inc. (“Premier”), were not negotiated on an arm’s-length basis, and we may pursue less vigorous enforcement of their terms because of conflicts of interest with certain of our executive officers and directors and key employees of our advisor.

Because each of our executive officers are also key employees of our advisor or its affiliates and have ownership interests in our advisor and because our chairman of our board has an ownership interest in Remington Lodging and our advisor, our advisory agreement, our master property management agreement and property management mutual exclusivity agreement with Remington Lodging and our master project management agreement and project management mutual exclusivity agreement with Premier were not negotiated on an arm’s-length basis, and we did not have the benefit of arm’s-length negotiations of the type normally conducted with an unaffiliated third party. As a result, the terms, including fees and other amounts payable, may not be as favorable to us as an arm’s-length agreement. Furthermore, we may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationship with our advisor, Remington Lodging and Premier.

The termination fee payable to our advisor significantly increases the cost to us of terminating our advisory agreement, thereby effectively limiting our ability to terminate our advisor without cause and could make a change of control transaction less likely or the terms thereof less attractive to us and to our stockholders.

The initial term of our advisory agreement with our advisor is 10 years from the effective date of the advisory agreement, with automatic five-year renewal terms thereafter unless previously terminated. Our board will review our advisor's performance and fees annually and, following the 10-year initial term the advisory agreement may be terminated by us with the payment of the termination fee described below and 180 days' prior notice upon the affirmative vote of at least two-thirds of our independent directors based upon a good faith finding that either: (1) there has been unsatisfactory performance by our advisor that is materially detrimental to us and our subsidiaries taken as a whole; or (2) the base fee and/or incentive fee is not fair (and our advisor does not offer to negotiate a lower fee that a majority of our independent directors determines is fair). Additionally, if there is a change of control transaction, we will have the right to terminate the advisory agreement with the payment of the termination fee described

Table of Contents

below. If we terminate or do not renew the advisory agreement without cause, including pursuant to clauses (1) or (2) above (following a contractual renegotiation process in the case of clause (2) above) or upon a change of control, we will be required to pay our advisor a termination fee equal to:

- (A) 1.1 multiplied by the greater of (i) 12 times the net earnings of our advisor for the 12 month period preceding the termination date of the advisory agreement; (ii) the earnings multiple (calculated as our advisor's total enterprise value on the trading day immediately preceding the day the termination notice is given to our advisor divided by our advisor's most recently reported adjusted EBITDA) for our advisor's common stock for the 12 month period preceding the termination date of the advisory agreement multiplied by the net earnings of our advisor for the 12 month period preceding the termination date of the advisory agreement; or (iii) the simple average of the earnings multiples for each of the three fiscal years preceding the termination of the advisory agreement (calculated as our advisor's total enterprise value on the last trading day of each of the three preceding fiscal years divided by, in each case, our advisor's adjusted EBITDA for the same periods), multiplied by the net earnings of our advisor for the 12 month period preceding the termination date of the advisory agreement; plus
- (B) an additional amount such that the total net amount received by our advisor after the reduction by state and federal income taxes at an assumed combined rate of 40% on the sum of the amounts described in (A) and (B) shall equal the amount described in (A).

Any such termination fee will be payable on or before the termination date. The termination fee makes it more difficult for us to terminate our advisory agreement even if our board determines that there has been unsatisfactory performance or unfair fees. These provisions significantly increase the cost to us of terminating our advisory agreement, thereby limiting our ability to terminate our advisor without cause.

Our advisor manages other entities and may direct attractive investment opportunities away from us. If we change our investment guidelines, our advisor is not restricted from advising clients with similar investment guidelines.

Our executive officers also serve as key employees and as officers of our advisor and Braemar Hotels & Resorts Inc., (together with its subsidiaries, "Braemar"), and will continue to do so. Furthermore, Mr. Monty J. Bennett, our chairman, is also the chief executive officer and chairman of our advisor and chairman of Braemar. Our advisory agreement requires our advisor to present investments that satisfy our investment guidelines to us before presenting them to Braemar or any future client of our advisor. Additionally, in the future our advisor may advise other clients, some of which may have investment guidelines substantially similar to ours.

Some portfolio investment opportunities may include hotels that satisfy our investment objectives as well as hotels that satisfy the investment objectives of Braemar or other entities advised by our advisor. If the portfolio cannot be equitably divided, our advisor will necessarily have to make a determination as to which entity will be presented with the opportunity. In such a circumstance, our advisory agreement requires our advisor to allocate portfolio investment opportunities between us, Braemar or other entities advised by our advisor in a fair and equitable manner, consistent with our, Braemar's and such other entities' investment objectives. In making this determination, our advisor, using substantial discretion, will consider the investment strategy and guidelines of each entity with respect to acquisition of properties, portfolio concentrations, tax consequences, regulatory restrictions, liquidity requirements and other factors deemed appropriate. In making the allocation determination, our advisor has no obligation to make any such investment opportunity available to us. Further, our advisor and Braemar have agreed that any new investment opportunities that satisfy our investment guidelines will be presented to our board of directors; however, our board will have only ten business days to make a determination with respect to such opportunity prior to it being available to Braemar. The above mentioned dual responsibilities may create conflicts of interest for our officers which could result in decisions or allocations of investments that may benefit one entity more than the other.

Our advisor and its key employees, who are Braemar's, Ashford Inc.'s and our executive officers, face competing demands relating to their time and this may adversely affect our operations.

We rely on our advisor and its employees for the day-to-day operation of our business. Certain key employees of our advisor are executive officers of Braemar and Ashford Inc. Because our advisor's key employees have duties to Braemar and Ashford Inc., as well as to our company, we do not have their undivided attention and they face conflicts in allocating their time and resources between our company, Braemar and Ashford Inc. Our advisor may also manage other entities in the future. During turbulent market conditions or other times when we need focused support and

assistance from our advisor, other entities for which our advisor also acts as an external advisor will likewise require greater focus and attention as well, placing competing high levels of demand on the limited time and resources of our advisor's key employees. Additionally, activist investors have, and in the future, may commence campaigns seeking to influence other entities advised by our advisor to take particular actions favored by the activist or gain representation on the board of directors of such entities, which could result in additional disruption and diversion of management's attention. We may not receive the necessary support and assistance we require or would otherwise receive if we were internally managed by persons working exclusively for us.



Table of Contents

Our business could be negatively affected as a result of actions by activist stockholders.

Campaigns by stockholders to effect changes in publicly traded companies are sometimes led by activist investors through various corporate actions, including proxy contests. Responding to actions by activist investors can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees.

Stockholder activism could create perceived uncertainties as to our future direction, which could result in the loss of potential business opportunities and make it more difficult to attract and retain qualified personnel and business partners. Furthermore, the election of individuals to our board of directors with a specific agenda could adversely affect our ability to effectively and timely implement our strategic plans.

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

Conflicts of interest in general and specifically relating to Remington Lodging and our advisor may lead to management decisions that are not in the stockholders' best interest. The Chairman of our board of directors, Mr. Monty J. Bennett, serves as the Chief Executive Officer of Remington Lodging and Mr. Archie Bennett, Jr., who is our Chairman Emeritus, serves as Chairman of the board of directors of Remington Lodging. Messrs. Archie Bennett, Jr. and Monty Bennett beneficially own 100% of Remington Lodging, which, as of December 31, 2018, managed 81 of our 119 hotel properties and the WorldQuest condominium properties and provides other services. Mr. Monty Bennett also serves as Chairman of the board of directors and Chief Executive Officer of Ashford Inc. As of December 31, 2018, Messrs. Archie Bennett, Jr. and Monty Bennett beneficially own approximately 313,014 shares of Ashford Inc.'s common stock, which represented an approximate 13.1% ownership in Ashford Inc. and 7,800,000 share of Ashford Inc.'s Series B Cumulative Preferred Stock, which is exercisable (at an exercise price of \$140 per share) into an additional approximate 1,392,857 shares of Ashford Inc. common stock, which if exercised as of December 31, 2018, would have increased Mr. Bennett and Mr. Bennett, Jr.'s ownership interest in Ashford Inc. to 45.1%.

Messrs. Archie Bennett, Jr. and Monty Bennett's ownership interests in and management obligations to Remington Lodging and Ashford Inc. present them with conflicts of interest in making management decisions related to the commercial arrangements between us and Remington Lodging and Ashford Inc., and Mr. Monty J. Bennett's management obligations to Remington Lodging and Ashford Inc. (and his obligations to Braemar, where he also serves as Chairman of the board of directors) reduces the time and effort he spends on us. Our board of directors has adopted a policy that requires all material approvals, actions or decisions to which we have the right to make under the management agreements with Remington Lodging and Ashford Inc. be approved by a majority or, in certain circumstances, all of our independent directors. However, given the authority and/or operational latitude to Remington Lodging under the property management agreement and Premier under the project management agreement, in each case, to which we are a party, Messrs. Archie Bennett, Jr. and Monty Bennett, as officers of Remington Lodging and Mr. Monty Bennett as an officer of Ashford Inc., could take actions or make decisions that are not in our stockholders' best interest or that are otherwise inconsistent with their obligations under the management agreements or our obligations under the applicable franchise agreements.

Holders of units in our operating partnership, including members of our management team, may suffer adverse tax consequences upon our sale of certain properties. Therefore, holders of units, either directly or indirectly, including Messrs. Archie Bennett, Jr. and Monty Bennett, or Mr. Mark Nunneley, our Chief Accounting Officer, may have different objectives regarding the appropriate pricing and timing of a particular property's sale. These officers and directors of ours may influence us to sell, not sell, or refinance certain properties, even if such actions or inactions might be financially advantageous to our stockholders, or to enter into tax deferred exchanges with the proceeds of such sales when such a reinvestment might not otherwise be in our best interest.

We are a party to a master property management agreement and a property management exclusivity agreement with Remington Lodging and a project management agreement and a project management exclusivity agreement with Ashford Inc., which describes the terms of Remington Lodging's and Ashford Inc.'s, respectively, services to our hotels, as well as any future hotels we may acquire that may or may not be property managed by Remington Lodging or project managed by Ashford Inc. The exclusivity agreements requires us to engage Remington Lodging for property management and Ashford Inc. for project management, respectively, unless, in each case, our independent directors either: (i) unanimously vote to hire a different manager or developer; or (ii) by a majority vote, elect not to

engage Remington Lodging or Ashford Inc., as the case may be, because they have determined that special circumstances exist or that, based on Remington Lodging's or Ashford Inc.'s prior performance, another manager or developer could perform the duties materially better. As the sole owners of Remington Lodging and significant owners of Ashford Inc., which would receive any development, management, and management termination fees payable by us under the management agreements, Mr. Monty J. Bennett, and to a lesser extent, Mr. Archie Bennett, Jr., in his role as Chairman Emeritus, may influence our decisions to sell, acquire, or develop hotels when it is not in the best interests of our stockholders to do so.

Table of Contents

Remington's ability to exercise significant influence over the determination of the competitive set for any hotels managed by Remington could artificially enhance the perception of the performance of a hotel, making it more difficult to use managers other than Remington for future properties.

Our property management mutual exclusivity agreement with Remington requires us to engage Remington to manage all future properties that we acquire, to the extent we have the right or control the right to direct such matters, unless our independent directors either (i) unanimously vote not to hire Remington or (ii) based on special circumstances or past performance, by a majority vote, elect not to engage Remington because they have determined, in their reasonable business judgment, that it would be in our best interest not to engage Remington or that another manager or developer could perform the duties materially better. Under our master property management agreement with Remington, we have the right to terminate Remington based on the performance of the applicable hotel, subject to the payment of a termination fee. The determination of performance is based on the applicable hotel's gross operating profit margin and its RevPAR penetration index, which provides the relative revenue per room generated by a specified property as compared to its competitive set. For each hotel managed by Remington, its competitive set will consist of a small group of hotels in the relevant market that we and Remington believe are comparable for purposes of benchmarking the performance of such hotel. Remington will have significant influence over the determination of the competitive set for any of our hotels managed by Remington, and as such could artificially enhance the perception of the performance of a hotel by selecting a competitive set that is not performing well or is not comparable to the Remington-managed hotel, thereby making it more difficult for us to elect not to use Remington for future hotel management.

Under the terms of our property management mutual exclusivity agreement with Remington, Remington may be able to pursue lodging investment opportunities that compete with us.

Pursuant to the terms of our property management mutual exclusivity agreement with Remington, if investment opportunities that satisfy our investment criteria are identified by Remington or its affiliates, Remington will give us a written notice and description of the investment opportunity. We will have 10 business days to either accept or reject the investment opportunity. If we reject the opportunity, Remington may then pursue such investment opportunity, subject to a right of first refusal in favor of Braemar, pursuant to an existing agreement between Braemar and Remington, on materially the same terms and conditions as offered to us. If we were to reject such an investment opportunity, either Braemar or Remington could pursue the opportunity and compete with us. In such a case, Mr. Monty J. Bennett, our chairman, in his capacity as chairman of Braemar or chief executive officer of Remington could be in a position of directly competing with us.

Our fiduciary duties as the general partner of our operating partnership could create conflicts of interest, which may impede business decisions that could benefit our stockholders.

We, as the general partner of our operating partnership, have fiduciary duties to the other limited partners in our operating partnership, the discharge of which may conflict with the interests of our stockholders. The limited partners of our operating partnership have agreed that, in the event of a conflict in the fiduciary duties owed by us to our stockholders and, in our capacity as general partner of our operating partnership, to such limited partners, we are under no obligation to give priority to the interests of such limited partners. In addition, those persons holding common units will have the right to vote on certain amendments to the operating partnership agreement (which require approval by a majority in interest of the limited partners, including us) and individually to approve certain amendments that would adversely affect their rights. These voting rights may be exercised in a manner that conflicts with the interests of our stockholders. For example, we are unable to modify the rights of limited partners to receive distributions as set forth in the operating partnership agreement in a manner that adversely affects their rights without their consent, even though such modification might be in the best interest of our stockholders.

In addition, conflicts may arise when the interests of our stockholders and the limited partners of our operating partnership diverge, particularly in circumstances in which there may be an adverse tax consequence to the limited partners. Tax consequences to holders of common units upon a sale or refinancing of our properties may cause the interests of the key employees of our advisor (who are also our executive officers and have ownership interests in our operating partnership) to differ from our stockholders.

Our conflicts of interest policy may not adequately address all of the conflicts of interest that may arise with respect to our activities.

In order to avoid any actual or perceived conflicts of interest with our directors or officers or our advisor's employees, we adopted a conflicts of interest policy to address specifically some of the conflicts relating to our activities.

Although under this policy the approval of a majority of our disinterested directors is required to approve any transaction, agreement or relationship in which any of our directors or officers or our advisor or it has an interest, there is no assurance that this policy will be adequate to address all of the conflicts that may arise or will address such conflicts in a manner that is favorable to us.

## Table of Contents

### RISKS RELATED TO DERIVATIVE TRANSACTIONS

We have engaged in and may continue to engage in derivative transactions, which can limit our gains and expose us to losses.

We have entered into and may continue to enter into hedging transactions to: (i) attempt to take advantage of changes in prevailing interest rates; (ii) protect our portfolio of mortgage assets from interest rate fluctuations; (iii) protect us from the effects of interest rate fluctuations on floating-rate debt; (iv) protect us from the risk of fluctuations in the financial and capital markets; or (v) preserve net cash in the event of a major downturn in the economy. Our hedging transactions may include entering into interest rate swap agreements, interest rate cap or floor agreements or flooridor and corridor agreements, credit default swaps and purchasing or selling futures contracts, purchasing or selling put and call options on securities or securities underlying futures contracts, or entering into forward rate agreements. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Volatile fluctuations in market conditions could cause these instruments to become ineffective. Any gains or losses associated with these instruments are reported in our earnings each period. No hedging activity can completely insulate us from the risks inherent in our business.

Credit default hedging could fail to protect us or adversely affect us because if a swap counterparty cannot perform under the terms of our credit default swap, we may not receive payments due under such agreement and, thus, we may lose any potential benefit associated with such credit default swap. Additionally, we may also risk the loss of any cash collateral we have pledged to secure our obligations under such credit default swaps if the counterparty becomes insolvent or files for bankruptcy.

Moreover, interest rate hedging could fail to protect us or adversely affect us because, among other things:

- available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;

- the duration of the hedge may not match the duration of the related liability;

- the party owing money in the hedging transaction may default on its obligation to pay;

- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and

- the value of derivatives used for hedging may be adjusted from time to time in accordance with generally accepted accounting principles (“GAAP”) to reflect changes in fair value and such downward adjustments, or “mark-to-market loss,” would reduce our stockholders’ equity.

Hedging involves both risks and costs, including transaction costs, which may reduce our overall returns on our investments. These costs increase as the period covered by the hedging relationship increases and during periods of rising and volatile interest rates. These costs will also limit the amount of cash available for distributions to stockholders. We generally intend to hedge to the extent management determines it is in our best interest given the cost of such hedging transactions as compared to the potential economic returns or protections offered. The REIT qualification rules may limit our ability to enter into hedging transactions by requiring us to limit our income and assets from hedges. If we are unable to hedge effectively because of the REIT rules, we will face greater interest rate exposure than may be commercially prudent.

We are subject to the risk of default or insolvency by the hospitality entities underlying our investments.

The leveraged capital structure of the hospitality entities underlying our investments will increase their exposure to adverse economic factors (such as rising interest rates, competitive pressures, downturns in the economy or deterioration in the condition of the real estate industry) and to the risk of unforeseen events. If an underlying entity cannot generate adequate cash flow to meet such entity’s debt obligations (which may include leveraged obligations in excess of its aggregate assets), it may default on its loan agreements or be forced into bankruptcy. As a result, we may suffer a partial or total loss of the capital we have invested in the securities and other investments of such entity.

The derivatives provisions of the Dodd-Frank Act and related rules could have an adverse effect on our ability to use derivative instruments to reduce the negative effect of interest rate fluctuations on our results of operations and liquidity, credit default risks and other risks associated with our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) establishes federal oversight and regulation of the over-the-counter derivatives market and entities, including us, that participate in that market. As required by the Dodd-Frank Act, the Commodities Futures Trading Commission (the “CFTC”), the SEC and other

regulators have adopted certain rules implementing the swaps regulatory provisions of the Dodd-Frank Act and are in the process of adopting other rules to implement those provisions. Numerous provisions of the Dodd-Frank Act and the CFTC's rules relating to derivatives that qualify as "swaps" thereunder apply or may apply to the derivatives to which we are or may become a counterparty. Under such statutory provisions and the CFTC's rules, we must clear on a derivatives clearing organization any over-the-counter swap we enter into

23

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## Table of Contents

that is within a class of swaps designated for clearing by CFTC rule and execute trades in such cleared swap on an exchange if the swap is accepted for trading on the exchange unless such swap is exempt from such mandatory clearing and trade execution requirements. We may qualify for and intend to elect the end-user exception from those requirements for swaps we enter to hedge our commercial risks and that are subject to the mandatory clearing and trade execution requirements. If we are required to clear or voluntarily elect to clear any swaps we enter into, those swaps will be governed by standardized agreements and we will have to post margin with respect to such swaps. To date, the CFTC has designated only certain types of interest rate swaps and credit default swaps for clearing and trade execution. Although we believe that none of the interest rate swaps and credit default swaps to which we are currently party fall within those designated types of swaps, we may enter into swaps in the future that will be subject to the mandatory clearing and trade execution requirements and subject to the risks described.

Rules recently adopted by banking regulators and the CFTC in accordance with a requirement of the Dodd-Frank Act require regulated financial institutions and swap dealers and major swap participants that are not regulated financial institutions to collect margin with respect to uncleared swaps to which they are parties and to which financial end users, among others, are their counterparties. We will qualify as a financial end user for purposes of such margin rules. We will not have to post initial margin with respect to our uncleared swaps under the new rules because we do not have material swaps exposure as defined in the new rules. However, we will be required to post variation margin (most likely in the form of cash collateral) with respect to each of our uncleared swaps subject to the new margin rules in an amount equal to the cumulative decrease in the mark-to-market value of such swap to our counterparty as of any date of determination from the value of such swap as of the date of the swap's execution. The SEC has proposed margin rules for security-based swaps to which regulated financial institutions are not counterparties. Those proposed rules differ from the CFTC's margin rules, but the final form that those rules will take and their effect is uncertain at this time.

The Dodd-Frank Act has caused certain market participants, and may cause other market participants, including the counterparties to our derivative instruments, to spin off some of their derivatives activities to separate entities. Those entities may not be as creditworthy as the historical counterparties to our derivatives.

Some of the rules required to implement the swaps-related provisions of the Dodd-Frank Act remain to be adopted, and the CFTC has, from time to time, issued and may in the future issue interpretations and no-action letters interpreting, and clarifying the application of, those provisions and the related rules or delaying compliance with those provisions and rules. As a result, it is not possible at this time to predict with certainty the full effects of the Dodd-Frank Act, the CFTC's rules and the SEC's rules on us and the timing of such effects.

The Dodd-Frank Act and the rules adopted thereunder could significantly increase the cost of derivative contracts (including from swap recordkeeping and reporting requirements and through requirements to post margin with respect to our swaps, which could adversely affect our available liquidity), materially alter the terms of derivative contracts, reduce the availability of derivatives to protect against risks we encounter, reduce our ability to monetize or restructure our existing derivative contracts, and increase our exposure to less creditworthy counterparties. If we reduce our use of derivatives as a result of the Dodd-Frank Act and the related rules, our results of operations may become more volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures and to pay dividends to our stockholders. Any of these consequences could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

### **RISKS RELATED TO INVESTMENTS IN SECURITIES, MORTGAGES AND MEZZANINE LOANS**

Our earnings are dependent, in part, upon the performance of our investment portfolio.

To the extent permitted by the Internal Revenue Code, we may invest in and own securities of other public companies and REITs (including Ashford Inc. and Braemar). To the extent that the value of those investments declines or those investments do not provide an attractive return, our earnings and cash flow could be adversely affected.

Debt investments that are not United States government insured involve risk of loss.

As part of our business strategy, we may originate or acquire lodging-related uninsured and mortgage assets, including mezzanine loans. While holding these interests, we are subject to risks of borrower defaults, bankruptcies, fraud and related losses, and special hazard losses that are not covered by standard hazard insurance. Also, costs of financing the mortgage loans could exceed returns on the mortgage loans. In the event of any default under mortgage loans held by

us, we will bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the mortgage loan. We suffered significant impairment charges with respect to our investments in mortgage loans in 2009 and 2010. The value and the price of our securities may be adversely affected.



Table of Contents

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

Investment yields affect our decision whether to originate or purchase investments and the price offered for such investments.

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

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

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

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

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

The assets associated with certain of our derivative transactions do not constitute qualified REIT assets and the related income will not constitute qualified REIT income. Significant fluctuations in the value of such assets or the related income could jeopardize our REIT status or result in additional tax liabilities.

We have entered into certain derivative transactions to protect against interest rate risks and credit default risks not specifically associated with debt incurred to acquire qualified REIT assets. The REIT provisions of the Internal Revenue Code limit our income and assets in each year from such derivative transactions. Failure to comply with the asset or income limitation within the REIT provisions of the Internal Revenue Code could result in penalty taxes or loss of our REIT status. If we elect to contribute the non-qualifying derivatives into a taxable REIT subsidiary to preserve our REIT status, such an action would result in any income from such transactions being subject to federal income taxation.

Our prior investment performance is not indicative of future results.

The performance of our prior investments is not necessarily indicative of the results that can be expected for the investments to be made by our subsidiaries. On any given investment, total loss of the investment is possible. Although our management team has experience and has had success in making investments in real estate-related lodging debt and hotel assets, the past performance of these investments is not necessarily indicative of the results of our future investments.

Our investment portfolio will contain investments concentrated in a single industry and will not be fully diversified.

We have formed subsidiaries for the primary purpose of acquiring public securities and other investments of lodging-related entities. As such, our investment portfolio will contain investments concentrated in a single industry and may not be fully diversified by asset class, geographic region or other criteria, which will expose us to significant loss due to concentration risk. Investors have no assurance that the degree of diversification in our investment portfolio will increase at any time in the future.

25

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## Table of Contents

The values of our investments are affected by the U.S. credit and financial markets and, as such, may fluctuate. The U.S. credit and financial markets may experience severe dislocations and liquidity disruptions. The values of our investments are likely to be sensitive to the volatility of the U.S. credit and financial markets, and, to the extent that turmoil in the U.S. credit and financial markets continues or intensifies, such volatility has the potential to materially affect the value of our investment portfolio.

We may invest in securities for which there is no liquid market, and we may be unable to dispose of such securities at the time or in the manner that may be most favorable to us, which may adversely affect our business.

We may invest in securities for which there is no liquid market or which may be subject to legal and other restrictions on resale or otherwise be less liquid than publicly traded securities generally. The relative illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. Our investments may occasionally be subject to contractual or legal restrictions on resale or will be otherwise illiquid due to the fact that there is no established trading market for such securities, or such trading market is thinly traded. The relative illiquidity of such investments may make it difficult for us to dispose of them at a favorable price, and, as a result, we may suffer losses.

### RISKS RELATED TO THE REAL ESTATE INDUSTRY

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

Because real estate investments are relatively illiquid, our ability to sell promptly one or more hotel properties or mortgage loans in our portfolio for reasonable prices in response to changing economic, financial, and investment conditions is limited.

The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in international, national, regional and local economic and market conditions;
- changes in interest rates and in the availability, cost, and terms of debt financing;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of war or terrorism, and acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured and underinsured losses.

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

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a hotel property, we may agree to lock-out provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These and other factors could impede our ability to respond to adverse changes in the performance of our hotel properties or a need for liquidity.

Increases in property taxes would increase our operating costs, reduce our income and adversely affect our ability to make distributions to our stockholders.

Each of our hotel properties will be subject to real and personal property taxes. These taxes may increase as tax rates change and as the properties are assessed or reassessed by taxing authorities. If property taxes increase, our financial condition, results of operations and our ability to make distributions to our stockholders could be materially and adversely affected and the market price of our common stock could decline.



## Table of Contents

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

Operating expenses at our hotels could be higher than anticipated due to the cost of complying with existing or future environmental laws and regulations. In addition, our hotel properties and properties underlying our loan assets may be subject to environmental liabilities. An owner of real property, or a lender with respect to a property that exercises control over the property, can face liability for environmental contamination created by the presence or discharge of hazardous substances on the property. We may face liability regardless of:

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

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

The presence of hazardous substances on a property we own or have made a loan with respect to may adversely affect our ability to sell, on favorable terms or at all, or foreclose on the property, and we may incur substantial remediation costs. The discovery of material environmental liabilities at our properties or properties underlying our loan assets could subject us to unanticipated significant costs.

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

Numerous treaties, laws and regulations have been enacted to regulate or limit carbon emissions. Changes in the regulations and legislation relating to climate change, and complying with such laws and regulations, may require us to make significant investments in our hotels and could result in increased energy costs at our properties.

Our properties and the properties underlying our mortgage loans may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

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

Compliance with the Americans with Disabilities Act and fire, safety, and other regulations may require us or our borrowers to incur substantial costs.

All of our properties and properties underlying our mortgage loans are required to comply with the Americans with Disabilities Act of 1990, as amended (the “ADA”). The ADA requires that “public accommodations” such as hotels be made accessible to people with disabilities. Compliance with the ADA’s requirements could require removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants, or both. In addition, we and our borrowers are required to operate our properties in compliance with fire and safety regulations, building codes, and other land use regulations as they may be adopted by governmental agencies and bodies and become applicable to our properties. Any requirement to make substantial modifications to

our hotel properties, whether to comply with the ADA or other changes in governmental rules and regulations, could be costly.

27

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## Table of Contents

We may obtain only limited warranties when we purchase a property and would have only limited recourse if our due diligence did not identify any issues that lower the value of our property, which could adversely affect our financial condition and ability to make distributions to our stockholders.

The seller of a property may sell such property in its “as is” condition on a “where is” basis and “with all faults,” without any warranties of merchantability or fitness for a particular use or purpose. In addition, purchase agreements may contain only limited warranties, representations and indemnifications that will only survive for a limited period after the closing. The purchase of properties with limited warranties increases the risk that we may lose some or all our invested capital in the property as well as the loss of income from that property.

We may experience uninsured or underinsured losses.

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

Various types of catastrophic losses may not be insurable or may not be economically insurable. In the event of a substantial loss, our insurance coverage may not cover the full current market value or replacement cost of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations, and other factors might cause insurance proceeds to be insufficient to fully replace or renovate a hotel after it has been damaged or destroyed. Accordingly, there can be no assurance that:

- the insurance coverage thresholds that we have obtained will fully protect us against insurable losses (i.e., losses may exceed coverage limits);
- we will not incur large deductibles that will adversely affect our earnings;
- we will not incur losses from risks that are not insurable or that are not economically insurable; or
- current coverage thresholds will continue to be available at reasonable rates.

In the future, we may choose not to maintain terrorism insurance on any of our properties. As a result, one or more large uninsured or underinsured losses could have a material adverse effect on us.

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

### RISKS RELATED TO OUR STATUS AS A REIT

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

We conduct operations so as to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only a limited number of judicial or administrative interpretations exist. Even a technical or inadvertent mistake could jeopardize our REIT status. Due to the gain we recognized as a result of the spin-off of Braemar, if Braemar were to fail to qualify as a REIT for 2013, we may have failed to qualify as a REIT for 2013 and subsequent taxable years. Furthermore, new tax legislation, administrative guidance, or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT.

If we fail to qualify as a REIT in any tax year, then:

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we would be taxed as a regular domestic corporation, which, among other things, means being unable to deduct distributions to our stockholders in computing taxable income and being subject to U.S. federal income tax on our taxable income at regular corporate rates;

28

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Table of Contents

we would also be subject to federal alternative minimum tax for taxable years beginning before January 1, 2018, and, possibly, increased state and local income taxes; any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders; and

unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year that we lost our qualification, and, thus, our cash available for distribution to stockholders could be reduced for each of the years during which we did not qualify as a REIT.

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

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

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

• We will be required to pay tax on undistributed REIT taxable income.

If we have net income from the disposition of foreclosure property held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay tax on that income at the highest corporate rate.

• If we sell a property in a “prohibited transaction,” our gain from the sale would be subject to a 100% penalty tax.

Each of our taxable REIT subsidiaries is a fully taxable corporation and will be subject to federal and state taxes on its income.

We may continue to experience increases in our state and local income tax burden. Over the past several years, certain state and local taxing authorities have significantly changed their income tax regimes in order to raise revenues. The changes enacted that have increased our state and local income tax burden include the taxation of modified gross receipts (as opposed to net taxable income), the suspension of and/or limitation on the use of net operating loss deductions, increases in tax rates and fees, the addition of surcharges, and the taxation of our partnership income at the entity level. Facing mounting budget deficits, more state and local taxing authorities have indicated that they are going to revise their income tax regimes in this fashion and/or eliminate certain federally allowed tax deductions such as the REIT dividends paid deduction.

Failure to make required distributions would subject us to U.S. federal corporate income tax.

We intend to operate in a manner that allows us to continue to qualify as a REIT for U.S. federal income tax purposes.

In order to continue to qualify as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, each year to our stockholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under the Internal Revenue Code.

Our TRS lessee structure increases our overall tax liability.

Our TRS lessees are subject to federal, state and local income tax on their taxable income, which consists of the revenues from the hotel properties leased by our TRS lessees, net of the operating expenses for such hotel properties and rent payments to us. Accordingly, although our ownership of our TRS lessees allows us to participate in the operating income from our hotel properties in addition to receiving fixed rent, the net operating income is fully subject to income tax. The after-tax net income of our TRS lessees is available for distribution to us.

If our leases with our TRS lessees are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

To qualify as a REIT, we are required to satisfy two gross income tests, pursuant to which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with our TRS lessees, which constitutes substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and must not be treated as service contracts,

joint ventures or some other type of arrangement. We have structured our leases, and intend to structure any future leases, so that the leases will be respected as true leases for federal income tax purposes, but the IRS may not agree with this characterization. If the leases were not respected as true leases for federal

## Table of Contents

income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs and likely would fail to qualify as a REIT.

Our ownership of TRSs is limited and our transactions with our TRSs will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT, including gross operating income from hotels that are operated by eligible independent contractors pursuant to hotel management agreements. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (20% with respect to taxable years beginning after December 31, 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. Finally, the 100% excise tax also applies to the underpricing of services by a TRS to its parent REIT in contexts where the services are unrelated to services for REIT tenants.

Our TRSs are subject to federal, foreign, state and local income tax on their taxable income, and their after-tax net income is available for distribution to us but is not required to be distributed to us. We believe that the aggregate value of the stock and securities of our TRSs is less than 20% of the value of our total assets (including our TRS stock and securities).

We monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we scrutinize all of our transactions with our TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. For example, in determining the amounts payable by our TRSs under our leases, we engaged a third party to prepare transfer pricing studies to ascertain whether the lease terms we established are on an arm's-length basis as required by applicable Treasury Regulations. However the receipt of a transfer pricing study does not prevent the IRS from challenging the arm's length nature of the lease terms between a REIT and its TRS lessees. Consequently, there can be no assurance that we will be able to avoid application of the 100% excise tax discussed above.

If our hotel managers do not qualify as "eligible independent contractors," we would fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" of ours is not qualifying income for purposes of the two gross income tests applicable to REITs. We lease all of our hotels to our TRS lessees. A TRS lessee will not be treated as a "related party tenant," and will not be treated as directly operating a lodging facility, which is prohibited, to the extent the TRS lessee leases properties from us that are managed by an "eligible independent contractor."

We believe that the rent paid by our TRS lessees is qualifying income for purposes of the REIT gross income tests and that our TRSs qualify to be treated as TRSs for U.S. federal income tax purposes, but there can be no assurance that the IRS will not challenge this treatment or that a court would not sustain such a challenge. If we failed to meet either the asset or gross income tests, we would likely lose our REIT qualification for U.S. federal income tax purposes, unless certain relief provisions applied.

If our hotel managers do not qualify as "eligible independent contractors," we would fail to qualify as a REIT. Each of the hotel management companies that enters into a management contract with our TRS lessees must qualify as an "eligible independent contractor" under the REIT rules in order for the rent paid to us by our TRS lessees to be qualifying income for our REIT income test requirements. Among other requirements, in order to qualify as an eligible independent contractor a manager must not own more than 35% of our outstanding shares (by value) and no person or group of persons can own more than 35% of our outstanding shares and the ownership interests of the manager, taking into account only owners of more than 5% of our shares and, with respect to ownership interests in such managers that are publicly-traded, only holders of more than 5% of such ownership interests. Complex ownership attribution rules apply for purposes of these 35% thresholds. Although we intend to monitor ownership of our shares by our property managers and their owners, there can be no assurance that these ownership levels will not be exceeded.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum U.S. federal income tax rate applicable to “qualified dividend income” payable to U.S. stockholders that are taxed at individual rates is 20%. Dividends payable by REITs, however, generally are not eligible for this reduced maximum rate on qualified dividend income. However, under the Tax Cuts and Jobs Act a non-corporate taxpayer may deduct 20% of ordinary REIT dividends that are not “capital gain dividends” or “qualified dividend income” resulting in an effective maximum federal income tax rate of 29.6%. Individuals, trusts and estates whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on dividends received from us. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments

## Table of Contents

in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our stock.

If our operating partnership failed to qualify as a partnership for federal income tax purposes, we would cease to qualify as a REIT and would be subject to higher taxes and have less cash available for distribution to our stockholders and suffer other adverse consequences.

We believe that our operating partnership qualifies to be treated as a partnership for federal income tax purposes. As a partnership, our operating partnership is not subject to federal income tax on its income. Instead, each of its partners, including us, is required to pay tax on its allocable share of the operating partnership's income. No assurance can be provided, however, that the IRS will not challenge its status as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our operating partnership as a corporation for tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, cease to qualify as a REIT. Also, the failure of our operating partnership to qualify as a partnership would cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us.

Note that although partnerships have traditionally not been subject to federal income tax at the entity level as described above, new audit rules, will generally apply to the partnership. Under the new rules, unless an entity elects otherwise, taxes arising from audit adjustments are required to be paid by the entity rather than by its partners or members. We may utilize exceptions available under the new provisions (including any changes) and Treasury Regulations so that the partners, to the fullest extent possible, rather than the partnership itself, will be liable for any taxes arising from audit adjustments to the issuing entity's taxable income. One such exception is to apply an elective alternative method under which the additional taxes resulting from the adjustment are assessed from the affected partners (often referred to as a "push-out election"), subject to a higher rate of interest than otherwise would apply. When a push-out election causes a partner that is itself a partnership to be assessed with its share of such additional taxes from the adjustment, such partnership may cause such additional taxes to be pushed out to its own partners. In addition, Treasury Regulations provide that a partner that is a REIT may be able to use deficiency dividend procedures with respect to such adjustments. Many questions remain as to how the partnership audit rules will apply, and it is not clear at this time what effect these rules will have on us. However, it is possible that these changes could increase the federal income tax, interest, and/or penalties otherwise borne by us in the event of a federal income tax audit of a subsidiary partnership (such as our operating partnership).

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

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

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

The REIT provisions of the Internal Revenue Code may limit our ability to hedge mortgage securities and related borrowings by requiring us to limit our income and assets in each year from certain hedges, together with any other income not generated from qualified real estate assets, to no more than 25% of our gross income. In addition, we must limit our aggregate income from nonqualified hedging transactions, from our provision of services, and from other non-qualifying sources to no more than 5% of our annual gross income. As a result, we may have to limit our use of advantageous hedging techniques. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur. However, for transactions that we enter into to protect against interest rate risks on debt incurred to acquire qualified REIT assets and for which we identify as hedges for tax purposes, any associated hedging income is excluded from the 95% income test and the 75% income test applicable to a REIT. In addition, similar rules apply to income from positions that primarily manage risk with respect to a prior hedge entered into by a REIT in connection with the extinguishment or disposal (in whole or in part) of the liability or asset related to such

prior hedge, to the extent the new position qualifies as a hedge or would so qualify if the hedged position were ordinary property. If we were to violate the 25% or 5% limitations, we may have to pay a penalty tax equal to the amount of income in excess of those limitations multiplied by a fraction intended to reflect our profitability. If we fail to satisfy the REIT gross income tests, unless our failure was due to reasonable cause and not due to willful neglect, we could lose our REIT status for federal income tax purposes.

Table of Contents

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

To qualify as a REIT, we must also ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities, and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by securities of one or more taxable REIT subsidiaries, and no more than 25% of the value of our total assets can be represented by certain publicly offered REIT debt instruments. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences.

As a result, we may be required to liquidate otherwise attractive investments.

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

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

From time to time, we may generate taxable income greater than our net income for financial reporting purposes or our taxable income may be greater than our cash flow available for distribution to our stockholders. If we do not have other funds available in these situations, we could be required to borrow funds, sell investments at disadvantageous prices, or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce the value of our equity. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under U.S. federal income tax laws governing REIT distribution requirements. To the extent that we make distributions in excess of our current and accumulated earnings and profits (as determined for U.S. federal income tax purposes), such distributions would generally be considered a return of capital for U.S. federal income tax purposes to the extent of the holder's adjusted tax basis in its shares. A return of capital is not taxable, but it has the effect of reducing the holder's adjusted tax basis in its investment. To the extent that distributions exceed the adjusted tax basis of a holder's shares, they will be treated as gain from the sale or exchange of such stock.

We may in the future choose to pay taxable dividends in our shares of our common stock instead of cash, in which case stockholders may be required to pay income taxes in excess of the cash dividends they receive.

We may distribute taxable dividends that are payable in cash and common stock at the election of each stockholder, subject to certain limitations, including that the cash portion be at least 20% of the total distribution.

If we make a taxable dividend payable in cash and common stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the shares of common stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in shares of common stock. In addition, if we made a taxable dividend payable in cash and our common stock and a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock. We do not currently intend to pay taxable dividends of our common stock and cash, although we may choose to do so in the future.

The prohibited transactions tax may limit our ability to dispose of our properties.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may be subject to the prohibited transaction tax equal to 100% of net gain upon a disposition of real property. Although a safe harbor to the characterization of the sale of real property by a REIT as a prohibited transaction is available, we cannot assure you that we can comply with the safe harbor or that we will avoid owning property that may be characterized as held primarily



Table of Contents

for sale to customers in the ordinary course of business. Consequently, we may choose not to engage in certain sales of our properties or may conduct such sales through our TRS, which would be subject to federal and state income taxation.

The ability of our board of directors to revoke our REIT qualification without stockholder approval may cause adverse consequences to our stockholders

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal and state and local income taxes on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on the total stockholder return received by our stockholders.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our securities. At any time, the U.S. federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in the U.S. federal income tax laws, regulations or administrative interpretations. It is possible that future legislation would result in a REIT having fewer advantages, and it could become more advantageous for a company that invests in real estate to elect to be taxed, for federal income tax purposes, as a corporation.

If Braemar failed to qualify as a REIT for 2013, it would significantly affect our ability to maintain our REIT status. For federal income tax purposes, we recorded a gain of approximately \$145.7 million as a result of the spin-off of Braemar in November 2013. If Braemar qualified for taxation as a REIT for 2013, that gain was qualifying income for purposes of our 2013 REIT income tests. If, however, Braemar failed to qualify as a REIT for 2013, that gain would be non-qualifying income for purposes of the 75% gross income test. Although Braemar covenanted in the Separation and Distribution Agreement to use reasonable best efforts to qualify as a REIT in 2013, no assurance can be given that it so qualified. If Braemar failed to qualify, we would have failed our 2013 REIT income tests, which would either result in our loss of our REIT status for 2013 and the following 4 taxable years or result in a significant tax in 2013 that has not been accrued or paid and thereby would materially negatively impact our business, financial condition and potentially impair our ability to continue operating in the future.

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

We strongly urge you to consult your own tax advisor concerning the effects of federal, state, and local income tax law on an investment in our securities because of the complex nature of the tax rules applicable to REITs and their stockholders.

Our failure to qualify as a REIT would potentially give rise to a claim for damages from Braemar.

In connection with the spin-off of Braemar, which was completed in November 2013, we represented in the Separation and Distribution Agreement with Braemar that we have no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT. In the event of a breach of this representation, Braemar may be able to seek damages from us, which could have a significantly negative effect on our liquidity and results of operations. Declines in the values of our investments may make it more difficult for us to maintain our qualification as a REIT or exemption from the Investment Company Act.

If the market value or income potential of real estate-related investments declines as a result of increased interest rates or other factors, we may need to increase our real estate-related investments and income or liquidate our non-qualifying assets in order to maintain our REIT qualification or exemption from the Investment Company Act of 1940 (the "Investment Company Act"). If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets that we may own. We may have to make investment decisions that we otherwise would not make absent the REIT and Investment Company Act considerations.



Table of Contents

RISKS RELATED TO OUR CORPORATE STRUCTURE

Our charter, the partnership agreement of our operating partnership and Maryland law contain provisions that may delay or prevent a change of control transaction.

Our charter contains 9.8% ownership limits. For the purpose of preserving our REIT qualification, our charter prohibits direct or constructive ownership by any person of more than (i) 9.8% of the lesser of the total number or value (whichever is more restrictive) of the outstanding shares of our common stock or (ii) 9.8% of the total number or value (whichever is more restrictive) of the outstanding shares of any class or series of our preferred stock or any other stock of our company, unless our board of directors grants a waiver.

Our charter's constructive ownership rules are complex and may cause stock owned actually or constructively by a group of related individuals and/or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of any class or series of our stock by an individual or entity could nevertheless cause that individual or entity to own constructively in excess of 9.8% of a class or series of outstanding stock, and thus be subject to our charter's ownership limit. Any attempt to own or transfer shares of our stock in excess of the ownership limit without the consent of our board of directors will be void, and could result in the shares being automatically transferred to a charitable trust.

Our board of directors may create and issue a class or series of common stock or preferred stock without stockholder approval.

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

Certain provisions in the partnership agreement for our operating partnership may delay or prevent unsolicited acquisitions of us.

Provisions in the partnership agreement for our operating partnership may delay or make more difficult unsolicited acquisitions of us or changes in our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some stockholders might consider such proposals, if made, desirable. These provisions include, among others:

- redemption rights of qualifying parties;
- transfer restrictions on our common units;
- the ability of the general partner in some cases to amend the partnership agreement without the consent of the limited partners; and
- the right of the limited partners to consent to transfers of the general partnership interest and mergers under specified circumstances.

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

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

These provisions include the following:

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

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

Maryland statutory law provides that an act of a director relating to or affecting an acquisition or a potential acquisition of control of a corporation may not be subject to a higher duty or greater scrutiny than is applied to any other act of a director. Hence,

34

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## Table of Contents

directors of a Maryland corporation by statute are not required to act in certain takeover situations under the same standards of care, and are not subject to the same standards of review, as apply in Delaware and other corporate jurisdictions.

Certain other provisions of Maryland law, if they became applicable to us, could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law (the “MGCL”) may have the effect of inhibiting a third party from making a proposal to acquire us under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock or a “control premium” for their shares or inhibit a transaction that might otherwise be viewed as being in the best interest of our stockholders.

These provisions include:

“business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special stockholder voting requirements on these business combinations, unless certain fair price requirements set forth in the MGCL are satisfied; and

“control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of outstanding “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

In addition, Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, notwithstanding any contrary provision in the charter or bylaws, to any or all of the following five provisions: a classified board; a two-thirds stockholder vote requirement for removal of a director; a requirement that the number of directors be fixed only by vote of the directors; a requirement that a vacancy on the board of directors be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred; and a requirement that the holders of at least a majority of all votes entitled to be cast request a special meeting of stockholders.

Our charter opts out of the business combination/moratorium provisions and control share provisions of the MGCL and prevents us from making any elections under Subtitle 8 of the MGCL. Because these provisions are contained in our charter, they cannot be amended unless the Board recommends the amendment and the stockholders approve the amendment. Any such amendment would require the affirmative vote of two-thirds of the outstanding voting power of our common stock.

We depend on our operating partnership and its subsidiaries for cash flow and are effectively structurally subordinated in right of payment to the obligations of our operating partnership and its subsidiaries, which could adversely affect our ability to make distributions to our stockholders.

We have no business operations of our own. Our only significant asset is and will be the general and limited partnership interests of our operating partnership. We conduct, and intend to continue to conduct, all of our business operations through our operating partnership. Accordingly, our only source of cash to pay our obligations is distributions from our operating partnership and its subsidiaries of their net earnings and cash flows. We cannot assure our stockholders that our operating partnership or its subsidiaries will be able to, or be permitted to, make distributions to us that will enable us to make distributions to our stockholders from cash flows from operations. Each of our operating partnership’s subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from such entities. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our operating partnership and its subsidiaries will be able to satisfy the claims of our stockholders only after all of our and our operating partnership and its subsidiaries liabilities and obligations have been paid in full.

Offerings of debt securities, which would be senior to our common stock and any preferred stock upon liquidation, or equity securities, which would dilute our existing stockholders’ holdings and could be senior to our common stock for

the purposes of dividend distributions, may adversely affect the market price of our common stock and any preferred stock.

We may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, convertible securities, and classes of preferred stock or common stock or classes of preferred units. Upon liquidation, holders of our debt securities or preferred units and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of shares of preferred stock or common stock. Furthermore, holders of our debt securities and preferred stock or preferred units and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common or preferred stock or both. Our

Table of Contents

preferred stock or preferred units could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our securities and diluting their securities holdings in us.

Securities eligible for future sale may have adverse effects on the market price of our securities.

We cannot predict the effect, if any, of future sales of securities, or the availability of securities for future sales, on the market price of our outstanding securities. Sales of substantial amounts of common stock, or the perception that these sales could occur, may adversely affect prevailing market prices for our securities.

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

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

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

Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- terminate our advisor under certain conditions pursuant to advisory agreement, subject to the payment of a termination fee;

- amend or revise at any time and from time to time our investment, financing, borrowing and dividend policies and our policies with respect to all other activities, including growth, debt, capitalization and operations, subject to the limitations and restrictions provided in our advisory agreement and mutual exclusivity agreement;

- amend our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal requirements;

- subject to the terms of our charter, prevent the ownership, transfer and/or accumulation of shares in order to protect our status as a REIT or for any other reason deemed to be in the best interests of us and our stockholders;

- issue additional shares without obtaining stockholder approval, which could dilute the ownership of our then-current stockholders;

- amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series, without obtaining stockholder approval;

- classify or reclassify any unissued shares of our common stock or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;

- employ and compensate affiliates;

- direct our resources toward investments that do not ultimately appreciate over time; and

- determine that it is not in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Any of these actions could increase our operating expenses, impact our ability to make distributions or reduce the value of our assets without giving you, as a stockholder, the right to vote.



Table of Contents

The ability of our board of directors to change our major policies without the consent of stockholders may not be in our stockholders' interest.

Our board of directors determines our major policies, including policies and guidelines relating to our acquisitions, leverage, financing, growth, operations and distributions to stockholders. Our board of directors may amend or revise these and other policies and guidelines from time to time without the vote or consent of our stockholders, subject to certain limitations and restrictions provided in our advisory agreement. Accordingly, our stockholders will have limited control over changes in our policies and those changes could adversely affect our financial condition, results of operations, the market price of our stock and our ability to make distributions to our stockholders.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment to have been material to the cause of action. Our charter requires us to indemnify our directors and officers to the maximum extent permitted by Maryland law for liability actually incurred in connection with any proceeding to which they may be made, or threatened to be made, a party, except to the extent that the act or omission of the director or officer was material to the matter giving rise to the proceeding and was either committed in bad faith or was the result of active and deliberate dishonesty, the director or officer actually received an improper personal benefit in money, property or services, or, in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

Future issuances of securities, including our common stock and preferred stock, could reduce existing investors' relative voting power and percentage of ownership and may dilute our share value.

Our charter authorizes the issuance of up to 400,000,000 shares of common stock and 50,000,000 shares of preferred stock. As of February 27, 2019, we had 101,006,162 shares of our common stock issued and outstanding, 2,389,393 shares of our Series D Cumulative Preferred Stock, 4,800,000 shares of our Series F Cumulative Preferred Stock, 6,200,000 shares of our Series G Cumulative Preferred Stock, 3,800,000 shares of our Series H Cumulative Preferred Stock, and 5,400,000 share of our Series I Cumulative Preferred Stock. Accordingly, we may issue up to an additional 298,993,838 shares of common stock and 27,410,607 shares of preferred stock.

Future issuances of common stock or preferred stock could decrease the relative voting power of our common stock or preferred stock and may cause substantial dilution in the ownership percentage of our then existing holders of common or preferred stock. Future issuances may have the effect of reducing investors' relative voting power and/or diluting the net tangible book value of the shares held by our stockholders, and might have an adverse effect on any trading market for our securities. Our board of directors may designate the rights, terms and preferences of our authorized but unissued common shares or preferred shares at its discretion, including conversion and voting preferences without stockholder approval.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

## Item 2. Properties

OFFICES. We lease our headquarters located at 14185 Dallas Parkway, Suite 1100, Dallas, Texas 75254.

HOTEL PROPERTIES. As of December 31, 2018, we held ownership interests in 119 hotel properties that were included in our consolidated operations, which included direct ownership in 117 hotel properties and 85% ownership in two hotel properties through equity investments with joint venture partners. Currently, all of our hotel properties are located in the United States. The following table presents certain information related to our hotel properties:

Hotel Property	Location	Service Type	Total Rooms	% Owned	Owned Rooms	Year Ended December 31, 2018		
						Occupancy	ADR	RevPAR
Fee Simple Properties								
Embassy Suites	Austin, TX	Full service	150	100 %	150	83.25 %	\$ 160.26	\$ 133.42
Embassy Suites	Dallas, TX	Full service	150	100	150	75.67 %	\$ 140.46	\$ 106.29
Embassy Suites	Herndon, VA	Full service	150	100	150	81.45 %	\$ 164.32	\$ 133.84
Embassy Suites	Las Vegas, NV	Full service	220	100	220	86.15 %	\$ 140.17	\$ 120.75
Embassy Suites	Flagstaff, AZ	Full service	119	100	119	82.80 %	\$ 144.41	\$ 119.58
Embassy Suites	Houston, TX	Full service	150	100	150	80.47 %	\$ 149.81	\$ 120.56
Embassy Suites	West Palm Beach, FL	Full service	160	100	160	85.46 %	\$ 151.90	\$ 129.82
Embassy Suites	Philadelphia, PA	Full service	263	100	263	85.20 %	\$ 152.23	\$ 129.69
Embassy Suites	Walnut Creek, CA	Full service	249	100	249	84.48 %	\$ 178.63	\$ 150.91
Embassy Suites	Arlington, VA	Full service	267	100	267	85.30 %	\$ 197.25	\$ 168.25
Embassy Suites	Portland, OR	Full service	276	100	276	84.15 %	\$ 216.19	\$ 181.93
Embassy Suites	Santa Clara, CA	Full service	258	100	258	81.49 %	\$ 248.37	\$ 202.41
Embassy Suites	Orlando, FL	Full service	174	100	174	90.29 %	\$ 158.71	\$ 143.31
Hilton Garden Inn	Jacksonville, FL	Select service	119	100	119	78.24 %	\$ 131.48	\$ 102.87
Hilton Garden Inn	Austin, TX	Select service	254	100	254	79.92 %	\$ 188.02	\$ 150.27
Hilton Garden Inn	Baltimore, MD	Select service	158	100	158	80.27 %	\$ 116.25	\$ 93.31
Hilton Garden Inn	Virginia Beach, VA	Select service	176	100	176	84.65 %	\$ 137.32	\$ 116.23
Hilton Garden Inn	Wisconsin Dells, WI	Select service	128	100	128	65.84 %	\$ 116.59	\$ 76.76
Hilton	Houston, TX	Full service	242	100	242	73.20 %	\$ 126.41	\$ 92.53
Hilton	St. Petersburg, FL		333	100	333	73.84 %	\$ 152.55	\$ 112.65

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Hilton	Santa Fe, NM	Full service	158	100	158	88.17%	\$161.03	\$141.97
Hilton	Bloomington, MN	Full service	300	100	300	83.09%	\$138.51	\$115.08
Hilton	Costa Mesa, CA	Full service	486	100	486	78.66%	\$137.29	\$107.99
Hilton	Boston, MA	Full service	390	100	390	87.72%	\$247.24	\$216.87
Hilton	Parsippany, NJ	Full service	353	100	353	66.08%	\$165.36	\$109.27
Hilton	Tampa, FL	Full service	238	100	238	79.05%	\$134.03	\$105.95
Hilton	Alexandria, VA	Full service	252	100	252	83.20%	\$168.35	\$140.07
Hampton Inn	Lawrenceville, GA	Select service	85	100	85	80.39%	\$109.80	\$88.26
Hampton Inn	Evansville, IN	Select service	140	100	140	60.27%	\$105.43	\$63.54
Hampton Inn	Parsippany, NJ	Select service	152	100	152	76.71%	\$139.92	\$107.34
Hampton Inn	Buford, GA	Select service	92	100	92	78.44%	\$121.38	\$95.21
Hampton Inn	Phoenix, AZ	Select service	106	100	106	75.39%	\$124.52	\$93.87
Hampton Inn - Waterfront	Pittsburgh, PA	Select service	113	100	113	73.74%	\$127.51	\$94.03
Hampton Inn - Washington	Pittsburgh, PA	Select service	103	100	103	78.51%	\$96.79	\$75.99
Hampton Inn	Columbus, OH	Select service	145	100	145	69.54%	\$148.23	\$103.07
Marriott	Beverly Hills, CA	Full service	260	100	260	90.29%	\$257.57	\$232.55
Marriott	Durham, NC	Full service	225	100	225	73.36%	\$138.98	\$101.95
Marriott	Arlington, VA	Full service	701	100	701	78.09%	\$186.74	\$145.82
Marriott	Bridgewater, NJ	Full service	347	100	347	69.89%	\$218.68	\$152.83
Marriott	Dallas, TX	Full service	265	100	265	79.17%	\$133.16	\$105.43
Marriott	Fremont, CA	Full service	357	100	357	79.35%	\$201.89	\$160.19
Marriott	Memphis, TN	Full service	232	100	232	78.31%	\$157.58	\$123.39
Marriott	Irving, TX	Full service	491	100	491	77.84%	\$147.51	\$114.83
Marriott	Omaha, NE	Full service	300	100	300	61.55%	\$127.62	\$78.55



Table of Contents

Hotel Property	Location	Service Type	Total Rooms	% Owned	Owned Rooms	Year Ended December 31, 2018		
						Occupancy	ADR	RevPAR
Marriott	San Antonio, TX	Full service	251	100	251	75.23%	\$137.39	\$103.36
Marriott	Sugarland, TX	Full service	300	100	300	77.57%	\$141.39	\$109.68
SpringHill Suites by Marriott	Jacksonville, FL	Select service	102	100	102	84.59%	\$118.40	\$100.16
SpringHill Suites by Marriott	Baltimore, MD	Select service	133	100	133	84.85%	\$108.99	\$92.47
SpringHill Suites by Marriott	Kennesaw, GA	Select service	90	100	90	75.97%	\$121.15	\$92.03
SpringHill Suites by Marriott	Buford, GA	Select service	97	100	97	81.54%	\$110.57	\$90.15
SpringHill Suites by Marriott	Charlotte, NC	Select service	136	100	136	74.24%	\$108.60	\$80.62
SpringHill Suites by Marriott	Durham, NC	Select service	120	100	120	75.07%	\$107.10	\$80.40
SpringHill Suites by Marriott	Manhattan Beach, CA	Select service	164	100	164	84.28%	\$143.76	\$121.16
SpringHill Suites by Marriott	Plymouth Meeting, PA	Select service	199	100	199	75.41%	\$113.20	\$85.37
Fairfield Inn by Marriott	Kennesaw, GA	Select service	86	100	86	64.70%	\$109.58	\$70.89
Courtyard by Marriott	Bloomington, IN	Select service	117	100	117	78.87%	\$126.89	\$100.07
Courtyard by Marriott - Tremont	Boston, MA	Select service	315	100	315	81.19%	\$231.79	\$188.18
Courtyard by Marriott	Columbus, IN	Select service	90	100	90	73.32%	\$122.25	\$89.63
Courtyard by Marriott	Denver, CO	Select service	202	100	202	81.96%	\$138.30	\$113.34
Courtyard by Marriott	Louisville, KY	Select service	150	100	150	76.11%	\$134.67	\$102.50
Courtyard by Marriott	Gaithersburg, MD	Select service	210	100	210	66.83%	\$145.90	\$97.51
Courtyard by Marriott	Crystal City, VA	Select service	272	100	272	73.86%	\$151.54	\$111.92
Courtyard by Marriott	Ft. Lauderdale, FL	Select service	174	100	174	77.27%	\$136.80	\$105.71
Courtyard by Marriott	Overland Park, KS	Select service	168	100	168	70.85%	\$117.03	\$82.92
Courtyard by Marriott	Savannah, GA	Select service	156	100	156	82.17%	\$138.77	\$114.03
Courtyard by Marriott	Foothill Ranch, CA	Select service	156	100	156	79.47%	\$134.21	\$106.66
Courtyard by Marriott	Alpharetta, GA	Select service	154	100	154	70.52%	\$143.81	\$101.41
Courtyard by Marriott	Oakland, CA	Select service	156	100	156	86.67%	\$178.87	\$155.04

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Courtyard by Marriott	Scottsdale, AZ	Select service	180	100	180	80.22%	\$131.68	\$105.63
Courtyard by Marriott	Plano, TX	Select service	153	100	153	65.25%	\$148.57	\$96.94
Courtyard by Marriott	Newark, CA	Select service	181	100	181	82.05%	\$172.49	\$141.53
Courtyard by Marriott	Manchester, CT	Select service	90	85	77	72.51%	\$131.68	\$95.48
Courtyard by Marriott	Basking Ridge, NJ	Select service	235	100	235	66.89%	\$201.05	\$134.48
Courtyard by Marriott	Wichita, KS	Select service	128	100	128	76.16%	\$128.50	\$97.87
Courtyard by Marriott - Billerica	Boston, MA	Select service	210	100	210	71.55%	\$140.85	\$100.77
Homewood Suites	Pittsburgh, PA	Select service	148	100	148	74.47%	\$117.51	\$87.50
Marriott Residence Inn	Lake Buena Vista, FL	Select service	210	100	210	81.98%	\$136.44	\$111.85
Marriott Residence Inn	Evansville, IN	Select service	78	100	78	77.62%	\$111.58	\$86.60
Marriott Residence Inn	Orlando, FL	Select service	350	100	350	68.43%	\$129.17	\$88.39
Marriott Residence Inn	Falls Church, VA	Select service	159	100	159	77.85%	\$152.29	\$118.55
Marriott Residence Inn	San Diego, CA	Select service	150	100	150	87.96%	\$170.11	\$149.62
Marriott Residence Inn	Salt Lake City, UT	Select service	144	100	144	73.32%	\$119.92	\$87.93
Marriott Residence Inn	Las Vegas, NV	Select service	256	100	256	86.24%	\$129.30	\$111.50
Marriott Residence Inn	Phoenix, AZ	Select service	200	100	200	78.84%	\$116.67	\$91.99
Marriott Residence Inn	Plano, TX	Select service	126	100	126	71.47%	\$114.63	\$81.93
Marriott Residence Inn	Newark, CA	Select service	168	100	168	83.59%	\$186.65	\$156.01
Marriott Residence Inn	Manchester, CT	Select service	96	85	82	81.92%	\$139.43	\$114.22
Marriott Residence Inn	Jacksonville, FL	Select service	120	100	120	43.48%	\$121.59	\$52.86
Marriott Residence Inn	Stillwater, OK	Select service	101	100	101	61.94%	\$113.38	\$70.23
TownePlace Suites by Marriott	Manhattan Beach, CA	Select service	143	100	143	86.05%	\$133.86	\$115.18
One Ocean	Atlantic Beach, FL	Full service	193	100	193	75.93%	\$209.74	\$159.25
Sheraton Hotel	Ann Arbor, MI	Full service	197	100	197	68.87%	\$150.00	\$103.31
Sheraton Hotel	Langhorne, PA	Full service	186	100	186	67.76%	\$124.66	\$84.47
Sheraton Hotel	Minneapolis, MN	Full service	220	100	220	56.08%	\$132.14	\$74.11
Sheraton Hotel	Indianapolis, IN	Full service	378	100	378	76.71%	\$132.44	\$101.59
Sheraton Hotel	Anchorage, AK	Full service	370	100	370	68.14%	\$141.52	\$96.44
Sheraton Hotel	San Diego, CA	Full service	260	100	260	79.14%	\$135.81	\$107.48



Table of Contents

Hotel Property	Location	Service Type	Total Rooms	% Owned	Owned Rooms	Year Ended December 31, 2018		
						Occupancy	ADR	RevPAR
Hyatt Regency	Coral Gables, FL	Full service	253	100	253	79.88%	\$190.75	\$152.37
Hyatt Regency	Hauppauge, NY	Full service	358	100	358	67.81%	\$139.67	\$94.71
Hyatt Regency	Savannah, GA	Full service	351	100	351	87.68%	\$187.67	\$164.55
Renaissance	Nashville, TN	Full service	673	100	673	84.77%	\$240.71	\$204.04
Annapolis Historic Inn	Annapolis, MD	Full service	124	100	124	60.47%	\$166.79	\$100.85
Lakeway Resort & Spa	Austin, TX	Full service	168	100	168	67.32%	\$177.95	\$119.81
Silversmith	Chicago, IL	Full service	144	100	144	73.85%	\$189.14	\$139.68
The Churchill	Washington, D.C.	Full service	173	100	173	65.47%	\$180.30	\$118.05
The Melrose	Washington, D.C.	Full service	240	100	240	77.04%	\$198.28	\$152.76
Le Pavillon	New Orleans, LA	Full service	226	100	226	66.53%	\$163.54	\$108.80
The Ashton	Ft. Worth, TX	Full service	39	100	39	75.61%	\$210.21	\$158.94
Westin	Princeton, NJ	Full service	296	100	296	64.79%	\$159.16	\$103.11
W	Atlanta, GA	Full service	237	100	237	75.65%	\$212.53	\$160.78
W	Minneapolis, MN	Full service	229	100	229	80.29%	\$209.60	\$168.29
Le Meridien	Minneapolis, MN	Full service	60	100	60	71.51%	\$224.68	\$160.67
Hotel Indigo	Atlanta, GA	Full service	140	100	140	64.77%	\$146.44	\$94.85
Ritz-Carlton	Atlanta, GA	Full service	444	100	444	72.22%	\$238.01	\$171.89
La Posada de Santa Fe	Santa Fe, NM	Full service	157	100	157	71.19%	\$201.81	\$143.67
Ground Lease Properties								
Crowne Plaza <sup>(1)</sup>	Key West, FL	Full service	160	100	160	81.40%	\$272.92	\$222.16
Crowne Plaza <sup>(2)</sup>	Annapolis, MD	Full service	196	100	196	52.64%	\$114.02	\$60.02
Hilton <sup>(3)</sup>	Ft. Worth, TX	Full service	294	100	294	76.81%	\$168.28	\$129.26
Renaissance <sup>(4)</sup>	Palm Springs, CA	Full service	410	100	410	71.59%	\$162.53	\$116.35
Total			25,087		25,060	76.44%	\$162.63	\$124.31

(1) The ground lease expires in 2084.

(2) The ground lease expires in 2114.

(3) The ground lease expires in 2040.

(4) The ground lease expires in 2059 with one 25-year extension option.



Table of Contents

## Item 3. Legal Proceedings

Litigation—Palm Beach Florida Hotel and Office Building Limited Partnership, et al. v. Nantucket Enterprises, Inc. This litigation involves a landlord tenant dispute from 2008 in which the landlord, Palm Beach Florida Hotel and Office Building Limited Partnership, a subsidiary of the Company, claimed that the tenant had violated various lease provisions of the lease agreement and was therefore in default. The tenant counterclaimed and asserted multiple claims including that it had been wrongfully evicted. The litigation was instituted by the plaintiff in November 2008 in the Circuit Court of the Fifteenth Judicial Circuit, in and for Palm Beach County, Florida and proceeded to a jury trial on June 30, 2014. The jury entered its verdict awarding the tenant total claims of \$10.8 million and ruling against the landlord on its claim of breach of contract. In 2016, the Court of Appeals reduced the original \$10.8 million judgment to \$8.8 million and added pre-judgment interest on the wrongful eviction judgment. The case was further appealed to the Florida Supreme Court. On May 23, 2017, the trial court issued an order compelling the company that issued the supersedeas bond, RLI Insurance Company (“RLI”), to pay approximately \$10.0 million. On June 1, 2017, RLI paid Nantucket this amount and sought reimbursement from the Company, and on June 7, 2017, the Company paid \$2.5 million of the judgment. On June 27, 2017, the Florida Supreme Court denied the Company’s petition for review. As a result, all of the appeals were exhausted and the judgment was final with the determination and reimbursement of attorney’s fees being the only remaining dispute. On June 29, 2017, the balance of the judgment of \$3.9 million was paid to Nantucket by the Company. On July 26, 2018, we paid \$544,000 as part of a settlement on certain legal fees. The negotiations relating to the potential payment of the remaining attorney’s fees are still ongoing. As of December 31, 2018, we have accrued approximately \$504,000 in legal fees, which represents the Company’s estimate of the amount of potential remaining legal fees that could be owed.

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

## Item 4. Mine Safety Disclosures

Not Applicable

## PART II

## Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

## (a) Market Price of and Dividends on Registrant’s Common Equity and Related Stockholder Matters

## Market Price and Dividend Information

Our common stock is listed and traded on the New York Stock Exchange under the symbol “AHT.” On February 27, 2019, there were 444 registered holders of record of our common stock. In order to comply with certain requirements related to our qualification as a REIT, our charter limits the number of shares of capital stock that may be owned by any single person or affiliated group without our permission to 9.8% of the outstanding shares of any class of our capital stock. We are aware of one Section 13G filer that presently holds in excess of 9.8% of our outstanding common shares, but our board of directors has granted a waiver which provides this holder with an exception to our ownership restrictions.

For the years ended December 31, 2018 and 2017, we declared and paid dividends of \$0.48 per share, paid at a rate of \$0.12 per share per quarter. In December 2018, the board of directors approved our dividend policy for 2019, and we expect to pay a quarterly dividend of \$0.12 per share for 2019. No assurance can be given that our dividend policy, including our dividend policy for 2019, will not change in the future. The adoption of a dividend policy does not commit our board of directors to declare future dividends or the amount thereof. 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. 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. To maintain our qualification as a REIT, we intend to make annual distributions to our stockholders of at least 90% of our REIT taxable income, excluding net capital gains (which does not necessarily equal net income as calculated in accordance with GAAP). Distributions will be authorized by our board of directors and declared by us based upon a variety of factors deemed relevant by our directors. Our ability to pay distributions to our stockholders will depend, in part, upon our receipt of distributions from our operating partnership. This, in turn, may depend upon receipt of lease payments with respect to our

Table of Contents

properties from indirect, wholly-owned subsidiaries of our operating partnership and the management of our properties by our property managers.

## Characterization of Distributions

For income tax purposes, distributions paid consist of ordinary income, capital gains, return of capital or a combination thereof. Distributions paid per share were characterized as follows for the following fiscal years:

	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Common Stock (cash):						
Ordinary income	\$—	—	% \$—	—	% \$—	—
Capital gain	—	—	—	—	—	—
Return of capital	0.4800 <sup>(1)</sup>	100.0000	0.4800 <sup>(1)</sup>	100.0000	0.4800 <sup>(1)</sup>	100.0000
Total	\$0.4800	100.0000%	\$0.4800	100.0000%	\$0.4800	100.0000%
Preferred Stock – Series A:						
Ordinary income	\$—	—	% \$—	—	% \$—	—
Capital gain	—	—	0.8605 <sup>(1)</sup>	53.6739	— <sup>(1)</sup>	—
Return of capital	—	—	0.7427 <sup>(1)</sup>	46.3261	2.1376 <sup>(1)</sup>	100.0000
Total	\$—	—	% \$1.6032	100.0000%	% \$2.1376	100.0000%
Preferred Stock – Series D:						
Ordinary income	\$—	—	% \$—	—	% \$—	—
Capital gain	—	—	1.1338 <sup>(1)</sup>	53.6735	— <sup>(1)</sup>	—
Return of capital	2.1124 <sup>(1)</sup>	100.0000	0.9786 <sup>(1)</sup>	46.3265	2.1124 <sup>(1)</sup>	100.0000
Total	\$2.1124	100.0000%	\$2.1124	100.0000%	\$2.1124	100.0000%
Preferred Stock – Series E:						
Ordinary income	\$—	—	% \$—	—	% \$—	—
Capital gain	—	—	—	—	—	—
Return of capital	—	—	—	—	1.6875 <sup>(1)</sup>	100.0000
Total	\$—	—	% \$—	—	% \$1.6875	100.0000%
Preferred Stock – Series F:						
Ordinary income	\$—	—	% \$—	—	% \$—	—
Capital gain	—	—	0.9895 <sup>(1)</sup>	53.6722	—	—
Return of capital	1.8436 <sup>(1)</sup>	100.0000	0.8541 <sup>(1)</sup>	46.3278	0.3995 <sup>(1)</sup>	100.0000
Total	\$1.8436	100.0000%	\$1.8436	100.0000%	\$0.3995	100.0000%
Preferred Stock – Series G:						
Ordinary income	\$—	—	% \$—	—	% \$—	—
Capital gain	—	—	0.9428 <sup>(1)</sup>	53.6719	—	—
Return of capital	1.8436 <sup>(1)</sup>	100.0000	0.8138 <sup>(1)</sup>	46.3281	—	—
Total	\$1.8436	100.0000%	\$1.7566	100.0000%	\$—	—
Preferred Stock – Series H:						
Ordinary income	\$—	—	% \$—	—	% \$—	—
Capital gain	—	—	0.1006 <sup>(1)</sup>	53.6533	—	—
Return of capital	1.8750 <sup>(1)</sup>	100.0000	0.0869 <sup>(1)</sup>	46.3467	—	—
Total	\$1.8750	100.0000%	\$0.1875	100.0000%	\$—	—
Preferred Stock – Series I:						
Ordinary income	\$—	—	% \$—	—	% \$—	—
Capital gain	—	—	—	—	—	—
Return of capital	1.6354 <sup>(1)</sup>	100.0000	—	—	—	—
Total	\$1.6354	100.0000%	\$—	—	% \$—	—

(1)

The fourth quarter 2016 preferred and common distributions paid January 17, 2017 are treated as 2017 distributions for tax purposes. The fourth quarter 2017 preferred and common distributions paid January 16, 2018 are treated as 2018 distributions for tax purposes. The fourth quarter 2018 preferred and common distributions paid January 15, 2019 are treated as 2019 distributions for tax purposes.

Table of Contents

## Equity Compensation Plan Information

The following table sets forth certain information with respect to securities authorized and available for issuance under our equity compensation plans as of December 31, 2018:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price Of Outstanding Options, Warrants, And Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	None	N/A	4,328,810 <sup>(1)</sup>
Equity compensation plans not approved by security holders	None	N/A	None
Total	None	N/A	4,328,810

As of December 31, 2018, there were 4,328,810 shares of our common stock, or securities convertible into <sup>(1)</sup> 4,328,810 shares of our common stock that remained available for issuance under our Amended and Restated 2011 Stock Incentive Plan.

## Performance Graph

The following graph compares the percentage change in the cumulative total stockholder return on our common stock with the cumulative total return of the S&P 500 Stock Index and the FTSE NAREIT Lodging & Resorts Index for the period from December 31, 2013 through December 31, 2018, assuming an initial investment of \$100 in stock on December 31, 2013 with reinvestment of dividends. The NAREIT Lodging Resorts Index is not a published index; however, we believe the companies included in this index provide a representative example of enterprises in the lodging resort line of business in which we engage. Stockholders who wish to request a list of companies in the FTSE NAREIT Lodging & Resorts Index may send written requests to Ashford Hospitality Trust, Inc., Attention: Stockholder Relations, 14185 Dallas Parkway, Suite 1100, Dallas, Texas 75254.

Table of Contents

The stock price performance shown below on the graph is not necessarily indicative of future price performance.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**

Among Ashford Hospitality Trust, Inc., the S&P Index and the FTSE NAREIT Lodging & Resorts Index  
Purchases of Equity Securities by the Issuer

The following table provides the information with respect to purchases of shares of our common stock during each of the months in the fourth quarter of 2018:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan <sup>(1)</sup>	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plan
Common stock:				
October 1 to October 31	1,375	\$ — <sup>(2)</sup>	—	\$ 200,000,000
November 1 to November 30	1,171	—	<sup>(2)</sup> —	200,000,000
December 1 to December 31	354	—	<sup>(2)</sup> —	200,000,000
Total	2,900	\$ —	—	—

On December 5, 2017, the board of directors reapproved a stock repurchase program (the “Repurchase Program”) pursuant to which the board of directors granted a repurchase authorization to acquire shares of the Company’s common stock, par value \$0.01 per share having an aggregate value of up to \$200 million. The board of director’s authorization replaced any previous repurchase authorizations.

<sup>(2)</sup> There is no cost associated with the forfeiture of restricted shares of our common stock.

Table of Contents

## Item 6. Selected Financial Data

The following sets forth our selected consolidated financial and operating information on a historical basis and should be read together with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto, which are included in “Item 8. Financial Statements and Supplementary Data.”

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share amounts)				
<b>Statements of Operations Data:</b>					
Total revenue	\$1,430,789	\$1,439,270	\$1,492,043	\$1,336,966	\$794,849
Total operating expenses	1,340,850	1,304,265	1,336,339	1,199,051	718,157
Gain (loss) on sale of hotel properties	475	14,030	31,599	380,752	—
Operating income (loss)	90,414	149,035	187,303	518,667	76,692
Income (loss) from continuing operations	(156,309 )	(88,760 )	(58,782 )	305,813	(41,731 )
Income (loss) from discontinued operations	—	—	—	—	33
Net income (loss) attributable to the Company	(126,966 )	(67,008 )	(46,285 )	270,939	(31,401 )
Net income (loss) attributable to common stockholders	(169,543 )	(122,568 )	(88,681 )	236,977	(65,363 )
<b>Diluted income (loss) per common share:</b>					
Income (loss) from continuing operations attributable to common stockholders	\$(1.75 )	\$(1.30 )	\$(0.95 )	\$2.35	\$(0.75 )
Income (loss) from discontinued operations attributable to common stockholders	—	—	—	—	—
Net income (loss) attributable to common stockholders	\$(1.75 )	\$(1.30 )	\$(0.95 )	\$2.35	\$(0.75 )
Weighted average diluted common shares	97,282	95,207	94,426	114,881	87,622

	December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				

**Balance Sheets Data:**

Investments in hotel properties, net	\$4,105,219	\$4,035,915	\$4,160,563	\$4,419,684	\$2,128,611
Cash and cash equivalents	319,210	354,805	347,091	215,078	215,063
Restricted cash	120,602	116,787	144,014	153,680	85,830
Notes receivable	—	—	—	3,746	3,553
Total assets	4,685,954	4,669,850	4,891,544	4,965,131	2,770,110
Indebtedness, net	3,927,266	3,696,300	3,723,559	3,840,617	1,943,133
Total stockholders’ equity of the Company	452,489	632,500	791,621	811,086	531,633

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share amounts)				

**Other Data:**

Cash provided by (used in) operating activities	\$181,560	\$207,382	\$179,723	\$203,577	\$111,319
Cash provided by (used in) investing activities	(329,634 )	(63,881 )	(21,858 )	(780,613 )	(207,245 )
Cash provided by (used in) financing activities	115,814	(163,902 )	(34,150 )	644,604	182,209
Cash dividends declared per common share	0.48	0.48	0.48	0.48	0.48
EBITDAre (unaudited) <sup>(1)</sup>	366,639	378,261	398,222	371,101	285,867
Funds From Operations (FFO) (unaudited) <sup>(1)</sup>	82,363	98,406	129,532	132,863	85,097

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(1)

A more detailed description and computation of FFO and EBITDA are contained in the “Non-GAAP Financial Measures” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7.



Table of Contents

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE OVERVIEW

General

As of December 31, 2018, we owned 119 consolidated hotel properties, including 117 hotel properties directly owned, and two hotel properties owned through a majority-owned investment in a consolidated entity, which represents 25,087 total rooms, or 25,060 net rooms excluding those attributable to our partner. Currently, all of our hotel properties are located in the United States.

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

- acquisition of hotel properties that will be accretive to our portfolio;
- disposition of non-core hotel properties;
- pursuing capital market activities to enhance long-term stockholder 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 current investment strategy is to focus on owning predominantly full-service hotels in the upscale and upper upscale segments in domestic and international markets that have revenue per available room (“RevPAR”) generally less than twice the national average. Our board of directors may change our investment strategy at any time without stockholder approval or notice.

RECENT DEVELOPMENTS

On January 16, 2018, we made an additional \$667,000 investment in OpenKey, which is a hospitality focused mobile key platform that provides a universal smartphone app for keyless entry into hotel guest rooms.

On January 17, 2018, we refinanced our \$376.8 million mortgage loan. The new mortgage loan totaled \$395.0 million. The new mortgage loan has a two-year initial term and five one-year extension options, subject to the satisfaction of certain conditions. The mortgage loan is interest only and provides for a floating interest rate of LIBOR + 2.92%. The new mortgage loan is secured by eight hotels: Embassy Suites Portland, Embassy Suites Crystal City, Embassy Suites Orlando, Embassy Suites Santa Clara, Crowne Plaza Key West, Hilton Costa Mesa, Sheraton Minneapolis, and Historic Inns of Annapolis.

On February 20, 2018, we sold the SpringHill Suites in Glen Allen, Virginia for approximately \$10.9 million in cash. The sale resulted in a loss of \$13,000 for the year ended December 31, 2018 and is included in “gain (loss) on sale of hotel properties” in the consolidated statement of operations. The Company also repaid approximately \$7.6 million of debt associated with the hotel property.

On April 9, 2018, we refinanced our \$971.7 million mortgage loan secured by 22 hotel properties. The new mortgage loan totaled \$985.0 million, is interest only and provides for a floating interest rate of LIBOR + 3.20%. The stated maturity is April 2020 with five one-year extension options, subject to the satisfaction of certain conditions. The new mortgage loan is secured by the same 22 hotel properties that include: the Courtyard Boston Downtown, Courtyard Denver, Courtyard Gaithersburg, Courtyard Savannah, Hampton Inn Parsippany, Hilton Parsippany, Hilton Tampa, Hilton Garden Inn Austin, Hilton Garden Inn BWI, Hilton Garden Inn Virginia Beach, Hyatt Windwatch Long Island, Hyatt Savannah, Marriott DFW Airport, Marriott Omaha, Marriott San Antonio, Marriott Sugarland, Renaissance Palm Springs, Ritz-Carlton Atlanta, Residence Inn Tampa, Churchill, Melrose and Silversmith.

On May 1, 2018, we sold the SpringHill Suites in Centreville, Virginia for approximately \$7.5 million in cash. The sale resulted in a gain of approximately \$98,000 for the year ended December 31, 2018 and is included in “gain (loss) on sale of hotel properties” in the consolidated statement of operations. The Company also repaid approximately \$6.6 million of debt associated with the hotel property.

On May 10, 2018, we sold the Residence Inn in Tampa, FL for approximately \$24.0 million in cash. The sale resulted in a gain of approximately \$400,000 for the year ended December 31, 2018 and is included in “gain (loss) on sale of hotel properties”

Table of Contents

in the consolidated statement of operations. The Company also repaid approximately \$22.5 million of debt associated with the hotel property.

On June 13, 2018, we refinanced seven mortgage loans with existing outstanding balances totaling \$1.068 billion. The new financing is comprised of six separate mortgage loans that total approximately \$1.270 billion. Each has a two-year initial term with five one-year extension options, subject to the satisfaction of certain conditions. The original principal amounts of each mortgage loan and the hotel properties securing each mortgage loan are set forth in the following table:

Mortgage Loan	Principal Amount (in thousands)	Interest Rate	Secured Hotel Properties
A	\$180,720	LIBOR + 3.65%	Courtyard Columbus Tipton Lakes Courtyard Scottsdale Old Town Residence Inn Phoenix Airport SpringHill Suites Manhattan Beach SpringHill Suites Plymouth Meeting Residence Inn Las Vegas Hughes Center Residence Inn Newark
B	\$174,400	LIBOR + 3.39%	Courtyard Newark SpringHill Suites BWI Courtyard Oakland Airport Courtyard Plano Legacy Residence Inn Plano TownePlace Suites Manhattan Beach Courtyard Basking Ridge
C	\$221,040	LIBOR + 3.73%	Sheraton San Diego Mission Valley Sheraton Bucks County Hilton Ft. Worth Hyatt Regency Coral Gables Hilton Minneapolis
D	\$262,640	LIBOR + 4.02%	Hilton Santa Fe Embassy Suites Dulles Marriott Beverly Hills One Ocean Marriott Suites Dallas Market Center
E <sup>(1)</sup>	\$216,320	LIBOR + 4.36%	Marriott Memphis East Embassy Suites Philadelphia Airport Sheraton Anchorage Lakeway Resort & Spa Marriott Fremont
F	\$215,120	LIBOR + 3.68%	W Atlanta Downtown Embassy Suites Flagstaff Embassy Suites Walnut Creek Marriott Bridgewater Marriott Durham Research Triangle Park

<sup>(1)</sup>On July 3, 2018, we purchased \$56.3 million of mezzanine debt related to the Pool E loan that was issued in conjunction with the June 13, 2018 refinancing. The net floating interest rate after the purchase of the Pool E loan is LIBOR + 2.73%.

On June 26, 2018, Ashford Trust entered into the Enhanced Return Funding Program Agreement and Amendment No. 1 to the Amended and Restated Advisory Agreement (the "ERFP Agreement") with Ashford Inc. and Ashford LLC. The ERFP Agreement amended our Amended and Restated Advisory Agreement, among other things, to name

Ashford Inc. and its subsidiaries as the Company's sole and exclusive provider of asset management, project management and other services offered by Ashford Inc. or any of its subsidiaries and to revise the payment terms such that the base fee and reimbursable expenses will be paid monthly. The independent members of the board of directors of each of Ashford Inc. and us, with the assistance of separate and independent legal counsel, engaged to negotiate the ERFPA Agreement on behalf of Ashford Inc. and us, respectively.

The ERFPA Agreement generally provides that Ashford LLC will provide funding to facilitate the acquisition of properties by Ashford Trust OP that are recommended by Ashford LLC, in an aggregate amount of up to \$50 million (subject to increase to up to \$100 million by mutual agreement). Each funding will equal 10% of the property acquisition price and will be made either at the time of the property acquisition or at any time generally within the two-year period following the date of such acquisition, in exchange for furniture, fixture and equipment for use at the acquired property or any other property owned by Ashford Trust OP.

The initial term of the ERFPA Agreement is two years (the "Initial Term"), unless earlier terminated pursuant to the terms of the ERFPA Agreement. At the end of the Initial Term, the ERFPA Agreement shall automatically renew for successive one-year

Table of Contents

periods (each such period a “Renewal Term”) unless either Ashford Inc. or Ashford Trust provides written notice to the other at least sixty days in advance of the expiration of the Initial Term or Renewal Term, as applicable, that such notifying party intends not to renew the ERFPA Agreement.

On June 29, 2018, the Company acquired a 100% interest in the 252-room Hilton Alexandria Old Town in Alexandria, Virginia for \$111.0 million before acquisition costs. In connection with our acquisition Ashford LLC was obligated to provide us with approximately \$11.1 million in exchange for FF&E at our hotel properties. As of December 31, 2018, Ashford Trust had received \$11.1 million of cash in exchange for FF&E that was subsequently leased back to Ashford Trust rent-free under the ERFPA Agreement.

On July 3, 2018, we purchased \$56.3 million of mezzanine debt related to the Pool E loan that was issued in conjunction with the June 13, 2018 refinancing. The net floating interest rate after the purchase of the Pool E loan is LIBOR + 2.73%.

On August 8, 2018, in connection with Ashford Inc.’s acquisition of Premier from Remington Lodging, we: (i) amended and restated our mutual exclusivity agreement and hotel master management agreement with Remington Lodging, in each case to apply only with respect to property management (and not project management) services; and (ii) entered into a mutual exclusivity agreement and master project management with Premier, in each case to apply with respect to project management services.

On September 27, 2018, we established a secured credit facility with a borrowing capacity of up to \$100.0 million, which is secured by a pledge of 100% of the equity interests in the subsidiaries that own the hotel property for which revolving credit facility funds would be used to acquire. The interest rate associated with the secured credit facility is either the base rate + 1.65% or LIBOR + 2.65% at the Company’s election. The base rate is the greater of: (i) the prime rate set by Bank of America; (ii) federal funds rate + 0.5%; or (iii) LIBOR + 1.00%.

On October 31, 2018, the Company acquired a 100% interest in the 157-room La Posada de Santa Fe in Santa Fe, New Mexico for \$50.0 million before acquisition costs. In connection with our acquisition, Ashford LLC was obligated to provide us with approximately \$5.0 million in exchange for FF&E at our properties. As of December 31, 2018, Ashford Trust had received \$5.0 million of cash in exchange for FF&E that was subsequently leased back to Ashford Trust rent-free under the ERFPA Agreement.

On November 8, 2018, in connection with the acquisition of the La Posada de Santa Fe, we completed the financing of a \$25.0 million mortgage loan. This mortgage loan is interest only and provides for a floating interest rate of LIBOR + 2.55%. The stated maturity date of the mortgage loan is November 2020, with three one-year extension options. The mortgage loan is secured by the La Posada de Santa Fe.

During the year ended December 31, 2018, we issued approximately 2.4 million shares of our common stock through our “at-the-market” equity offering program resulting in gross proceeds of approximately \$15.5 million and net proceeds of approximately \$15.3 million after discounts and commissions to the selling agents.

On January 22, 2019, the Company acquired a 100% interest in the 310-room Embassy Suites New York Midtown Manhattan for \$195.0 million. In connection with this acquisition, we closed on a \$145 million mortgage loan. This mortgage loan is interest only and provides for a floating interest rate of LIBOR + 3.90%. The stated maturity date of the mortgage loan is February 2022, with two one-year extension options. The mortgage loan is secured by the Embassy Suites New York Midtown Manhattan. As a result of the acquisition, we are entitled to receive \$19.5 million from Ashford LLC in the form of future purchases of hotel furniture, fixtures, and equipment at Ashford Trust properties that will be leased to us by Ashford LLC rent free.

On February 6, 2019, we made an additional investment of \$299,000 in OpenKey.

On February 26, 2019, we acquired a 100% interest in the 178-room Hilton Santa Cruz/Scotts Valley for \$50.0 million. Consideration included cash and approximately 1.5 million common units in operating partnership. Additionally, we assumed a \$25.3 million non-recourse mortgage loan. This mortgage loan is interest only and provides for a fixed interest rate of 4.66%. The stated maturity date of the mortgage loan is March 2025. The mortgage loan is secured by the Hilton Santa Cruz/Scotts Valley. As a result of the acquisition, we are entitled to receive \$5.0 million from Ashford LLC in exchange for future purchases of hotel furniture, fixtures, and equipment at Ashford Trust properties that will be leased to us by Ashford LLC rent free.



Table of Contents

## RESULTS OF OPERATIONS

RevPAR is a commonly used measure within the hotel industry to evaluate hotel operations. RevPAR is defined as the product of the 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.

The following table summarizes the changes in key line items from our consolidated statements of operations for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	Year Ended December 31,			Favorable (Unfavorable) Change	
	2018	2017	2016	2018 to 2017	2017 to 2016
Total revenue	\$ 1,430,789	\$ 1,439,270	\$ 1,492,043	\$(8,481 )	\$(52,773)
Total hotel expenses	(900,582 )	(907,301 )	(938,399 )	6,719	31,098
Property taxes, insurance and other	(78,355 )	(73,579 )	(73,457 )	(4,776 )	(122 )
Depreciation and amortization	(258,458 )	(246,731 )	(243,863 )	(11,727 )	(2,868 )
Impairment charges	(23,391 )	(10,153 )	(17,816 )	(13,238 )	7,663
Transaction costs	(11 )	(14 )	(77 )	3	63
Advisory service fee	(69,122 )	(53,199 )	(54,361 )	(15,923 )	1,162
Corporate, general and administrative	(10,931 )	(13,288 )	(8,366 )	2,357	(4,922 )
Gain (loss) on sale of hotel properties	475	14,030	31,599	(13,555 )	(17,569 )
Operating income (loss)	90,414	149,035	187,303	(58,621 )	(38,268 )
Equity in earnings (loss) of unconsolidated entities	867	(5,866 )	(6,110 )	6,733	244
Interest income	3,952	2,202	331	1,750	1,871
Other income (expense)	64	(3,422 )	(4,517 )	3,486	1,095
Interest expense and amortization of loan costs	(236,786 )	(222,631 )	(223,967 )	(14,155 )	1,336
Write-off of premiums, loan costs and exit fees	(8,847 )	(2,845 )	(12,702 )	(6,002 )	9,857
Unrealized gain (loss) on marketable securities	(1,013 )	(4,649 )	4,946	3,636	(9,595 )
Unrealized gain (loss) on derivatives	(2,178 )	(2,802 )	(2,534 )	624	(268 )
Income tax benefit (expense)	(2,782 )	2,218	(1,532 )	(5,000 )	3,750
Net income (loss)	(156,309 )	(88,760 )	(58,782 )	(67,549 )	(29,978 )
(Income) loss from consolidated entities attributable to noncontrolling interests	30	110	14	(80 )	96
Net (income) loss attributable to redeemable noncontrolling interests in operating partnership	29,313	21,642	12,483	7,671	9,159
Net income (loss) attributable to the Company	\$(126,966 )	\$(67,008 )	\$(46,285 )	\$(59,958 )	\$(20,723)

Table of Contents

## Comparison of Year Ended December 31, 2018 with Year Ended December 31, 2017

All hotel properties owned during the years ended December 31, 2018 and 2017 have been included in our results of operations during the respective periods in which they were owned. Based on when a hotel property was acquired or disposed, operating results for certain hotel properties are not comparable for the years ended December 31, 2018 and 2017. The hotel properties listed below are not comparable hotel properties for the periods indicated and all other hotel properties are considered comparable hotel properties. The following acquisitions and dispositions affect reporting comparability related to our consolidated financial statements:

Hotel Properties	Location	Type	Date
Renaissance <sup>(1)</sup>	Portsmouth, VA	Disposition	February 1, 2017
Embassy Suites <sup>(1)</sup>	Syracuse, NY	Disposition	March 6, 2017
Crowne Plaza Ravinia <sup>(1)</sup>	Atlanta, GA	Disposition	June 29, 2017
SpringHill Suites <sup>(1)</sup>	Glen Allen, VA	Disposition	February 20, 2018
SpringHill Suites <sup>(1)</sup>	Centreville, VA	Disposition	May 1, 2018
Residence Inn Tampa <sup>(1)</sup>	Tampa, FL	Disposition	May 10, 2018
Hilton Alexandria Old Town <sup>(2)</sup>	Alexandria, VA	Acquisition	June 29, 2018
La Posada de Santa Fe <sup>(2)</sup>	Santa Fe, NM	Acquisition	October 31, 2018

<sup>(1)</sup> Collectively referred to as “Hotel Dispositions”

<sup>(2)</sup> Collectively reported as “Hotel Acquisitions”

The following table illustrates the key performance indicators of the hotel properties and WorldQuest included in our results of operations:

	Year Ended	
	December 31,	
	2018	2017
RevPAR (revenue per available room)	\$123.62	\$122.48
Occupancy	76.32 %	77.36 %
ADR (average daily rate)	\$161.99	\$158.33

The following table illustrates the key performance indicators of the 117 hotel properties and WorldQuest that were included for the full years ended December 31, 2018 and 2017, respectively:

	Year Ended	
	December 31,	
	2018	2017
RevPar	\$123.64	\$123.56
Occupancy	76.32 %	77.55 %
ADR	\$162.00	\$159.32

Net Income (Loss) Attributable to the Company. Net loss attributable to the Company increased \$60.0 million, from \$67.0 million for the year ended December 31, 2017 (“2017”) to \$127.0 million for the year ended December 31, 2018 (“2018”) as a result of the factors discussed below.

Revenue. Rooms revenue from our hotel properties and WorldQuest decreased \$8.4 million, or 0.7%, during 2018 compared to 2017. Rooms revenue was \$1.1 billion in both 2018 and 2017. This decrease is attributable to lower rooms revenue of \$17.2 million from our Hotel Dispositions, partially offset by higher rooms revenue of \$8.0 million



from our Hotel Acquisitions and \$775,000 from our comparable hotel properties and WorldQuest. Our comparable hotel properties experienced an increase of 1.7% in room rates and a decrease of 123 basis points in occupancy. Food and beverage revenue decreased \$10.5 million, or 4.5%, to \$224.3 million during 2018 compared to 2017. This decrease is attributable to lower food and beverage revenue of \$10.1 million from our comparable hotel properties and WorldQuest and \$3.2 million from our Hotel Dispositions, partially offset by an increase of \$2.9 million from our Hotel Acquisitions.

Table of Contents

Other hotel revenue, which consists mainly of Internet access, parking, spa and business interruption revenue, increased \$9.6 million, or 16.5%, to \$67.8 million during 2018 compared to 2017. This increase is primarily attributable to higher other revenue of \$849,000 from our Hotel Acquisitions and \$9.2 million from our comparable hotel properties and WorldQuest, which included \$2.6 million of business interruption income for the St. Petersburg Hilton and Key West Crowne Plaza related to a settlement for lost profits from the BP Deepwater Horizon oil spill in the Gulf of Mexico in 2010 and \$401,000 of business interruption income related to Hurricane Irma. This increase was partially offset by lower other revenue of \$432,000 from our Hotel Dispositions. Other non-hotel revenue increased \$855,000 or 27.1%, to \$4.0 million in 2018 compared to 2017.

Hotel Operating Expenses. Hotel operating expenses decreased \$6.7 million, or 0.7%, to \$900.6 million during 2018 compared to 2017. Hotel operating expenses consist of direct expenses from departments associated with revenue streams and indirect expenses associated with support departments and management fees. Direct expenses decreased \$9.4 million in 2018 compared to 2017, which was comprised of a decrease of \$7.3 million from our Hotel Dispositions and \$5.8 million from our comparable hotel properties and WorldQuest, partially offset by an increase of \$3.7 million from our Hotel Acquisitions. Direct expenses were 29.6% of total hotel revenue for 2018 and 30.1% for 2017. Indirect expenses and management fees increased \$2.7 million in 2018 compared to 2017, which was comprised of an increase of \$3.3 million from our Hotel Acquisitions and \$14.8 million from our comparable hotel properties and WorldQuest. These increases were partially offset by a decrease of \$8.3 million from our Hotel Dispositions, \$4.2 million related to an additional accrual in 2017 related to the final judgment in the lawsuit captioned Palm Beach Florida Hotel and Office Building Limited Partnership, et al. v. Nantucket Enterprises, Inc. and \$2.8 million attributable to uninsured hurricane related costs in 2017.

Property Taxes, Insurance, and Other. Property taxes, insurance, and other increased \$4.8 million or 6.5%, to \$78.4 million during 2018 compared to 2017. The increase was primarily due to \$710,000 from our Hotel Acquisitions and \$5.0 million from our comparable hotel properties and WorldQuest, partially offset by a decrease of \$931,000 from our Hotel Dispositions.

Depreciation and Amortization. Depreciation and amortization increased \$11.7 million or 4.8%, to \$258.5 million during 2018 compared to 2017. The increase was primarily due to \$1.7 million from our Hotel Acquisitions and \$14.3 million at our comparable hotel properties and WorldQuest, partially offset by a decrease of \$4.3 million from our Hotel Dispositions.

Impairment Charges. We recorded impairment charges of \$23.4 million and \$10.2 million in 2018 and 2017, respectively. We recorded an impairment charge of \$23.4 million in 2018 which was comprised of a \$9.9 million impairment charge at the San Antonio Marriott, a \$6.7 million impairment charge at the Annapolis Crowne Plaza, a \$5.1 million impairment charge at the Wisconsin Dells Hilton Garden Inn and a \$2.0 million impairment charge at the SpringHill Suites Centreville related to its disposition. This increase was partially offset by impairment credits of \$275,000 from changes in estimates of property damage incurred from Hurricanes Harvey and Irma. We recorded an impairment charge of \$2.0 million in 2017 for damages to hotel properties from Hurricanes Harvey and Irma and impairment charges totaling \$8.2 million at the SpringHill Suites Centreville and the SpringHill Suites Glen Allen.

Transaction Costs. Transaction costs decreased \$3,000 or 21.4%, to \$11,000 in 2018 compared to 2017.

Advisory Service Fee. The advisory services fee increased \$15.9 million or 29.9%, to \$69.1 million in 2018 compared to 2017. The advisory services fee represents fees incurred in connection with the advisory agreement between Ashford Inc. and the Company. In 2018, the advisory services fee was comprised of a base advisory fee of \$35.5 million, equity-based compensation of \$25.2 million associated with equity grants of our common stock and LTIP units awarded to the officers and employees of Ashford Inc. and reimbursable expenses of \$8.4 million. In 2018, approximately \$4.5 million of the equity-based compensation expense was related to the accelerated vesting of equity awards granted to one of our executive officers upon his death, in accordance with the terms of the awards. In 2017, the advisory services fee was comprised of a base advisory fee of \$34.7 million, equity-based compensation of \$11.1 million associated with equity grants of our common stock and LTIP units awarded to the officers and employees of Ashford Inc. and reimbursable expenses of \$7.5 million.

Corporate, General and Administrative. Corporate, general and administrative expenses decreased \$2.4 million, or 17.7%, to \$10.9 million during 2018 compared to 2017. The decrease was primarily attributable to lower transaction,

acquisition and management conversion costs of \$2.5 million and lower public company costs, office expenses, professional fees and other miscellaneous expenses of \$114,000 in 2018 compared to 2017.

Gain (Loss) on Sale of Hotel Properties. Gain on the sale of hotel properties was \$475,000 and \$14.0 million in the 2018 and 2017, respectively. The gain in 2018 related to gains from the sales of the Tampa Residence Inn and SpringHill Suites Centreville, partially offset by a loss from the sale of the SpringHill Suites Glen Allen. The gain in 2017 was related to a gain from the sale of the Crowne Plaza Ravinia, partially offset by losses from the sales of the Renaissance Portsmouth and Embassy Suites Syracuse.

Table of Contents

**Equity in Earnings (Loss) of Unconsolidated Entities.** Equity in earnings (loss) of unconsolidated entities changed \$6.7 million from an equity in loss of \$5.9 million in 2017 to equity in earnings of \$867,000 in 2018. In 2018 we recorded equity in earnings of \$1.5 million from Ashford Inc. partially offset by an equity in loss of \$592,000 from OpenKey. In 2017 we recorded equity in loss of \$5.4 million from Ashford Inc. and \$481,000 from OpenKey, partially offset by equity in earnings of \$52,000 from the AQUA U.S. Fund.

**Interest Income.** Interest income was \$4.0 million and \$2.2 million in 2018 and 2017, respectively.

**Other Income (Expense).** Other income (expense) changed \$3.5 million, from expense of \$3.4 million in 2017 to income of \$64,000 in 2018. In 2018, we recorded dividend income of \$603,000, a realized gain on marketable securities of \$89,000 and other miscellaneous income of \$417,000; partially offset by expense of \$1.0 million related to CMBX premiums and interest paid on collateral. In 2017, we recognized realized losses of \$4.2 million related to the termination of CMBX tranches, \$543,000 on the maturities of options on futures contracts and \$1.0 million of CMBX premiums and interest paid on collateral. These realized losses were partially offset by dividend income of \$1.1 million, a realized gain of \$971,000 on marketable securities and other miscellaneous income of \$250,000.

**Interest Expense and Amortization of Loan Costs.** Interest expense and amortization of loan costs increased \$14.2 million or 6.4%, to \$236.8 million during 2018 compared to 2017. The increase is primarily due to higher interest expense and amortization of loan costs of \$13.1 million due to higher LIBOR rates and higher amortization of loan costs from refinances at our comparable hotel properties and \$2.1 million from our Hotel Acquisitions, partially offset by lower interest expense and amortization of loan costs of \$3.1 million from our Hotel Dispositions. The average LIBOR rates in 2018 and 2017 were 2.00% and 1.11%, respectively.

**Write-off of Loan Costs and Exit Fees.** Write-off of loan costs and exit fees was \$8.8 million and \$2.8 million in 2018 and 2017, respectively. In 2018, we incurred write-off of loan costs and exit fees of approximately \$8.8 million consisting of the write-off of unamortized loan costs of approximately \$2.9 million and other costs of approximately \$6.0 million as a result of the refinancing of mortgage loans and hotel property sales. In 2017, we incurred write-off of premiums and loan costs of \$324,000 and other costs of \$2.5 million from refinancing a mortgage loan secured by the Nashville Renaissance and Princeton Westin as well as the refinancing of a mortgage loan secured by 17 hotel properties.

**Unrealized Gain (Loss) on Marketable Securities.** Unrealized loss on marketable securities was \$1.0 million and \$4.6 million in 2018 and 2017, respectively, which was based on changes in closing market prices during the period.

**Unrealized Gain (Loss) on Derivatives.** Unrealized loss on derivatives decreased \$624,000 or 22.3%, to \$2.2 million during 2018 compared to 2017. In 2018, we recognized unrealized losses of \$2.7 million from interest rate caps and \$488,000 from interest rate floors, partially offset by unrealized gains of \$988,000 from CMBX tranches. In 2017, we recognized unrealized losses of \$4.2 million, \$2.4 million and \$758,000 associated with the remaining CMBX tranches, interest rate floors, and interest rate caps, respectively, partially offset by unrealized gains of \$4.2 million associated with the reclassification to other income (expense) for the recognition of realized losses from CMBX tranche terminations and \$427,000 associated with the reclassification to other income (expense) for maturities of options on futures contracts. The fair value of interest rate floors and interest rate derivatives are primarily based on movements in the LIBOR forward curve and the passage of time. The fair value of options on futures contracts is determined based on the last reported settlement price as of the measurement date. The fair value of credit default swaps is based on the change in value of CMBX indices.

**Income Tax (Expense) Benefit.** Income tax (expense) benefit changed \$5.0 million, from an income tax benefit of \$2.2 million in 2017 to income tax expense of \$2.8 million in 2018. The change in income tax (expense) benefit is primarily due to an increase in taxable income recognized by our TRS entities, which was partially due to the renewal of a significant portion of the Company's TRS leases in January 2018 and is also partially due to having utilized all of our available TRS net operating losses.

**(Income) Loss from Consolidated Entities Attributable to Noncontrolling Interests.** Our noncontrolling interest partner in consolidated entities was allocated losses of \$30,000 and \$110,000 during 2018 and 2017, respectively.

**Net (Income) Loss Attributable to Redeemable Noncontrolling Interests in Operating Partnership.** Noncontrolling interests in our operating partnership were allocated their proportionate share of net loss of \$29.3 million and \$21.6 million in 2018 and 2017, respectively. Redeemable noncontrolling interests represented ownership interests of

14.64% and 15.52% in the operating partnership at December 31, 2018 and 2017, respectively.

52

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Table of Contents

## Comparison of Year Ended December 31, 2017 with Year Ended December 31, 2016

All hotel properties owned during the years ended December 31, 2017 and 2016 have been included in our results of operations during the respective periods in which they were owned. Based on when a hotel property was acquired or disposed, operating results for certain hotel properties are not comparable for the years ended December 31, 2017 and 2016. The hotel properties listed below are not comparable hotel properties for the periods indicated and all other hotel properties are considered comparable hotel properties. The following acquisitions and dispositions affect reporting comparability related to our consolidated financial statements:

Hotel Properties	Location	Type	Date
5-hotel portfolio <sup>(1)</sup>	Various	Disposition	June 1, 2016
Hampton Inn & Suites <sup>(1)</sup>	Gainesville, FL	Disposition	September 1, 2016
SpringHill Suites Gaithersburg <sup>(1)</sup>	Gaithersburg, MD	Disposition	October 1, 2016
2-hotel portfolio <sup>(1)</sup>	Palm Desert, CA	Disposition	October 7, 2016
Renaissance <sup>(1)</sup>	Portsmouth, VA	Disposition	February 1, 2017
Embassy Suites <sup>(1)</sup>	Syracuse, NY	Disposition	March 6, 2017
Crowne Plaza Ravinia <sup>(1)</sup>	Atlanta, GA	Disposition	June 29, 2017

<sup>(1)</sup> Collectively referred to as “Hotel Dispositions”

The following table illustrates the key performance indicators of the hotel properties and WorldQuest included in our results of operations:

	Year Ended	
	December 31,	
	2017	2016
RevPAR (revenue per available room)	\$122.48	\$118.44
Occupancy	77.36 %	77.00 %
ADR (average daily rate)	\$158.33	\$153.83

The following table illustrates the key performance indicators of the 120 hotel properties and WorldQuest that were included for the full years ended December 31, 2017 and 2016, respectively:

	Year Ended	
	December 31,	
	2017	2016
RevPar (revenue per available room)	\$122.96	\$120.77
Occupancy	77.46 %	77.14 %
ADR (average daily rate)	\$158.74	\$156.56

Net Income (Loss) Attributable to the Company. Net loss attributable to the Company increased \$20.7 million, from \$46.3 million for the year ended December 31, 2016 (“2016”) to \$67.0 million for the year ended December 31, 2017 (“2017”) as a result of the factors discussed below.

Revenue. Rooms revenue from our hotel properties and WorldQuest decreased \$37.1 million, or 3.1%, to \$1.1 billion during 2017 compared to 2016. This decrease is primarily attributable to lower rooms revenue of \$54.3 million related to our Hotel Dispositions, partially offset by higher rooms revenue of \$17.3 million from our comparable hotel properties and WorldQuest, which experienced a 1.4% increase in room rates and a 32 basis point increase in occupancy.

Food and beverage revenue decreased \$18.4 million, or 7.3%, to \$234.8 million during 2017 compared to 2016. This decrease is attributable to lower food and beverage revenue of \$9.4 million from our Hotel Dispositions and \$9.0 million from our comparable hotel properties and WorldQuest. The decrease in our comparable hotel properties and WorldQuest is primarily attributable to approximately \$1.6 million associated with the renovation of the DFW Airport Marriott in Irving, Texas and unfavorable year over year changes in the July 4th holiday calendar moving from the weekend to midweek.

Other hotel revenue, which consists mainly of Internet access, parking, and spa, increased \$1.3 million, or 2.3%, to \$58.2 million during 2017 compared to 2016. This increase is primarily attributable to higher other revenue of \$3.0

million from our

53

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Table of Contents

comparable hotel properties and WorldQuest, partially offset by lower other revenue of \$1.6 million from our Hotel Dispositions. Other non-hotel revenue increased \$1.4 million, or 81.1%, to \$3.2 million in 2017.

**Hotel Operating Expenses.** Hotel operating expenses decreased \$31.1 million, or 3.3%, to \$907.3 million during 2017 compared to 2016. Hotel operating expenses consist of direct expenses from departments associated with revenue streams and indirect expenses associated with support departments and management fees. Direct expenses decreased \$18.2 million in 2017 as compared to 2016, which was comprised of a decrease of \$20.1 million related to our Hotel Dispositions, partially offset by an increase of \$1.9 million from our comparable hotel properties and WorldQuest. Direct expenses were 30.1% of total hotel revenue for both 2017 and 2016. Indirect expenses and management fees decreased \$12.9 million in 2017 as compared to 2016, which was comprised of a decrease of \$21.6 million from our Hotel Dispositions, partially offset by an increase of \$8.7 million from our comparable hotel properties and WorldQuest. The increase from our comparable hotel properties was primarily attributable to uninsured hurricane related costs of \$2.8 million and \$4.2 million from an additional accrual related to the final judgment in the lawsuit captioned Palm Beach Florida Hotel and Office Building Limited Partnership, et al. v. Nantucket Enterprises, Inc. See note 12 to our consolidated financial statements.

**Property Taxes, Insurance, and Other.** Property taxes, insurance, and other increased \$122,000 or 0.2%, to \$73.6 million during 2017 compared to 2016. The increase was primarily due to \$3.3 million from our comparable hotel properties and WorldQuest, partially offset by a decrease of \$3.2 million from our Hotel Dispositions.

**Depreciation and Amortization.** Depreciation and amortization increased \$2.9 million or 1.2%, to \$246.7 million during 2017 compared to 2016. The increase was primarily due to \$12.2 million of depreciation and amortization at our comparable hotel properties and WorldQuest, partially offset by a decrease of \$9.3 million from our Hotel Dispositions.

**Impairment Charges.** We recorded impairment charges of \$10.2 million and \$17.8 million in 2017 and 2016, respectively. We recorded an impairment charge of \$2.0 million in 2017 for damages to hotel properties from Hurricanes Harvey and Irma and an impairment charge totaling \$8.2 million at the SpringHill Suites in Centreville, Virginia and the SpringHill Suites in Glen Allen, Virginia. We recorded an impairment charge of \$17.8 million in 2016 comprised of impairment charges totaling \$18.3 million on SpringHill Suites Gaithersburg, Embassy Suites Syracuse and Renaissance Portsmouth, partially offset by an impairment credit of \$500,000 related to a valuation adjustment on a previously impaired mezzanine loan.

**Transaction Costs.** Transaction costs decreased \$63,000 or 81.8%, to \$14,000 in 2017 compared to 2016.

**Advisory Service Fee.** The advisory services fee decreased \$1.2 million or 2.1%, to \$53.2 million in 2017 compared to 2016, which represents a fee paid in connection with our advisory agreement with Ashford Inc. In 2017, the advisory services fee was comprised of a base advisory fee of \$34.7 million, equity-based compensation of \$11.1 million from equity grants of our common stock and LTIP units awarded to the officers and employees of Ashford Inc. and reimbursable expenses of \$7.5 million. In 2016, the advisory services fee was comprised of a base advisory fee of \$34.6 million, reimbursable expenses of \$5.9 million, an incentive fee of \$5.4 million and equity-based compensation of \$8.4 million associated with equity grants of our common stock and LTIP units awarded to the officers and employees of Ashford Inc.

**Corporate, General, and Administrative.** Corporate, general, and administrative expenses increased \$4.9 million, or 58.8%, to \$13.3 million during 2017 compared to 2016. The increase was primarily attributable to higher transaction, acquisition and management conversion costs of \$2.5 million and higher public company costs, office expenses, professional fees and other miscellaneous expenses of \$2.5 million in 2017 compared to 2016.

**Gain (Loss) on Sale of Hotel Properties.** Gain on acquisition of PIM Highland JV and sale of hotel properties was \$14.0 million and \$31.6 million in 2017 and 2016, respectively. The gain in 2017 was related to a gain of \$14.1 million on the sale of the Crowne Plaza Ravinia, slightly offset by losses from the sales of the Renaissance Portsmouth and Embassy Suites Syracuse. The gain in 2016 was primarily related to our Hotel Dispositions, slightly offset by a loss on the sale of a vacant lot associated with the Le Pavillon Hotel in New Orleans, Louisiana.

**Equity in Earnings (Loss) of Unconsolidated Entities.** We recorded equity in loss of unconsolidated entities of \$5.9 million and \$6.1 million in 2017 and 2016, respectively. In 2017 we recorded equity in loss of \$5.4 million from Ashford Inc. and \$481,000 from OpenKey, partially offset by equity in earnings of \$52,000 from the AQUA U.S.



Fund. In 2016 we recorded equity in loss of \$5.1 million from the AQUA U.S. Fund, \$743,000 from Ashford Inc. and \$305,000 from OpenKey.

Interest Income. Interest income was \$2.2 million and \$331,000 in 2017 and 2016, respectively.

Gain (Loss) on Acquisition of PIM Highland JV and Sale of Hotel Properties. Gain on acquisition of PIM Highland JV and sale of hotel properties was \$14.0 million and \$31.6 million in 2017 and 2016, respectively. The gain in 2017 was related to a gain of \$14.1 million on the sale of the Crowne Plaza Ravinia, slightly offset by losses from the sales of the Renaissance

Table of Contents

Portsmouth and Embassy Suites Syracuse. The gain in 2016 was primarily related to our Hotel Dispositions, slightly offset by a loss on the sale of a vacant lot associated with the Le Pavillon Hotel in New Orleans, Louisiana.

Other Income (Expense). Other expense decreased \$1.1 million, or 24.2%, to \$3.4 million in 2017 compared to 2016. In 2017, we recognized realized losses of \$4.2 million related to the termination of CMBX tranches, \$543,000 on the maturities of options on futures contracts and \$1.0 million of CMBX premiums and usage fees. These realized losses were partially offset by dividend income of \$1.1 million, a realized gain of \$971,000 on marketable securities and other miscellaneous income of \$250,000. In 2016, we recognized realized losses of \$3.3 million related to the termination of CMBX tranches, \$313,000 related to the maturity of options on futures contracts, \$150,000 from an investment write-off and \$872,000 of CMBX premiums and usage fees.

Interest Expense and Amortization of Loan Costs. Interest expense and amortization of loan costs decreased \$1.3 million or 0.6%, to \$222.6 million during 2017 compared to 2016. The decrease is primarily due to lower interest expense and amortization of loan costs of \$8.1 million from our Hotel Dispositions, partially offset by an increase of \$6.8 million from higher interest expense and amortization of loan costs as a result of refinances and an increase in LIBOR rates. The average LIBOR rates in 2017 and 2016 were 1.11% and 0.45%, respectively.

Write-off of Loan Costs and Exit Fees. Write-off of loan costs and exit fees was \$2.8 million and \$12.7 million in 2017 and 2016, respectively. In 2017, we incurred write-off of premiums and loan costs of \$324,000 and other costs of \$2.5 million from refinancing a mortgage loan secured by the Nashville Renaissance and Princeton Westin as well as the refinance of a mortgage loan secured by 17 hotel properties. In 2016, we incurred write-off of loan costs and exit fees of \$12.7 million resulting from the write-off of unamortized loan costs of \$897,000 and other costs of \$11.8 million related to the sale of a five-hotel portfolio and the Hampton Inn Gainesville.

Unrealized Gain (Loss) on Marketable Securities. Unrealized gain (loss) on marketable securities was a loss of \$4.6 million in 2017 and a gain of \$4.9 million in 2016, which are based on changes in closing market prices during the period.

Unrealized Gain (Loss) on Derivatives. Unrealized loss on derivatives increased \$268,000 or 10.6%, to \$2.8 million during 2017 compared to 2016. In 2017, we recognized unrealized losses of \$4.2 million, \$2.4 million and \$758,000 associated with the remaining CMBX tranches, interest rate floors, and interest rate caps, respectively, partially offset by unrealized gains of \$4.2 million associated with the reclassification to other income (expense) for the recognition of realized losses from CMBX tranche terminations and \$427,000 associated with the reclassification to other income (expense) for maturities of options on futures contracts. In 2016, we recorded an unrealized gain of \$611,000 related to interest rate floors, a \$3.3 million unrealized gain associated with the reclassification to other income (expense) for the recognition of the realized loss from CMBX tranche terminations and a \$313,000 unrealized gain associated with the reclassification to other income (expense) for the maturity of options on futures contracts, partially offset by unrealized losses of \$5.8 million, \$348,000 and \$536,000 on the remaining CMBX tranches, options on futures contracts and interest rate derivatives, respectively. The fair value of interest rate floors and interest rate derivatives are primarily based on movements in the LIBOR forward curve and the passage of time. The fair value of options on futures contracts is determined based on the last reported settlement price as of the measurement date. The fair value of credit default swaps is based on the change in value of CMBX indices.

Income Tax (Expense) Benefit. Income tax (expense) benefit changed \$3.8 million, from expense of \$1.5 million in 2016 to a benefit of \$2.2 million in 2017. The change in income tax benefit (expense) is primarily due to a decrease in the profitability of the Company's taxable REIT subsidiaries in 2017 compared to 2016 as well as the estimated benefit related to the Tax Cuts and Jobs Act of 2017.

(Income) Loss from Consolidated Entities Attributable to Noncontrolling Interests. Our noncontrolling interest partner in consolidated entities was allocated losses of \$110,000 and \$14,000 during 2017 and 2016, respectively.

Net (Income) Loss Attributable to Redeemable Noncontrolling Interests in Operating Partnership. Noncontrolling interests in our operating partnership were allocated their proportionate share of net loss of \$21.6 million and \$12.5 million in 2017 and 2016, respectively. Redeemable noncontrolling interests represented ownership interests of 15.52% and 14.48% in the operating partnership at December 31, 2017 and 2016, respectively.

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 can greatly affect the cost of our debt service as well as the value of any financial hedges we may put in place. We monitor industry fundamentals and interest rates very closely. Capital expenditures above our reserves will affect cash flow as well.

Table of Contents

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. 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.

On December 5, 2017, the board of directors reapproved a stock repurchase program (the “Repurchase Program”) pursuant to which the Board granted a repurchase authorization to acquire shares of the Company’s common stock having an aggregate value of up to \$200 million. The Board’s authorization replaced any previous repurchase authorizations. We made no purchases under the Repurchase Program in 2018. On December 11, 2017, we entered into equity distribution agreements with UBS Securities LLC, Morgan Stanley & Co. LLC, B. Riley FBR, Inc., Robert W. Baird & Co. Incorporated, D.A. Davidson & Co., Deutsche Bank Securities Inc. and Janney Montgomery Scott LLC, each acting as a sales agent (the “Equity Distribution Agreements”). Pursuant to the Equity Distribution Agreements, we may sell from time to time through the sales agents shares of our common stock having an aggregate offering price of up to \$100.0 million. Sales of shares of our common stock, if any, may be made in negotiated transactions or transactions that are deemed to be “at-the-market” offerings as defined in Rule 415 of the Securities Act, including sales made directly on the New York Stock Exchange, the existing trading market for our common stock, or sales made to or through a market maker other than on an exchange or through an electronic communications network. We will pay each of the sales agents a commission, which in each case shall not be more than 2.0% of the gross sales price of the shares of our common stock sold through such sales agent. During the year ended December 31, 2018, we issued approximately 2.4 million shares of our common stock through our “at-the-market” equity offering program resulting in gross proceeds of approximately \$15.5 million and net proceeds of approximately \$15.3 million after discounts and commissions to the selling agents.

On January 17, 2018, we refinanced our \$376.8 million mortgage loan. The new mortgage loan totaled \$395.0 million. The new mortgage loan has a two-year initial term and five one-year extension options, subject to the satisfaction of certain conditions. The mortgage loan is interest only and provides for a floating interest rate of LIBOR + 2.92%. The new mortgage loan is secured by eight hotels: Embassy Suites Portland, Embassy Suites Crystal City, Embassy Suites Orlando, Embassy Suites Santa Clara, Crowne Plaza Key West, Hilton Costa Mesa, Sheraton Minneapolis, and Historic Inns of Annapolis.

On February 20, 2018, we repaid \$7.6 million of principal on our mortgage loan partially secured by the SpringHill Suites Glen Allen as a result of the sale of the hotel property.

On April 9, 2018, we refinanced our \$971.7 million mortgage loan secured by 22 hotel properties. The new mortgage loan totaled \$985.0 million, is interest only and provides for a floating interest rate of LIBOR + 3.20%. The stated maturity is April 2020 with five one-year extension options, subject to the satisfaction of certain conditions. The new mortgage loan is secured by the same 22 hotel properties that include: the Courtyard Boston Downtown, Courtyard Denver, Courtyard Gaithersburg, Courtyard Savannah, Hampton Inn Parsippany, Hilton Parsippany, Hilton Tampa, Hilton Garden Inn Austin, Hilton Garden Inn BWI, Hilton Garden Inn Virginia Beach, Hyatt Windwatch Long Island, Hyatt Savannah, Marriott DFW Airport, Marriott Omaha, Marriott San Antonio, Marriott Sugarland, Renaissance Palm Springs, Ritz-Carlton Atlanta, Residence Inn Tampa, Churchill, Melrose and Silversmith.

On May 1, 2018, we sold the SpringHill Suites Centreville for approximately \$7.5 million in cash. We also repaid approximately \$6.6 million of principal on our mortgage loan partially secured by the hotel property.

On May 10, 2018, we sold the Residence Inn Tampa for approximately \$24.0 million in cash. We also repaid approximately \$22.5 million of debt associated with the hotel property.



Table of Contents

On June 13, 2018, we refinanced seven mortgage loans with existing outstanding balances totaling \$1.068 billion. The new financing is comprised of six separate mortgage loans that total approximately \$1.270 billion. Each has a two-year initial term with five one-year extension options, subject to the satisfaction of certain conditions. The original principal amounts of each mortgage loan and the hotel properties securing each mortgage loan are set forth in the following table:

Mortgage Loan	Principal Amount (in thousands)	Interest Rate	Secured Hotel Properties
A	\$180,720	LIBOR + 3.65%	Courtyard Columbus Tipton Lakes Courtyard Scottsdale Old Town Residence Inn Phoenix Airport SpringHill Suites Manhattan Beach SpringHill Suites Plymouth Meeting Residence Inn Las Vegas Hughes Center Residence Inn Newark
B	\$174,400	LIBOR + 3.39%	Courtyard Newark SpringHill Suites BWI Courtyard Oakland Airport Courtyard Plano Legacy Residence Inn Plano TownePlace Suites Manhattan Beach Courtyard Basking Ridge
C	\$221,040	LIBOR + 3.73%	Sheraton San Diego Mission Valley Sheraton Bucks County Hilton Ft. Worth Hyatt Regency Coral Gables Hilton Minneapolis
D	\$262,640	LIBOR + 4.02%	Hilton Santa Fe Embassy Suites Dulles Marriott Beverly Hills One Ocean Marriott Suites Dallas Market Center
E <sup>(1)</sup>	\$216,320	LIBOR + 4.36%	Marriott Memphis East Embassy Suites Philadelphia Airport Sheraton Anchorage Lakeway Resort & Spa Marriott Fremont
F	\$215,120	LIBOR + 3.68%	W Atlanta Downtown Embassy Suites Flagstaff Embassy Suites Walnut Creek Marriott Bridgewater Marriott Durham Research Triangle Park

<sup>(1)</sup>On July 3, 2018, we purchased \$56.3 million of mezzanine debt related to the Pool E loan that was issued in conjunction with the June 13, 2018 refinancing. The net floating interest rate after the purchase of the Pool E loan is LIBOR + 2.73%.

On June 29, 2018, in connection with the acquisition of the Hilton Alexandria Old Town in Alexandria VA, we completed the financing of a \$73.5 million mortgage loan. This mortgage loan is interest only and provides for a floating interest rate of LIBOR + 2.45%. The stated maturity date of the mortgage loan is June 2023, with no extension options. The mortgage loan is secured by the Hilton Alexandria Old Town.

On July 3, 2018, we purchased \$56.3 million of mezzanine debt related to the Pool E loan that was issued in conjunction with the June 13, 2018 refinance. The debt was eliminated upon consolidation. The net floating interest rate after the purchase for the Pool E loan is LIBOR + 2.73%.

On September 27, 2018, we established a secured credit facility with a borrowing capacity of up to \$100.0 million, which is secured by a pledge of 100% of the equity interests in the subsidiaries that own the hotel property for which revolving credit facility funds would be used to acquire. The interest rate associated with the secured credit facility is either the base rate + 1.65% or LIBOR + 2.65% at the Company's election. The base rate is the greater of: (i) the prime rate set by Bank of America; (ii) federal funds rate + 0.5%; or (iii) LIBOR + 1.00%.

On November 8, 2018, in connection with the acquisition of the La Posada de Santa Fe, we completed the financing of a \$25.0 million mortgage loan. This mortgage loan is interest only and provides for a floating interest rate of LIBOR + 2.55%. The stated

## Table of Contents

maturity date of the mortgage loan is November 2020, with three one-year extension options. The mortgage loan is secured by the La Posada de Santa Fe.

During the year ended December 31, 2018, we issued approximately 2.4 million shares of our common stock through our “at-the-market” equity offering program resulting in gross proceeds of approximately \$15.5 million and net proceeds of approximately \$15.3 million after discounts and commissions to the selling agents.

On January 22, 2019, in connection with the acquisition of the Embassy Suites New York Midtown Manhattan, we closed on a \$145 million mortgage loan. This mortgage loan is interest only and provides for a floating interest rate of LIBOR + 3.90%. The stated maturity date of the mortgage loan is February 2022, with two one-year extensions. The mortgage loan is secured by the Embassy Suites New York Midtown Manhattan.

On February 26, 2019, in connection with the acquisition of the Hilton Santa Cruz/Scotts Valley, we assumed a \$25.3 million non-recourse mortgage loan. This mortgage loan is interest only and provides for a fixed interest rate of 4.66%. The stated maturity date of the mortgage loan is March 2025. The mortgage loan is secured by the Hilton Santa Cruz/Scotts Valley.

### Secured Credit Facility

We have a one-year, senior secured revolving credit facility in the amount of \$100 million. We believe the secured credit facility will provide us with financial flexibility to fund future acquisitions.

The secured credit facility is provided by Bank of America, N.A. with Ashford Hospitality Limited Partnership, as the borrower. We guarantee the secured credit facility, which is secured by a pledge of 100% of the equity interests in the subsidiaries that own the hotel property for which revolving credit facility funds would be used to acquire. The proceeds of the secured revolving credit facility may be used for property acquisitions.

The secured credit facility also contains customary terms, covenants, negative covenants, events of default, limitations and other conditions for credit facilities of this type. Subject to certain exceptions, we are subject to restrictions on incurring additional indebtedness, mergers and fundamental changes, sales or other dispositions of property, changes in the nature of our business and investments.

We also are subject to certain financial covenants, as set forth below, which are tested by the borrower on a consolidated basis (net of the amounts attributable to the noncontrolling interest held by our partner in a majority-owned consolidated entity) and include, but are not limited to, the following:

• the ratio of total funded indebtedness (less unrestricted cash in excess of \$15 million) to EBITDA shall not be greater than 9.75 to 1.0. Our ratio was 8.92 at December 31, 2018.

• the ratio of EBITDA to fixed charges for the previous four consecutive fiscal quarters shall not be less than 1.25 to 1.0. Our ratio was 1.53 at December 31, 2018.

• tangible net worth shall not at any time be less than 75% of the consolidated tangible net worth on the closing date of the secured credit facility plus 75% of the net proceeds of all new equity issuances of the consolidated group.

All financial covenants are tested and certified by the borrower on a quarterly basis. We were in compliance with all covenants at December 31, 2018.

The secured credit facility includes customary events of default and the occurrence of an event of default will permit the lenders to terminate commitments to lend under the secured revolving credit facility and accelerate payment of all amounts outstanding thereunder. If a default occurs and is continuing, we will be precluded from making distributions on our shares of common stock (other than those required to allow us to qualify and maintain our status as a REIT, so long as such default does not arise from a payment default or event of insolvency).

The interest rate associated with the borrowings under the secured credit facility is either the base rate + 1.65% or LIBOR + 2.65% at the Company’s election. The base rate is the greater of (i) the prime rate set by Bank of America; (ii) federal funds rate + 0.5%; or (iii) LIBOR + 1.00%.

The secured credit facility is a one-year interest-only facility with all outstanding principal being due at maturity on September 26, 2019. Borrowings must be repaid within 180 days.

We intend to repay any indebtedness incurred under our secured credit facility from time to time out of net cash provided by operations and from the net proceeds of issuances of additional equity and debt securities or sale of assets, as market conditions permit.





Table of Contents

As of both March 1, 2019 and December 31, 2018, no amounts were outstanding under the secured credit facility.

## Sources and Uses of Cash

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

**Net Cash Flows Provided by (Used in) 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 \$181.6 million, \$207.4 million and \$179.7 million for the years ended December 31, 2018, 2017 and 2016, respectively. Cash flows from operations were impacted by changes in hotel operations, the operating results of our 2018, 2017 and 2016 hotel acquisitions and dispositions as well as the timing of collecting receivables from hotel guests, paying vendors, settling with related parties and settling with hotel managers.

**Net Cash Flows Provided by (Used in) Investing Activities.** For the year ended December 31, 2018, investing activities used net cash flows of \$329.6 million, which primarily consisted of cash outflows of \$207.3 million for capital improvements made to various hotel properties, \$162.6 million primarily for the purchase of the Hilton Alexandria Old Town and La Posada de Santa Fe and an additional \$667,000 investment in OpenKey. Cash outflows were partially offset by cash inflows of \$40.6 million from proceeds received from the sales of the SpringHill Suites Glen Allen, SpringHill Suites Centreville and Residence Inn Tampa and \$651,000 of proceeds from property insurance. For the year ended December 31, 2017, investing activities used net cash flows of \$63.9 million which primarily consisted of cash outflows of \$222.0 million for capital improvements made to various hotel properties and a \$984,000 investment in OpenKey. These outflows were partially offset by inflows of \$105.3 million attributable to net cash proceeds received from the sale of the Renaissance Portsmouth, Embassy Suites Syracuse and Crowne Plaza Ravinia, \$50.9 million from the liquidation of our interest in the AQUA U.S. Fund and \$3.4 million of proceeds from property insurance. For the year ended December 31, 2016, investing activities used net cash flows of \$21.9 million which primarily consisted of cash outflows of \$204.0 million for capital improvements made to various hotel properties, \$3.3 million for (i) the purchase of the land underlying the San Antonio Marriott; (ii) an interest in a permanent exclusive docking easement, a leasehold interest and certain floating docks on riverfront land located in front of the Hyatt Savannah; and (iii) a WorldQuest condominium unit and a \$2.3 million investment in OpenKey. These outflows were partially offset by inflows of \$181.8 million attributable to net cash proceeds received from the sale of the Noble Five Hotels, the Hampton Inn Gainesville, SpringHill Suites Gaithersburg, the Palm Desert hotel properties and a vacant lot associated with Le Pavillon, \$4.2 million of cash payments received on a previously impaired mezzanine loan and \$1.9 million of proceeds from property insurance.

**Net Cash Flows Provided by (Used in) Financing Activities.** For the year ended December 31, 2018, net cash flows provided by financing activities were \$115.8 million. Cash inflows consisted of \$2.7 billion in borrowings on indebtedness and \$14.8 million, net of previously capitalized offering costs, from issuance of common stock, and a \$16.1 million deposit on ERF assets from Ashford LLC. Cash inflows were partially offset by cash outflows, which consisted of \$2.5 billion for repayments of indebtedness, \$97.4 million for dividend and distribution payments to common and preferred stockholders and unitholders, \$55.6 million for payments of loan costs and exit fees, \$1.6 million for the repurchase of common stock and \$3.2 million of payments for derivatives. For the year ended December 31, 2017, net cash flows used in financing activities were \$163.9 million. Cash outflows consisted primarily of \$754.8 million for repayments of indebtedness, \$218.4 million for redemption of preferred stock, \$101.6 million for dividend payments to common and preferred stockholders and unitholders, \$13.9 million for payments of loan costs and exit fees and \$1.3 million for the repurchase of common stock. Cash outflows were partially offset by cash inflows primarily consisting of \$704.8 million in borrowings on indebtedness and proceeds of \$222.1 million from issuance of preferred stock. For the year ended December 31, 2016, net cash flows used in financing activities were \$34.2 million. Cash outflows consisted primarily of \$559.0 million for repayments of indebtedness, \$115.8 million for redemption of preferred stock, \$91.5 million for dividend payments to common and preferred stockholders and unitholders, \$20.2 million for payments of loan costs and exit fees and \$729,000 for the repurchase of common

stock. Cash outflows were partially offset by cash inflows which consisted primarily of \$487.5 million of borrowings on indebtedness and proceeds of \$265.6 million from issuance of preferred stock.

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. Presently, our existing financial debt covenants primarily relate to maintaining minimum net worth and leverage ratios and liquidity. As of December 31, 2018, we were in compliance in all material respects with all covenants or other requirements set forth in our debt and related agreements.

Mortgage and mezzanine loans are nonrecourse 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

## Table of Contents

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.

Based on our current level of operations, management believes that our cash flow from operations and our existing cash balances should be adequate to meet upcoming anticipated requirements for interest and principal payments on debt (excluding any potential final maturity payments), working capital, and capital expenditures for the next 12 months and dividends required to maintain our status as a REIT for federal income tax purposes. With respect to upcoming maturities, we will continue to proactively address the refinancing or repayment of 2019 and 2020 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 hotel properties 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 each of the years ended December 31, 2018, 2017 and 2016 our board of directors declared quarterly dividends of \$0.12 per share of outstanding common stock. In December 2018, the board of directors approved our 2019 dividend policy which anticipates a quarterly dividend payment of \$0.12 per share for 2019. 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.

### **INFLATION**

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

### **SEASONALITY**

Our hotel properties' operations historically have been seasonal as certain properties maintain higher occupancy rates during the summer months, while certain other properties maintain higher occupancy rates 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 hotel 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.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we form partnerships or joint ventures that operate certain hotels. We evaluate each partnership and joint venture to determine whether the entity is a Variable Interest Entity (“VIE”). If the entity is determined to be a VIE, we assess whether we are the primary beneficiary and need to consolidate the entity. For further discussion of the company’s VIEs, see note 2 to our consolidated financial statements.

60

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Table of Contents**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The table below summarizes our future obligations for principal and estimated interest payments on our debt, future minimum lease payments on our operating and capital leases with regard to our continuing operations and capital commitments, each as of December 31, 2018 (in thousands):

	Payments Due by Period				
	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Contractual obligations excluding extension options:					
Long-term debt obligations	\$669,233	\$2,718,153	\$402,101	\$176,750	\$3,966,237
Estimated interest obligations <sup>(1)</sup>	217,027	117,222	35,655	6,094	375,998
Operating lease obligations	2,643	4,885	4,546	121,697	133,771
Capital commitments	68,593	—	—	—	68,593
Total contractual obligations	\$957,496	\$2,840,260	\$442,302	\$304,541	\$4,544,599

<sup>(1)</sup> For variable interest rate indebtedness, interest obligations are estimated based on the LIBOR interest rate as of December 31, 2018.

In addition to the amounts discussed above, we also have management agreements which require us to pay monthly management fees, market service fees and other general fees, if required. These management agreements expire from 2020 through 2039. See note 13 to our consolidated financial statements.

**CRITICAL ACCOUNTING POLICIES**

Our significant accounting policies are fully described in note 2 to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data. We believe that the following discussion addresses our most critical accounting policies, representing those policies considered most vital to the portrayal of our financial condition and results of operations and require management's most difficult, subjective, and complex judgments. Investments in Hotel Properties, net—Hotel properties are generally stated at cost. However, four hotel properties contributed upon Ashford Trust's formation in 2003 are stated at the predecessor's historical cost, net of impairment charges, if any, plus a partial step-up related to the acquisition of noncontrolling interests from third parties associated with certain of these properties. For hotel properties owned through our majority-owned entities, the carrying basis attributable to the partners' minority ownership is recorded at the predecessor's historical cost, net of any impairment charges, while the carrying basis attributable to our majority ownership is recorded based on the allocated purchase price of our ownership interests in the entities. All improvements and additions that extend the useful life of the hotel properties are capitalized.

Impairment of Investments in Hotel Properties—Hotel properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of the hotel is measured by comparison of the carrying amount of the hotel to the estimated future undiscounted cash flows, which take into account current market conditions and our intent with respect to holding or disposing of the hotel. If our analysis indicates that the carrying value of the hotel is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the property's net book value exceeds its estimated fair value, or fair value, less cost to sell. In evaluating impairment of hotel properties, we make many assumptions and estimates, including projected cash flows, expected holding period, and expected useful life. Fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third-party appraisals, where considered necessary. Asset write-downs resulting from property damage are recorded up to the amount of the allocable property insurance deductible in the period that the property damage occurs. We recorded impairment charges of \$23.4 million, \$10.2 million and \$1.8 million for the years ended December 31, 2018, 2017 and 2016, respectively. See note 6 to our consolidated financial statements.

Depreciation and Amortization—Depreciation expense is based on the estimated useful life of the assets, while amortization expense for leasehold improvements is based on the shorter of the lease term or the estimated useful life of the related assets. Presently, hotel properties are depreciated using the straight-line method over lives which range from 7.5 to 39 years for buildings and improvements and 1.5 to 5 years for furniture, fixtures and equipment. While we believe our estimates are reasonable, a change in estimated lives could affect depreciation and amortization

expense and net income (loss) as well as resulting gains or losses on potential hotel sales.

61

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Table of Contents

**Hotel Dispositions**—Discontinued operations are defined as the disposal of components of an entity that represents strategic shifts that have (or will have) a major effect on an entity’s operations and financial results. We believe that individual dispositions of hotel properties do not represent a strategic shift that has (or will have) a major effect on our operations and financial results as most will not fit the definition. See note 6 to our consolidated financial statements.

**Assets Held for Sale**—We classify assets as held for sale when we have obtained a firm commitment from a buyer, and consummation of the sale is considered probable and expected within one year. The related operations of assets held for sale are reported as discontinued if the disposal is a component of an entity that represents a strategic shift that has (or will have) a major effect on our operations and cash flows. Depreciation and amortization will cease as of the date assets have met the criteria to be deemed held for sale. See note 6 to our consolidated financial statements.

**Income Taxes**—As a REIT, we generally are not subject to federal corporate income tax on the portion of our net income (loss) that does not relate to taxable REIT subsidiaries. However, Ashford TRS is treated as a taxable REIT subsidiary for federal income tax purposes. In accordance with authoritative accounting guidance, we account for income taxes related to Ashford TRS using the asset and liability method under which deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, the analysis utilized by us in determining our deferred tax asset valuation allowance involves considerable management judgment and assumptions. See note 17 to our consolidated financial statements.

At December 31, 2018 and 2017, we recorded a valuation allowance of \$10.0 million and \$6.2 million, respectively on the net deferred tax assets of our taxable REIT subsidiaries. At each reporting date, we evaluate whether it is more likely than not that we will utilize all or a portion of our deferred tax assets. We consider all available positive and negative evidence, including historical results of operations, projected future taxable income, carryback potential and scheduled reversals of deferred tax liabilities. At December 31, 2018, we had net operating loss carryforwards for federal income tax purposes of \$10.1 million, which begin to expire in 2029. The entirety of the \$10.1 million net operating loss carryforwards are attributable to acquired subsidiaries and subject to substantial limitation on their use. Management determined that it is more likely than not that as of December 31, 2018, \$10.0 million of our net deferred tax assets will not be realized, and a valuation allowance has been recorded accordingly. At December 31, 2018, Ashford Hospitality Trust, Inc., our REIT, had net operating loss carryforwards for federal income tax purposes of \$426.0 million, based on the latest filed tax return, which begin to expire in 2023, and are available to offset future taxable income, if any, through 2036.

The “Income Taxes” topic of the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification addresses the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. The guidance requires us to determine whether tax positions we have taken or expect to take in a tax return are more likely than not to be sustained upon examination by the appropriate taxing authority based on the technical merits of the positions. Tax positions that do not meet the more likely than not threshold would be recorded as additional tax expense in the current period. We analyze all open tax years, as defined by the statute of limitations for each jurisdiction, which includes the federal jurisdiction and various states. We classify interest and penalties related to underpayment of income taxes as income tax expense. We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and cities. Tax years 2014 through 2018 remain subject to potential examination by certain federal and state taxing authorities.

**Investments in Unconsolidated Entities**—Investments in entities in which we have ownership interests ranging from 16.3% to 25.0% at December 31, 2018, are accounted for under the equity method of accounting by recording the initial investment and our percentage of interest in the entities’ net income/loss. We review the investments in our unconsolidated entities for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. An investment is impaired when its estimated fair value is less than the carrying amount of our investment. Any impairment is recorded in equity earnings (loss) in unconsolidated entities. No such impairment was recorded for the years ended December 31, 2018, 2017 and 2016.

Our investments in certain unconsolidated entities are considered to be variable interests in the underlying entities. Each VIE, as defined by authoritative accounting guidance, must be consolidated by a reporting entity if the reporting entity is the primary beneficiary because it has (i) the power to direct the VIE’s activities that most significantly impact



the VIE's economic performance, and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Because we do not have the power and financial responsibility to direct the unconsolidated entities' activities and operations, we are not considered to be the primary beneficiary of these entities on an ongoing basis and therefore such entities should not be consolidated. In evaluating VIEs, our analysis involves considerable management judgment and assumptions.

**Derivative Instruments 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. Interest rate derivatives could include swaps, caps, floors and floorridors. 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

Table of Contents

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

All derivatives are recorded at fair value in accordance with the applicable authoritative accounting guidance. None of our derivative instruments are designated as cash flow hedges. Interest rate derivatives, credit default swaps and options on futures contracts are reported as “derivative assets, net” in the consolidated balance sheets. For interest rate derivatives, credit default swaps and options on futures contracts, changes in fair value and realized gains and losses are recognized in earnings as “unrealized gain (loss) on derivatives” and “other income (expense),” respectively, in the consolidated statements of operations. Accrued interest on interest rate derivatives is included in “accounts receivable, net” in the consolidated balance sheets.

**RECENTLY ADOPTED ACCOUNTING STANDARDS**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model, which requires a company to recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. The update replaces most existing revenue recognition guidance in U.S. GAAP. The standard permits the use of either the full retrospective or cumulative effect (modified retrospective) transition method. This standard, referred to as “Topic 606,” does not materially affect the amount or timing of revenue recognition for revenues from rooms, food and beverage, and other hotel level sales. Additionally, we have historically disposed of hotel properties for cash sales with no contingencies and no future involvement in the hotel operations. Therefore, Topic 606 does not impact the recognition of hotel sales. We adopted this standard effective January 1, 2018, under the modified retrospective method, and the adoption of this standard did not have a material impact on our consolidated financial statements. See related disclosures in note 3.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. ASU 2016-01 provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. It also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Certain provisions of ASU 2016-01 are eligible for early adoption. We adopted this standard effective January 1, 2018. The adoption of this standard did not have a material impact on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments - a Consensus of the Emerging Issues Task Force (“ASU 2016-15”). The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Certain issues addressed in this guidance include - debt payments or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investments and beneficial interests in securitization transactions. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years.

Early adoption is permitted. We adopted this standard effective January 1, 2018 on a prospective basis as there were no required changes as a result of adoption. The adoption of this standard did not have a material impact on our consolidated statements of cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) - Clarifying the Definition of a Business ("ASU 2017-01"), which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether a transaction should be accounted for as an acquisition (or disposal) of an asset or a business. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. We adopted this standard effective January 1, 2018. Under the new standard, certain future hotel acquisitions may be considered asset acquisitions rather than business combinations, which would affect capitalization of acquisitions costs (such costs are expensed for business combinations and capitalized for asset acquisitions). Asset acquisitions are accounted for by allocating the cost of the acquisition to the individual

Table of Contents

assets acquired and liabilities assumed on a relative fair value basis. We concluded that our hotel acquisitions completed in 2018 are acquisitions of assets because substantially all of the fair value of the gross assets acquired were concentrated in a single identifiable asset or a group of similar identifiable assets. As such, acquisition costs were capitalized as part of the transaction. See note 4.

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (ASU “2017-05”), which clarifies the scope of ASC Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets and adds guidance for partial sales of nonfinancial assets. ASU 2017-05 is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. An entity may elect to apply ASU 2017-05 under a retrospective or modified retrospective method. We adopted this standard effective January 1, 2018, under the modified retrospective method. The adoption of this standard did not have a material impact on our consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting (“ASU 2018-07”), which expanded the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees and aligns the guidance for share-based payments to non-employees with the requirements for share-based payments granted to employees. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We adopted ASU 2018-07 effective July 1, 2018. The adoption of ASU 2018-07 has a material impact on our consolidated financial statements because the compensation expense related to our equity awards is now determined based on the grant date fair value of the awards and will be ratably recognized over the service period as the service is rendered as opposed to being marked-to-market in periods prior to adoption. For all existing equity awards, future equity-based compensation expense is based on the fair value of the awards on July 1, 2018.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”). The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases (“ASU 2018-10”) and ASU 2018-11, Leases (Topic 842), Targeted Improvements (“ASU 2018-11”). The amendments in ASU 2018-10 affect only narrow aspects of the guidance issued in the amendments in ASU 2016-02, including but not limited to lease residual value guarantees, the rate implicit in the lease, lease terms and the purchase options. The amendments in ASU 2018-11 provide an optional transition method for adoption of the new standard, which will allow entities to continue to apply the legacy guidance in ASC 840, including its disclosure requirements, in the comparative periods presented in the year of adoption. In December 2018, the FASB issued ASU 2018-20, Leases (Topic 842), Narrow-Scope Improvements for Lessors (“ASU 2018-20”). The amendments create a lessor practical expedient applicable to sales and other similar taxes incurred in connection with a lease, and simplify lessor accounting for lessor costs paid by the lessee. ASU 2016-02 is effective for annual and interim periods for fiscal years beginning after December 15, 2018, which will require us to adopt these provisions in the first quarter of 2019 on a modified retrospective basis. The accounting for leases under which we are the lessor remains largely unchanged. While we continue evaluating our lease portfolio to assess the impact that ASU 2016-02 will have on our consolidated financial statements, we expect the primary impact to our consolidated financial statements upon adoption will be the recognition, on a discounted basis, of our future minimum rentals due under noncancelable leases on our consolidated balance sheets resulting in the recording of ROU assets and lease obligations. We disclosed \$133.8 million in undiscounted future minimum rentals due under non-cancelable leases in note 13. We are involving our property managers and implementing repeatable processes to manage ongoing lease data collection and analysis, and evaluating accounting policies and internal controls that will be impacted by the new standards. We have also engaged a third party valuation expert to assist us in determining the value of our ROU assets and operating lease liabilities including the determination of our incremental borrowing rate. We will use the transition method that includes the practical expedient that allows us to not reevaluate or recast prior periods upon

adoption effective January 1, 2019.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The ASU sets forth an “expected credit loss” impairment model to replace the current “incurred loss” method of recognizing credit losses. The standard requires measurement and recognition of expected credit losses for most financial assets held. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for periods beginning after December 15, 2018. We are currently evaluating the impact that ASU 2016-13 will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). ASU 2018-13 modifies certain disclosure requirements related to fair value measurements including requiring disclosures on changes in unrealized gains and losses in other

Table of Contents

comprehensive income for recurring Level 3 fair value measurements and a requirement to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact that ASU 2018-13 will have on the consolidated financial statements.

**NON-GAAP FINANCIAL MEASURES**

The following non-GAAP presentations of EBITDA, EBITDAre, Adjusted EBITDAre, FFO and AFFO are presented to help our investors evaluate our operating performance.

EBITDA is defined as net income (loss) before interest expense and amortization of premiums and loan costs, net, depreciation and amortization, income taxes, equity in earnings/loss of unconsolidated entities and after the Company's portion of EBITDA of unconsolidated entities. In addition, we include impairment charges on real estate and gain/loss on sale of hotel properties to calculate EBITDAre, as defined by NAREIT.

We then further adjust EBITDAre to exclude certain additional items such as uninsured hurricane related costs, gain/loss on insurance settlements, write-off of premiums, loan costs and exit fees, other income/expense, net, transaction, acquisition and management conversion costs, legal judgment and related legal costs, dead deal costs, software implementation costs, and non-cash items such as amortization of unfavorable contract liabilities, non-cash stock/unit-based compensation, other impairment charges, unrealized gains/losses on marketable securities, derivative instruments, investment in securities investment fund, as well as our portion of adjustments to EBITDAre of unconsolidated entities.

We present EBITDA, EBITDAre and Adjusted EBITDAre because we believe they reflect more accurately the ongoing performance of our hotel assets and other investments and provide more useful information to investors as they are indicators of our ability to meet our future debt payment requirements, working capital requirements and they provide an overall evaluation of our financial condition. EBITDA, EBITDAre and Adjusted EBITDAre as calculated by us may not be comparable to EBITDA, EBITDAre and Adjusted EBITDAre reported by other companies that do not define EBITDA, EBITDAre and Adjusted EBITDAre exactly as we define the terms. EBITDA, EBITDAre and Adjusted EBITDAre do not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to operating income or net income determined in accordance with GAAP as an indicator of performance or as an alternative to cash flows from operating activities as determined by GAAP as an indicator of liquidity.

Beginning with the three months ended March 31, 2018, we have started reporting EBITDA for real estate, or EBITDAre, as defined by NAREIT, and Adjusted EBITDAre. Previously, we reported Adjusted EBITDA. Adjusted EBITDAre is calculated in a similar manner as Adjusted EBITDA, with the exception of the adjustment for the consolidated noncontrolling interest's pro rata share of Adjusted EBITDA. The rationale for including 100% of EBITDAre for consolidated noncontrolling interests is that the full amount of any debt of these entities is reported in our consolidated balance sheet and therefore metrics using total debt to EBITDAre provide a better understanding of the Company's leverage. This is also consistent with NAREIT's definition of EBITDAre. All prior periods have been adjusted to conform to the current period presentation.

Table of Contents

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

	Year Ended December 31,		
	2018	2017	2016
Net income (loss)	\$(156,309)	\$(88,760)	\$(58,782)
Interest expense and amortization of premiums and loan costs, net	236,786	222,631	223,967
Depreciation and amortization	258,458	246,731	243,863
Income tax expense (benefit)	2,782	(2,218)	1,532
Equity in (earnings) loss of unconsolidated entities	(867)	5,918	1,048
Company's portion of EBITDA of unconsolidated entities (Ashford Inc.)	3,445	(1,666)	180
Company's portion of EBITDA of unconsolidated entities (OpenKey)	(572)	(498)	(303)
EBITDA	343,723	382,138	411,505
Impairment charges on real estate	23,391	10,153	18,316
(Gain) loss on sale of hotel properties	(475)	(14,030)	(31,599)
EBITDAre	366,639	378,261	398,222
Amortization of unfavorable contract liabilities	(155)	(1,535)	(2,101)
Uninsured hurricane related costs	(291)	2,829	—
(Gain) loss on insurance settlements	(928)	(192)	(456)
Other impairment charges	—	—	(500)
Write-off of premiums, loan costs and exit fees	8,847	2,845	12,702
Other (income) expense, net	539	3,422	4,517
Transaction, acquisition and management conversion costs	863	4,299	1,778
Legal judgment and related legal costs	1,084	4,199	1,176
Unrealized (gain) loss on marketable securities	1,013	4,649	(4,946)
Unrealized (gain) loss on derivatives	2,178	2,802	2,534
Dead deal costs	291	9	391
Software implementation costs			