RLJ Lodging Trust
Form 10-Q
August 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

o 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 001-35169

RLJ LODGING TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland	27-4706509
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3 Bethesda Metro Center, Suite 1000

Bethesda, Maryland	20814
(Address of Principal Executive Offices)	(Zip Code)

(301) 280-7777
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer,"

"accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o (do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	o

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. o

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

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

As of August 1, 2018, 175,307,476 common shares of beneficial interest of the Registrant, $0.01 par value per share, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
RLJ Lodging Trust
Consolidated Balance Sheets
(Amounts in thousands, except share and per share data)
(unaudited)

	June 30, 2018	December 31, 2017
Assets		
Investment in hotel properties, net	$5,534,069	$5,791,925
Investment in unconsolidated joint ventures	23,488	23,885
Cash and cash equivalents	382,455	586,470
Restricted cash reserves	78,222	72,606
Hotel and other receivables, net of allowance of $649 and $510, respectively	73,617	60,011
Deferred income tax asset, net	55,632	56,761
Intangible assets, net	125,453	133,211
Prepaid expense and other assets	74,870	69,936
Assets of hotel properties held for sale, net	99,415	—
Total assets	$6,447,221	$6,794,805
Liabilities and Equity		
Debt, net	$2,569,066	$2,880,488
Accounts payable and other liabilities	208,336	225,664
Deferred income tax liability	5,547	5,547
Advance deposits and deferred revenue	31,725	30,463
Accrued interest	8,126	17,081
Distributions payable	65,852	65,284
Total liabilities	2,888,652	3,224,527
Commitments and Contingencies (Note 12)		
Equity		
Shareholders' equity:		
Preferred shares of beneficial interest, $0.01 par value, 50,000,000 shares authorized		
Series A Cumulative Convertible Preferred Shares, $0.01 par value, 12,950,000 shares authorized; 12,879,475 shares issued and outstanding, liquidation value of $328,266, at June 30, 2018 and December 31, 2017	366,936	366,936
Common shares of beneficial interest, $0.01 par value, 450,000,000 shares authorized; 175,278,298 and 174,869,046 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	1,753	1,749
Additional paid-in capital	3,213,049	3,208,002
Accumulated other comprehensive income	33,639	8,846
Distributions in excess of net earnings	(123,808)	(82,566)
Total shareholders' equity	3,491,569	3,502,967
Noncontrolling interest:		
Noncontrolling interest in consolidated joint ventures	11,595	11,700
Noncontrolling interest in the Operating Partnership	10,975	11,181
Total noncontrolling interest	22,570	22,881
Preferred equity in a consolidated joint venture, liquidation value of $45,487 and $45,430 at June 30, 2018 and December 31, 2017, respectively	44,430	44,430
Total equity	3,558,569	3,570,278

Total liabilities and equity	$6,447,221	$6,794,805

The accompanying notes are an integral part of these consolidated financial statements.

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RLJ Lodging Trust
Consolidated Statements of Operations and Comprehensive Income
(Amounts in thousands, except share and per share data)
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenue				
Operating revenue				
Room revenue	$403,232	$ 253,739	$760,877	$ 478,704
Food and beverage revenue	58,444	29,121	110,639	55,812
Other revenue	23,015	9,424	42,769	18,000
Total revenue	$484,691	$ 292,284	$914,285	$ 552,516
Expense				
Operating expense				
Room expense	$94,459	$ 55,221	$184,428	$ 107,143
Food and beverage expense	42,406	20,101	83,669	39,398
Management and franchise fee expense	37,252	29,626	72,928	56,539
Other operating expense	108,556	59,058	214,679	116,880
Total property operating expense	282,673	164,006	555,704	319,960
Depreciation and amortization	61,648	38,240	123,056	76,905
Property tax, insurance and other	35,537	18,152	70,036	37,310
General and administrative	15,523	10,129	26,436	19,252
Transaction costs	247	3,691	1,920	4,316
Total operating expense	395,628	234,218	777,152	457,743
Operating income	89,063	58,066	137,133	94,773
Other income	565	73	1,657	214
Interest income	960	664	2,190	1,149
Interest expense	(25,443)	(14,548)	(54,144)	(28,877)
Gain on extinguishment of indebtedness	7	—	7,666	—
Income before equity in income from unconsolidated joint ventures	65,152	44,255	94,502	67,259
Equity in income from unconsolidated joint ventures	799	—	418	—
Income before income tax expense	65,951	44,255	94,920	67,259
Income tax expense	(2,354)	(1,821)	(3,696)	(2,987)
Income from operations	63,597	42,434	91,224	64,272
Gain (loss) on sale of hotel properties	796	30	(2,938)	(30)
Net income	64,393	42,464	88,286	64,242
Net (income) loss attributable to noncontrolling interests:				
Noncontrolling interest in consolidated joint ventures	(55)	(29)	179	37
Noncontrolling interest in the Operating Partnership	(254)	(189)	(327)	(275)
Preferred distributions - consolidated joint venture	(370)	—	(735)	—
Net income attributable to RLJ	63,714	42,246	87,403	64,004
Preferred dividends	(6,279)	—	(12,557)	—
Net income attributable to common shareholders	$57,435	$ 42,246	$74,846	$ 64,004
Basic per common share data:				
Net income per share attributable to common shareholders	$0.33	$ 0.34	$0.43	$ 0.51
Weighted-average number of common shares	174,238,854	123,785,735	174,216,387	123,760,096

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Diluted per common share data:				
Net income per share attributable to common shareholders	$ 0.33	$ 0.34	$ 0.43	$ 0.51
Weighted-average number of common shares	174,364,547	123,871,762	174,316,348	123,856,388
Dividends declared per common share	$ 0.33	$ 0.33	$ 0.66	$ 0.66
Comprehensive income:				
Net income	$ 64,393	$ 42,464	$ 88,286	$ 64,242
Unrealized gain (loss) on interest rate derivatives	6,936	(1,715)	24,793	3,833
Comprehensive income	71,329	40,749	113,079	68,075
Comprehensive (income) loss attributable to noncontrolling interests:				
Noncontrolling interest in consolidated joint ventures	(55)	(29)	179	37
Noncontrolling interest in the Operating Partnership	(254)	(189)	(327)	(275)
Preferred distributions - consolidated joint venture	(370)	—	(735)	—
Comprehensive income attributable to RLJ	$ 70,650	$ 40,531	$ 112,196	$ 67,837

The accompanying notes are an integral part of these consolidated financial statements.

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RLJ Lodging Trust
Consolidated Statements of Changes in Equity
(Amounts in thousands, except share data)
(unaudited)

	Shareholders' Equity							Noncontrolling Interest		
	Preferred Stock		Common Stock							
	Shares	Amount	Shares	Par Value	Additional Paid-in Capital	Distributions in excess of net earnings	Accumulated Other Comprehensive Income	Operating Partnership	Consolidated Joint Ventures	Preferred Equity in a Consolid Joint Venture
Balance at December 31, 2017	12,879,475	$366,936	174,869,046	$1,749	$3,208,002	$(82,566)	$8,846	$11,181	$11,700	$44,430
Net income (loss)	—	—	—	—	—	87,403	—	327	(179)	735
Unrealized gain on interest rate derivatives	—	—	—	—	—	—	24,793	—	—	—
Contributions from joint venture partners	—	—	—	—	—	—	—	—	74	—
Issuance of restricted stock	—	—	458,207	5	(5)	—	—	—	—	—
Amortization of share-based compensation	—	—	—	—	6,050	—	—	—	—	—
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	—	—	(45,472)	(1)	(998)	—	—	—	—	—
Forfeiture of restricted stock	—	—	(3,483)	—	—	—	—	—	—	—
Distributions on preferred shares	—	—	—	—	—	(12,557)	—	—	—	—

Distributions on common shares and units	—	—	—	—	—	(116,088)	—	(533)	—	—
Preferred distributions - consolidated joint venture	—	—	—	—	—	—	—	—	—	(735
Balance at June 30, 2018	12,879,475	$366,936	175,278,298	$1,753	$3,213,049	$(123,808)	$33,639	$10,975	$11,595	$44,430

The accompanying notes are an integral part of these consolidated financial statements.

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RLJ Lodging Trust
Consolidated Statements of Changes in Equity
(Amounts in thousands, except share data)
(unaudited)

	Shareholders' Equity					Noncontrolling Interest		
	Common Stock							
	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Operating Partnership	Consolidated Joint Venture	Total Equity
Balance at December 31, 2016	124,364,178	$ 1,244	$ 2,187,333	$ 38,249	$ (4,902)	$ 7,380	$ 5,973	$ 2,235,277
Net income (loss)	—	—	—	64,004	—	275	(37)	64,242
Unrealized gain on interest rate derivatives	—	—	—	—	3,833	—	—	3,833
Issuance of restricted stock	333,836	3	(3)	—	—	—	—	—
Amortization of share-based compensation	—	—	5,469	—	—	—	—	5,469
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(53,284)	(1)	(1,138)	—	—	—	—	(1,139)
Forfeiture of restricted stock	(4,791)	—	—	—	—	—	—	—
Distributions on common shares and units	—	—	—	(82,579)	—	(369)	—	(82,948)
Balance at June 30, 2017	124,639,939	$ 1,246	$ 2,191,661	$ 19,674	$ (1,069)	$ 7,286	$ 5,936	$ 2,224,734

The accompanying notes are an integral part of these consolidated financial statements.

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RLJ Lodging Trust
Consolidated Statements of Cash Flows
(Amounts in thousands)
(unaudited)

	For the six months ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	$88,286	$64,242
Adjustments to reconcile net income to cash flow provided by operating activities:		
Loss on sale of hotel properties	2,938	30
Gain on extinguishment of indebtedness	(7,666)	—
Depreciation and amortization	123,056	76,905
Amortization of deferred financing costs	1,808	1,704
Other amortization	(1,857)	375
Equity in income from unconsolidated joint ventures	(418)	—
Distributions of income from unconsolidated joint ventures	814	—
Accretion of interest income on investment in loan	—	(460)
Amortization of share-based compensation	5,686	5,469
Deferred income taxes	2,929	2,261
Changes in assets and liabilities:		
Hotel and other receivables, net	(13,606)	(8,390)
Prepaid expense and other assets	16,884	(1,466)
Accounts payable and other liabilities	(15,385)	1,852
Advance deposits and deferred revenue	1,262	(1,483)
Accrued interest	(8,955)	474
Net cash flow provided by operating activities	195,776	141,513
Cash flows from investing activities		
Proceeds from the sale of hotel properties, net	117,117	(30)
Improvements and additions to hotel properties	(85,045)	(39,186)
Additions to property and equipment	(30)	(64)
Net cash flow provided by (used in) investing activities	32,042	(39,280)
Cash flows from financing activities		
Borrowings under Revolver	300,000	—
Repayments under Revolver	(50,000)	—
Redemption of senior notes	(539,021)	—
Payments of mortgage loans principal	(3,312)	(1,801)
Repurchase of common shares to satisfy employee withholding requirements	(998)	(1,139)
Distributions on preferred shares	(12,557)	—
Distributions on common shares	(115,525)	(82,161)
Distributions on Operating Partnership units	(524)	(360)
Payments of deferred financing costs	(3,615)	(74)
Preferred distributions - consolidated joint venture	(739)	—
Contributions from joint venture partners	74	—
Net cash flow used in financing activities	(426,217)	(85,535)
Net change in cash, cash equivalents, and restricted cash reserves	(198,399)	16,698
Cash, cash equivalents, and restricted cash reserves, beginning of year	659,076	523,878
Cash, cash equivalents, and restricted cash reserves, end of period	$460,677	$540,576

The accompanying notes are an integral part of these consolidated financial statements.

RLJ Lodging Trust
Notes to the Consolidated Financial Statements
(unaudited)

1. Organization

RLJ Lodging Trust (the "Company") was formed as a Maryland real estate investment trust ("REIT") on January 31, 2011. The Company is a self-advised and self-administered REIT that owns primarily premium-branded, high-margin, focused-service and compact full-service hotels. The Company elected to be taxed as a REIT, for U.S. federal income tax purposes, commencing with its taxable year ended December 31, 2011.

Substantially all of the Company’s assets and liabilities are held by, and all of its operations are conducted through, RLJ Lodging Trust, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. As of June 30, 2018, there were 176,052,200 units of limited partnership interest in the Operating Partnership ("OP units") outstanding and the Company owned, through a combination of direct and indirect interests, 99.6% of the outstanding OP units.

As of June 30, 2018, the Company owned 156 hotel properties with approximately 30,400 rooms, located in 26 states and the District of Columbia. The Company, through wholly-owned subsidiaries, owned a 100% interest in 152 of its hotel properties, a 98.3% controlling interest in the DoubleTree Metropolitan Hotel New York City, a 95% controlling interest in The Knickerbocker, and 50% interests in entities owning two hotel properties. The Company consolidates its real estate interests in the 154 hotel properties in which it holds a controlling financial interest, and the Company records the real estate interests in the two hotels in which it holds an indirect 50% interest using the equity method of accounting. The Company leases 155 of the 156 hotel properties to its taxable REIT subsidiaries ("TRS"), of which the Company owns a controlling financial interest.

2. Summary of Significant Accounting Policies

The Company's Annual Report on Form 10-K for the year ended December 31, 2017 contains a discussion of the Company's significant accounting policies. Other than noted below, there have been no other significant changes to the Company's significant accounting policies since December 31, 2017.

Basis of Presentation and Principles of Consolidation

The unaudited consolidated financial statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to financial information. The unaudited financial statements include all adjustments that are necessary, in the opinion of management, to fairly state the consolidated balance sheets, statements of operations and comprehensive income, statements of changes in equity and statements of cash flows.

The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2018.

The consolidated financial statements include the accounts of the Company, the Operating Partnership and its wholly-owned subsidiaries, and joint ventures in which the Company has a majority voting interest and control. For the controlled subsidiaries that are not wholly-owned, the third-party ownership interest represents a noncontrolling interest, which is presented separately in the consolidated financial statements. The Company also records the real estate interests in two joint ventures in which it holds an indirect 50% interest using the equity method of accounting. All intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year amounts in these financial statements have been reclassified to conform to the current year presentation with no impact to net income and comprehensive income, shareholders' equity or cash flows.

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Use of Estimates

The preparation of the Company’s financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the amounts of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which supersedes or replaces nearly all GAAP revenue recognition guidance. The guidance establishes a new control-based revenue recognition model that changes the basis for deciding when revenue is recognized over time or at a point in time and expands the disclosures about revenue. The guidance also applies to sales of real estate and the new principles-based approach is largely based on the transfer of control of the real estate to the buyer. The Company adopted this standard on January 1, 2018 using the modified retrospective transition method. Accordingly, the Company's revenue beginning on January 1, 2018 is presented under ASC 606, while prior period revenue is reported under the accounting standards in effect for those historical periods. Based on the Company's assessment, the adoption of this standard did not have an impact to the Company's consolidated financial statements but it did result in additional disclosures in the notes to the consolidated financial statements. Refer to Note 7, Revenue, for the Company's disclosures about revenue.

Substantially all of the Company's revenue is derived from the operation of hotel properties. The Company generates room revenue by renting hotel rooms to customers at its hotel properties. The Company generates food and beverage revenue from the sale of food and beverage to customers at its hotel properties. The Company generates other revenue from parking fees, golf, pool and other resort fees, gift shop sales and other guest service fees at its hotel properties.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied. The Company's contracts generally have a single performance obligation, such as renting a hotel room to a customer, or providing food and beverage to a customer, or providing a hotel property-related good or service to a customer. The Company's performance obligations are generally satisfied at a point in time.

The Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company determines the standalone selling price based on the price it charges each customer for the use or consumption of the promised good or service.

The Company's revenue is recognized when control of the promised good or service is transferred to the customer, in an amount that reflects the consideration the Company expects to receive in exchange for the promised good or service. The revenue is recorded net of any sales and occupancy taxes collected from the customer. All rebates or discounts are recorded as a reduction to revenue, and there are no material contingent obligations with respect to rebates and discounts offered by the hotel properties.

The timing of revenue recognition, billings, and cash collections results in the Company recognizing hotel and other receivables and advance deposits and deferred revenue on the consolidated balance sheet. Hotel and other receivables are recognized when the Company has provided a good or service to the customer but is only waiting for the passage of time before the customer submits consideration to the Company. Advance deposits and deferred revenue are recognized on the consolidated balance sheets when cash payments are received in advance of the Company satisfying its performance obligation. Advance deposits and deferred revenue consist of amounts that are refundable and non-refundable to the customer. The advance deposits and deferred revenue are recognized as revenue in the consolidated statements of operations and comprehensive income when the Company satisfies its performance obligation to the customer.

For the majority of its goods or services and customers, the Company requires payment at the time the respective good or service is provided to the customer. The Company's payment terms vary by the type of customer and the goods or services offered to the customer. The Company applied a practical expedient to not disclose the value of unsatisfied performance obligations for contracts that have an original expected length of one year or less. Any contracts that have an original expected length of greater than one year are insignificant.

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An allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the existing accounts receivable portfolio and increases to the allowance for doubtful accounts are recorded as bad debt expense. The allowance for doubtful accounts is calculated as a percentage of the aged accounts receivable.

Investment in Hotel Properties

The Company’s acquisitions generally consist of land, land improvements, buildings, building improvements, furniture, fixtures and equipment ("FF&E"), and inventory. The Company may also acquire intangible assets or liabilities related to in-place leases, management agreements, franchise agreements and advanced bookings. The Company allocates the purchase price among the assets acquired and the liabilities assumed based on their respective fair values at the date of acquisition. The Company determines the fair value by using market data and independent appraisals available to us and making numerous estimates and assumptions. Transaction costs are expensed for acquisitions that are considered business combinations and capitalized for asset acquisitions.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The guidance clarifies the definition of a business by adding guidance to assist companies and other reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. If substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single asset or a group of similar identifiable asset(s), then the transaction is considered to be an asset acquisition (or disposition). As a result of this standard, the Company anticipates the majority of its hotel purchases will be considered asset acquisitions as opposed to business combinations, although the determination will be made on a transaction-by-transaction basis. Transaction costs associated with asset acquisitions will be capitalized rather than expensed as incurred. The Company adopted this guidance on January 1, 2018 on a prospective basis. The Company does not believe the accounting for each future acquisition (or disposal) of assets or a business will be materially different, therefore, the adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

The Company’s investments in hotel properties are carried at cost and are depreciated using the straight-line method over the estimated useful lives of 15 years for land improvements, 15 years for building improvements, 40 years for buildings and three to five years for FF&E. Maintenance and repairs are expensed and major renewals or improvements to the hotel properties are capitalized. Indirect project costs, including interest, salaries and benefits, travel and other related costs that are directly attributable to the development, are also capitalized. Upon the sale or disposition of a hotel property, the asset and related accumulated depreciation accounts are removed and the related gain or loss is included in the gain or loss on sale of hotel properties in the consolidated statements of operations and comprehensive income. A sale or disposition of a hotel property that represents a strategic shift that has or will have a major effect on the Company's operations and financial results is presented as discontinued operations in the consolidated statements of operations and comprehensive income.

In accordance with the guidance on impairment or disposal of long-lived assets, the Company does not consider the "held for sale" classification on the consolidated balance sheet until it is probable that the sale will be completed within one year and the other requisite criteria for such classification have been met. The Company does not depreciate assets so long as they are classified as held for sale. Upon designation as held for sale and quarterly thereafter, the Company reviews the realizability of the carrying value, less costs to sell, in accordance with the guidance. Any such adjustment to the carrying value is recorded as an impairment loss.

The Company assesses the carrying value of its hotel properties whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverability is measured by comparing the carrying amount to the estimated future undiscounted cash flows which take into account current market conditions and the Company’s intent with respect to holding or disposing of the hotel properties. If the Company's analysis indicates that the carrying value is not recoverable on an undiscounted cash flow basis, the Company will recognize an impairment loss for the amount by which the carrying value exceeds the fair value. The fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions or third-party appraisals.

Sale of Real Estate

ASU 2014-09 also applies to the sale of real estate and the new principles-based approach is largely based on the transfer of control of the real estate to the buyer. 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. This guidance clarifies that ASC 610-20 applies to the derecognition of nonfinancial assets, including real estate, and in substance nonfinancial assets, which are defined as assets or a group of assets for which substantially all of the fair value consists of nonfinancial assets and the group or subsidiary is not a business. As a result of this guidance, sales and partial sales of real estate assets will be accounted for similar to all other sales of nonfinancial and in substance nonfinancial assets. The Company adopted this guidance on January 1, 2018 using the modified retrospective transition method. Based on the Company's assessment, the adoption of this guidance did not have an impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance will require lessees to recognize a right-of-use asset and a lease liability for most of their leases on the balance sheet, and an entity will need to classify its leases as either an operating or finance lease in order to determine the income statement presentation. Leases with a term of 12 months or less will be accounted for similar to the existing guidance today for operating leases. Lessors will classify their leases using an approach that is substantially equivalent to the existing guidance today for operating, direct financing, or sales-type leases. Lessors may only capitalize the incremental direct costs of leasing, so any indirect costs of leasing will be expensed as incurred. The guidance requires an entity to separate the lease components from the non-lease components in a contract, with the lease components being accounted for in accordance with ASC 842 and the non-lease components being accounted for in accordance with other applicable accounting guidance. The guidance is effective for annual reporting periods beginning after December 15, 2018, and the interim periods within those annual periods, with early adoption permitted. The Company will adopt this new standard on January 1, 2019. The Company has not yet completed its analysis on this standard, but it believes the application of the new standard will result in the recording of a right-of-use asset and a lease liability on the consolidated balance sheet for each of its ground leases and equipment leases, which represent the majority of the Company's current operating lease payments. The Company does not expect the adoption of this standard will materially affect its consolidated statements of operations and comprehensive income.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The guidance amends the hedge accounting recognition and presentation requirements in ASC 815. The guidance is meant to simplify the application of hedge accounting and better align the financial reporting for hedging activities with the entity's economic and risk management activities. Under the new guidance, all changes in the fair value of highly effective cash flow hedges will be recorded in other comprehensive income and they will be reclassified to earnings when the hedged item impacts earnings. The guidance is effective for annual reporting periods beginning after December 15, 2018, and the interim periods within those annual periods, with early adoption permitted. The Company will adopt this new standard on January 1, 2019. Based on the Company's assessment, the adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

3. Merger with FelCor Lodging Trust Incorporated

On August 31, 2017 (the "Acquisition Date"), the Company, the Operating Partnership, Rangers Sub I, LLC, a wholly owned subsidiary of the Operating Partnership ("Rangers"), and Rangers Sub II, LP, a wholly owned subsidiary of the Operating Partnership ("Partnership Merger Sub"), consummated the transactions contemplated by the Agreement and Plan of Merger (the "Merger Agreement"), dated as of April 23, 2017, with FelCor Lodging Trust Incorporated ("FelCor") and FelCor Lodging Limited Partnership ("FelCor LP") pursuant to which Partnership Merger Sub merged with and into FelCor LP, with FelCor LP surviving as a wholly owned subsidiary of the Operating Partnership (the "Partnership Merger"), and, immediately thereafter, FelCor merged with and into Rangers, with Rangers surviving as a wholly owned subsidiary of the Operating Partnership (the "REIT Merger" and, together with the Partnership Merger, the "Mergers").

Upon completion of the REIT Merger and under the terms of the Merger Agreement, each issued and outstanding share of common stock, par value $0.01 per share, of FelCor (other than shares held by any wholly owned subsidiary of FelCor or by the Company or any of its subsidiaries) was converted into the right to receive 0.362 (the "Common Exchange Ratio") common shares of beneficial interest, par value $0.01 per share, of the Company (the "Common Shares"), and each issued and outstanding share of $1.95 Series A cumulative convertible preferred stock, par value $0.01 per share, of FelCor was converted into the right to receive one $1.95 Series A Cumulative Convertible Preferred Share, par value $0.01 per share, of the Company (a "Series A Preferred Share").

Upon completion of the Partnership Merger and under the terms of the Merger Agreement, each limited partner of FelCor LP was entitled to elect to exchange its outstanding common limited partnership units in FelCor LP (the "FelCor LP Common Units") for a number of newly issued Common Shares based on the Common Exchange Ratio. Upon completion of the Partnership Merger, each outstanding FelCor LP Common Unit of any holder who did not make the foregoing election was converted into the right to receive a number of common limited partnership units in the Operating Partnership (the "OP Units")

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based on the Common Exchange Ratio. No fractional shares of units of Common Shares or OP Units were issued in the Mergers, and the value of any fractional interests was paid in cash.

The Company accounted for the Mergers under the acquisition method of accounting in ASC 805, Business Combinations. As a result of the Mergers, the Company acquired an ownership interest in the following 37 hotel properties:

Hotel Property Name	Location	Ownership Interest	Management Company	Rooms
DoubleTree Suites by Hilton Austin	Austin, TX	100%	Hilton	188
DoubleTree Suites by Hilton Orlando - Lake Buena Vista	Orlando, FL	100%	Hilton	229
Embassy Suites Atlanta - Buckhead	Atlanta, GA	100%	Hilton	316
Embassy Suites Birmingham	Birmingham, AL	100%	Hilton	242
Embassy Suites Boston Marlborough (1)	Marlborough, MA	100%	Hilton	229
Embassy Suites Dallas - Love Field	Dallas, TX	100%	Aimbridge Hospitality	248
Embassy Suites Deerfield Beach - Resort & Spa	Deerfield Beach, FL	100%	Hilton	244
Embassy Suites Fort Lauderdale 17th Street	Fort Lauderdale, FL	100%	Hilton	361
Embassy Suites Los Angeles - International Airport South	El Segundo, CA	100%	Hilton	349
Embassy Suites Mandalay Beach - Hotel & Resort	Oxnard, CA	100%	Hilton	250
Embassy Suites Miami - International Airport	Miami, FL	100%	Hilton	318
Embassy Suites Milpitas Silicon Valley	Milpitas, CA	100%	Hilton	266
Embassy Suites Minneapolis - Airport	Bloomington, MN	100%	Hilton	310
Embassy Suites Myrtle Beach - Oceanfront Resort	Myrtle Beach, SC	100%	Hilton	255
Embassy Suites Napa Valley (2)	Napa, CA	100%	Hilton	205
Embassy Suites Orlando - International Drive South/Convention Center	Orlando, FL	100%	Hilton	244
Embassy Suites Phoenix - Biltmore	Phoenix, AZ	100%	Hilton	232
Embassy Suites San Francisco Airport - South San Francisco	San Francisco, CA	100%	Hilton	312
Embassy Suites San Francisco Airport - Waterfront	Burlingame, CA	100%	Hilton	340
Embassy Suites Secaucus - Meadowlands (3)	Secaucus, NJ	50%	Hilton	261
Hilton Myrtle Beach Resort	Myrtle Beach, SC	100%	Hilton	385
Holiday Inn San Francisco - Fisherman's Wharf	San Francisco, CA	100%	InterContinental Hotels	585
San Francisco Marriott Union Square	San Francisco, CA	100%	Marriott	400
Sheraton Burlington Hotel & Conference Center (4)	Burlington, VT	100%	Marriott	309
Sheraton Philadelphia Society Hill Hotel (5)	Philadelphia, PA	100%	Marriott	364
The Fairmont Copley Plaza (6)	Boston, MA	100%	FRHI Hotels & Resorts	383
The Knickerbocker New York	New York, NY	95%	Highgate Hotels	330
The Mills House Wyndham Grand Hotel	Charleston, SC	100%	Wyndham	216
	St. Petersburg, FL	100%	Marriott	361

The Vinoy Renaissance St. Petersburg Resort & Golf Club				
Wyndham Boston Beacon Hill	Boston, MA	100%	Wyndham	304
Wyndham Houston - Medical Center Hotel & Suites	Houston, TX	100%	Wyndham	287
Wyndham New Orleans - French Quarter	New Orleans, LA	100%	Wyndham	374
Wyndham Philadelphia Historic District	Philadelphia, PA	100%	Wyndham	364
Wyndham Pittsburgh University Center	Pittsburgh, PA	100%	Wyndham	251
Wyndham San Diego Bayside	San Diego, CA	100%	Wyndham	600
Wyndham Santa Monica At The Pier	Santa Monica, CA	100%	Wyndham	132
Chateau LeMoyne - French Quarter, New Orleans (7)	New Orleans, LA	50%	InterContinental Hotels	171
				11,215

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(1) In February 2018, the Company sold this hotel property for a sale price of $23.7 million.
(2) In July 2018, the Company sold this hotel property.
(3) The Company owns an indirect 50% ownership interest in the real estate at this hotel property and records the real estate interests using the equity method of accounting. The Company leases the hotel property to its TRS, of which the Company owns a controlling financial interest in the operating lessee, so the Company consolidates its ownership interest in the leased hotel.
(4) In December 2017, this hotel property was converted to the DoubleTree by Hilton Burlington Vermont.
(5) In March 2018, the Company sold this hotel property for a sale price of $95.5 million.
(6) In December 2017, the Company sold this hotel property for a sale price of $170.0 million.
(7) The Company owns an indirect 50% ownership interest in this hotel property and accounts for its ownership interest using the equity method of accounting. This hotel property is operated without a lease.

The total consideration for the Mergers was approximately $1.4 billion, which included the Company's issuance of approximately 50.4 million common shares at $20.18 per share to former FelCor common stockholders, the Company's issuance of approximately 12.9 million Series A Preferred Shares at $28.49 per share to former FelCor preferred stockholders, the Operating Partnership's issuance of approximately 0.2 million OP Units at $20.18 per unit to former FelCor LP limited partners, and cash. The total consideration consisted of the following (in thousands):

	Total Consideration
Common Shares	$ 1,016,227
Series A Preferred Shares	366,936
OP Units	4,342
Cash, net of cash, cash equivalents, and restricted cash reserves acquired	24,883
Total consideration	$ 1,412,388

The Company allocated the purchase price consideration as follows (in thousands):

	August 31, 2017
Investment in hotel properties	$2,661,114
Investment in unconsolidated joint ventures	25,651
Hotel and other receivables	28,308
Deferred income tax assets	58,170
Intangible assets	139,673
Prepaid expenses and other assets	23,811
Debt	(1,305,337)
Accounts payable and other liabilities	(118,360)
Advance deposits and deferred revenue	(23,795)
Accrued interest	(22,612)
Distributions payable	(4,312)
Noncontrolling interest in consolidated joint ventures	(5,493)
Preferred equity in a consolidated joint venture	(44,430)
Total consideration	$1,412,388

The Company used the following valuation methodologies, inputs, and assumptions to estimate the fair value of the assets acquired, the liabilities assumed, and the equity interests acquired:

- Investment in hotel properties — The Company estimated the fair values of the land and improvements, buildings and improvements, and furniture, fixtures, and equipment at the hotel properties by using a combination of the market, cost, and income approaches. These valuation methodologies are based on significant Level 3 inputs in the fair value hierarchy, such as estimates of future income growth, capitalization rates, discount rates, capital expenditures, and cash flow projections at the respective hotel properties.

- Investment in unconsolidated joint ventures — The Company estimated the fair value of its real estate interests in the unconsolidated joint ventures by using the same valuation methodologies for the investment in hotel properties noted

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above and for the debt noted below. The Company recognized the net assets acquired based on its respective ownership interest in the joint venture according to the joint venture agreement.

Deferred income tax assets — The Company estimated the future realizable value of the deferred income tax assets by estimating the amount of the net operating loss that will be utilized in future periods by the acquired taxable REIT subsidiaries. The Company then applied its applicable effective tax rate against the net operating losses to determine the appropriate deferred income tax assets to recognize. This valuation methodology is based on Level 3 inputs in the fair value hierarchy.

Intangible assets — The Company estimated the fair value of its below market ground lease intangible assets by calculating the present value of the difference between the contractual rental amounts paid according to the in-place lease agreements and the market rental rates for similar leased space, measured over a period equal to the remaining non-cancelable term of the lease. This valuation methodology is based on Level 3 inputs in the fair value hierarchy. The below market ground lease intangible assets are amortized over the remaining terms of the respective leases as adjustments to rental expense in property tax, insurance and other in the consolidated statements of operations and comprehensive income. The Company estimated the fair value of the advanced bookings intangible asset by using the income approach to determine the projected cash flows that a hotel property will receive as a result of future hotel room and guests events that have already been reserved and pre-booked at the hotel property as of the Acquisition Date. This valuation methodology is based on Level 3 inputs in the fair value hierarchy. The advanced bookings intangible asset is amortized over the duration of the hotel room and guest event reservations period at the hotel property to depreciation and amortization in the consolidated statements of operations and comprehensive income. The Company recognized the following intangible assets in the Mergers (dollars in thousands):

		Weighted Average Amortization Period (in Years)
Below market ground leases	$118,050	54
Advanced bookings	13,862	1
Other intangible assets	7,761	6
Total intangible assets	$139,673	46

Above market ground lease liabilities — The Company estimated the fair value of its above market ground lease liabilities by calculating the present value of the difference between the contractual rental amounts paid according to the in-place lease agreements and the market rental rates for similar leased space, measured over a period equal to the remaining non-cancelable term of the lease. This valuation methodology is based on Level 3 inputs in the fair value hierarchy. The Company recognized approximately $15.5 million of above market ground lease liabilities in the Mergers, which are included in accounts payable and other liabilities in the accompanying consolidated balance sheet. The above market ground lease liabilities are amortized over the remaining terms of the respective leases as adjustments to rental expense in property tax, insurance and other in the consolidated statements of operations and comprehensive income.

Debt — The Company estimated the fair value of the Senior Notes (as defined in Note 8) by using publicly available trading prices, market interest rates, and spreads for the Senior Notes, which are Level 3 inputs in the fair value hierarchy. The Company estimated the fair value of the mortgage loans using a discounted cash flow model and incorporated various inputs and assumptions for the effective borrowing rates for debt with similar terms and the loan to estimated fair value of the collateral, which are Level 3 inputs in the fair value hierarchy. The Company recognized approximately $71.7 million in above market debt fair value adjustments on the Senior Notes and the mortgage loans assumed in the Mergers, which is included in debt, net in the accompanying consolidated balance sheet. The above market debt fair value adjustments are amortized over the remaining terms of the respective debt instruments as adjustments to interest expense in the consolidated statements of operations and comprehensive income.

Noncontrolling interest in consolidated joint ventures — The Company estimated the fair value of the consolidated joint ventures by using the same valuation methodologies for the investment in hotel properties noted above. The Company then recognized the fair value of the noncontrolling interest in the consolidated joint ventures based on the joint venture partner's ownership interest in the consolidated joint venture. This valuation methodology is based on Level 3 inputs and assumptions in the fair value hierarchy.

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- Preferred equity in a consolidated joint venture — The Company estimated the fair value of the preferred equity in a consolidated joint venture by comparing the contractual terms of the preferred equity agreement to market-based terms of a similar preferred equity agreement, which is based on Level 3 inputs in the fair value hierarchy.

- Hotel and other receivables, prepaid expenses and other assets, accounts payable and other liabilities, advance deposits and deferred revenue, accrued interest, and distributions payable — The carrying amounts of the assets acquired, the liabilities assumed, and the equity interests acquired approximate fair value because of their short term maturities.

The following table presents the costs that were incurred in connection with the Mergers (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Transaction costs	$(476)	$3,627	$(613)	$4,247
Integration costs	305	—	1,725	—
	$(171)	$3,627	$1,112	$4,247

The transaction costs primarily related to transfer taxes (refund of transfer taxes) and financial advisory, legal, and other professional service fees in connection with the Mergers. The integration costs primarily related to professional fees and employee-related costs, including compensation for transition employees. The merger-related costs noted above were expensed to transaction costs in the accompanying consolidated statements of operations and comprehensive income.

4. Investment in Hotel Properties

Investment in hotel properties consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Land and improvements	$1,232,308	$1,275,030
Buildings and improvements	4,756,592	4,890,266
Furniture, fixtures and equipment	780,635	756,546
	6,769,535	6,921,842
Accumulated depreciation	(1,235,466)	(1,129,917)
Investment in hotel properties, net	$5,534,069	$5,791,925

For the three and six months ended June 30, 2018, the Company recognized depreciation expense related to its investment in hotel properties of approximately $59.0 million and $117.9 million, respectively. For the three and six months ended June 30, 2017, the Company recognized depreciation expense related to its investment in hotel properties of approximately $38.2 million and $76.8 million, respectively.

Held for Sale

In May 2018, the Company entered into a purchase and sale agreement to sell the Embassy Suites Napa Valley. At June 30, 2018, this hotel property has been included in assets of hotel properties held for sale, net in the accompanying consolidated balance sheet. The transaction closed on July 13, 2018.

In May 2018, the Company entered into a purchase and sale agreement to sell the DoubleTree Hotel Columbia. At June 30, 2018, this hotel property has been included in assets of hotel properties held for sale, net in the accompanying consolidated balance sheet. The transaction closed on August 7, 2018.

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The following table is a summary of the major classes of assets held for sale (in thousands):

	June 30, 2018
Land and improvements	$24,675
Buildings and improvements	72,717
Furniture, fixtures and equipment	1,978
Total investment in hotel properties, net	99,370
Intangible assets	45
Total assets of hotel properties held for sale, net	$99,415

5. Investment in Unconsolidated Joint Ventures

As of June 30, 2018 and December 31, 2017, the Company owned 50% interests in joint ventures that owned two hotel properties. The Company also owned 50% interests in joint ventures that owned real estate and a condominium management business that are associated with two of our resort hotel properties. The Company accounts for the investments in these unconsolidated joint ventures under the equity method of accounting. The Company makes adjustments to the equity in income (loss) from unconsolidated joint ventures related to the difference between the Company's basis in the investment in the unconsolidated joint ventures as compared to the historical basis of the assets and liabilities of the joint ventures. As of June 30, 2018 and December 31, 2017, the unconsolidated joint ventures' debt consisted entirely of non-recourse mortgage debt.

The following table summarizes the components of the Company's investments in unconsolidated joint ventures (in thousands):

	June 30, 2018	December 31, 2017
Equity basis of the joint venture investments	$591	$ 253
Cost of the joint venture investments in excess of the joint venture book value	22,897	23,632
Investment in unconsolidated joint ventures	$23,488	$ 23,885

The following table summarizes the components of the Company's equity in income from unconsolidated joint ventures (in thousands):

	For the three months ended June 30, 2018	For the six months ended June 30, 2018
Unconsolidated joint ventures net income attributable to the Company	$1,166	$1,152
Depreciation of cost in excess of book value	(367)	(734)
Equity in income from unconsolidated joint ventures	$799	$418

6. Sale of Hotel Properties

During the six months ended June 30, 2018, the Company sold two hotel properties for a total sale price of approximately $119.2 million. In conjunction with these transactions, the Company recorded a $3.8 million loss on sale, which is included in loss on sale of hotel properties in the accompanying consolidated statement of operations and comprehensive income. The loss on sale is presented net of a gain on extinguishment of indebtedness of $5.1 million associated with the two hotel properties.

The following table discloses the hotel properties that were sold during the six months ended June 30, 2018:

Hotel Property Name	Location	Sale Date	Rooms
Embassy Suites Boston Marlborough	Marlborough, MA	February 21, 2018	229
Sheraton Philadelphia Society Hill Hotel	Philadelphia, PA	March 27, 2018	364
		Total	593

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During the year ended December 31, 2016, the Company sold two hotel properties and deferred a gain of $15.0 million related to the Company's maximum exposure to loss with respect to certain post-closing obligations. During the three and six months ended June 30, 2018, the Company satisfied certain post-closing obligations and recognized an additional $0.8 million gain on sale, which is included in gain (loss) on sale of hotel properties in the accompanying consolidated statements of operations and comprehensive income. The Company has satisfied all post-closing obligations with respect to the sale of the two hotel properties.

On July 13, 2018, the Company sold the Embassy Suites Napa Valley.

On August 7, 2018, the Company sold the DoubleTree Hotel Columbia.

During the six months ended June 30, 2017, the Company did not sell any hotel properties.

7. Revenue

The Company recognized revenue from the following geographic markets (in thousands):

	For the three months ended June 30, 2018				For the three months ended June 30, 2017			
	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue
Northern California	$62,658	$ 5,521	$ 2,144	$70,323	$24,195	$ 1,078	$ 570	$25,843
New York City	36,038	4,843	1,029	41,910	22,304	1,331	560	24,195
Southern California	33,605	4,228	2,149	39,982	13,972	1,265	483	15,720
South Florida	31,483	5,255	1,868	38,606	19,251	3,293	1,087	23,631
Austin	22,895	2,481	919	26,295	20,498	2,212	652	23,362
Chicago	21,573	3,506	519	25,598	21,239	3,811	438	25,488
Washington, DC	21,198	908	648	22,754	20,703	912	643	22,258
Denver	19,142	3,198	371	22,711	19,818	3,408	390	23,616
Houston	16,847	969	1,121	18,937	12,456	717	742	13,915
Louisville	12,339	3,997	583	16,919	14,322	4,073	760	19,155
Other	125,454	23,538	11,664	160,656	64,981	7,021	3,099	75,101
Total	$403,232	$ 58,444	$ 23,015	$484,691	$253,739	$ 29,121	$ 9,424	$292,284

	For the six months ended June 30, 2018				For the six months ended June 30, 2017			
	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue	Room Revenue	Food and Beverage Revenue	Other Revenue	Total Revenue
Northern California	$116,927	$10,881	$ 3,881	$131,689	$46,290	$ 2,318	$ 1,103	$49,711
South Florida	78,263	10,987	3,697	92,947	46,747	6,905	2,305	55,957
Southern California	64,018	8,356	4,075	76,449	27,059	2,361	910	30,330
New York City	58,678	7,629	1,943	68,250	35,703	2,195	1,171	39,069
Austin	46,569	4,978	1,831	53,378	42,113	4,620	1,252	47,985
Chicago	34,516	6,438	893	41,847	32,898	6,695	809	40,402
Denver	33,790	6,237	603	40,630	34,605	6,415	681	41,701
Washington, DC	36,007	1,560	1,171	38,738	36,154	1,595	1,156	38,905
Houston	33,427	1,950	2,050	37,427	27,790	1,464	1,456	30,710
Louisville	20,597	7,100	1,056	28,753	23,368	7,763	1,290	32,421
Other	238,085	44,523	21,569	304,177	125,977	13,481	5,867	145,325
Total	$760,877	$110,639	$42,769	$914,285	$478,704	$ 55,812	$ 18,000	$552,516

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8. Debt

The Company's debt consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Senior Notes	$507,685	$ 1,062,716
Revolver and Term Loans, net	1,418,282	1,170,954
Mortgage loans, net	643,099	646,818
Debt, net	$2,569,066	$ 2,880,488

Senior Notes

The Company's senior secured notes and the senior unsecured notes are collectively the "Senior Notes". The Company's Senior Notes consisted of the following (in thousands):

	Number of Assets Encumbered	Interest Rate	Maturity Date	Outstanding Borrowings at June 30, 2018	December 31, 2017
Senior secured notes (1) (2) (3)	9	5.63%	—	$—	$ 552,669
Senior unsecured notes (1) (2) (4)	—	6.00%	June 2025	507,685	510,047
Total Senior Notes					