

Ashford Inc  
Form 10-Q  
August 09, 2016

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

FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the quarterly period ended June 30, 2016

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: 001-36400

ASHFORD INC.

(Exact name of registrant as specified in its charter)

Delaware 46-5292553  
(State or other jurisdiction of incorporation or organization) (IRS employer identification number)

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

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  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.

Common Stock, \$0.01 par value per share	2,015,599
(Class)	Outstanding at August 5, 2016

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ASHFORD INC.  
FORM 10-Q  
FOR THE QUARTER ENDED JUNE 30, 2016

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (unaudited)

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

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$86,432	\$ 50,272
Restricted cash	11,348	5,684
Investments in securities	3,147	81,072
Prepaid expenses and other	1,377	1,909
Receivables	168	250
Due from Ashford Trust OP, net	3,336	5,856
Due from Ashford Prime OP, net	3,805	3,821
Total current assets	109,613	148,864
Investments in unconsolidated entities	500	3,335
Furniture, fixtures and equipment, net	8,756	6,550
Deferred tax assets	3,443	4,242
Other assets	4,000	4,000
Total assets	\$126,312	\$ 166,991
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$6,442	\$ 10,447
Due to affiliates	3,709	782
Liabilities associated with investments in securities	3,019	983
Other liabilities	11,348	5,684
Total current liabilities	24,518	17,896
Accrued expenses	188	385
Deferred income	2,381	629
Deferred compensation plan	10,521	11,205
Total liabilities	37,608	30,115
Commitments and contingencies (note 6)		
Redeemable noncontrolling interests in Ashford LLC	225	240
Redeemable noncontrolling interests in subsidiary common stock	1,042	—
Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized:		
Series A cumulative preferred stock, no shares issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock, \$0.01 par value, 100,000,000 shares authorized, 2,016,353 and 2,010,808 shares issued and 2,015,599 and 2,010,569 shares outstanding at June 30, 2016 and December 31, 2015, respectively	20	20
Additional paid-in capital	235,067	234,716
Accumulated deficit	(202,668 )	(202,546 )
Treasury stock, at cost, 754 shares and 239 shares at June 30, 2016 and December 31, 2015, respectively	(45 )	(25 )
Total stockholders' equity of the Company	32,374	32,165

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Noncontrolling interests in consolidated entities	55,063	104,471
Total equity	87,437	136,636
Total liabilities and equity	\$126,312	\$ 166,991

See Notes to Condensed Consolidated Financial Statements.

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ASHFORD INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue				
Advisory services	\$ 18,068	\$ 14,489	\$ 31,393	\$ 27,412
Other	84	—	168	195
Total revenue	18,152	14,489	31,561	27,607
Expenses				
Salaries and benefits	15,984	5,688	25,192	23,181
Depreciation	272	399	544	528
General and administrative	4,088	4,542	8,529	8,672
Total expenses	20,344	10,629	34,265	32,381
Operating income (loss)	(2,192 )	3,860	(2,704 )	(4,774 )
Realized gain (loss) on investment in unconsolidated entity	—	—	(3,601 )	—
Unrealized gain (loss) on investment in unconsolidated entity	—	(1,066 )	2,141	(1,066 )
Interest income	10	51	23	52
Dividend income	33	166	46	172
Unrealized gain (loss) on investments	(234 )	(3,037 )	895	(2,990 )
Realized gain (loss) on investments	470	1,037	(6,343 )	1,035
Other expenses	(21 )	(10 )	(149 )	(10 )
Income (loss) before income taxes	(1,934 )	1,001	(9,692 )	(7,581 )
Income tax benefit (expense)	655	(233 )	15	(464 )
Net income (loss)	(1,279 )	768	(9,677 )	(8,045 )
(Income) loss from consolidated entities attributable to noncontrolling interests	(182 )	3,154	6,366	4,115
Net (income) loss attributable to redeemable noncontrolling interests in Ashford LLC	4	(8 )	7	10
Net (income) loss attributable to redeemable noncontrolling interests in subsidiary common stock	351	—	466	—
Net income (loss) attributable to the Company	\$(1,106 )	\$ 3,914	\$(2,838 )	\$(3,920 )
Comprehensive income (loss) attributable to the company	\$(1,106 )	\$ 3,914	\$(2,838 )	\$(3,920 )
Income (loss) per share - basic:				
Net income (loss) attributable to common stockholders	\$(0.55 )	\$ 1.97	\$(1.41 )	\$(1.97 )
Weighted average common shares outstanding - basic	2,011	1,985	2,010	1,989
Loss per share - diluted:				
Net loss attributable to common stockholders	\$(0.71 )	\$(1.26 )	\$(1.85 )	\$(2.43 )
Weighted average common shares outstanding - diluted	2,048	2,197	2,152	2,201
See Notes to Condensed Consolidated Financial Statements.				

ASHFORD INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(unaudited, in thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Noncontrolling Interests in Consolidated Entities	Total	Redeemable Noncontrolling Interests in Ashford LLC	Redeemable Noncontrolling Interest in Subsidiary Common Stock		
	Shares	Amount		Shares	Amount					
Balance at January 1, 2016	2,011	\$ 20	\$ 234,716	\$ (202,546 )	—	\$ (25 )	\$ 104,471	\$ 136,636	\$ 240	\$ —
Purchase of treasury stock	—	—	—	—	(1)	(20 )	—	(20 )	—	—
Equity-based compensation	5	—	2,819	3,198	—	—	—	6,017	—	—
Excess tax deficiency on equity-based compensation	—	—	(314 )	—	—	—	—	(314 )	—	—
Employee advances	—	—	198	—	—	—	—	198	—	—
Contributions from noncontrolling interests	—	—	—	—	—	2,051	2,051	—	—	—
Reallocation of carrying value	—	—	(2,352 )	—	—	1,334	(1,018 )	—	—	1,018
Redemption of offshore fund	—	—	—	—	—	(179 )	(179 )	—	—	—
Redemption of noncontrolling interest holder in AQUA U.S. fund	—	—	—	—	—	(46,248 )	(46,248 )	—	—	—
Redemption value adjustment	—	—	—	(482 )	—	—	(482 )	(8 )	—	490
Net loss	—	—	—	(2,838 )	—	—	(6,366 )	(9,204 )	(7 )	(466 )
Balance at June 30, 2016	2,016	\$ 20	\$ 235,067	\$ (202,668 )	(1)	\$ (45 )	\$ 55,063	\$ 87,437	\$ 225	\$ 1,042

See Notes to Condensed Consolidated Financial Statements.

ASHFORD INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited, in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash Flows from Operating Activities		
Net loss	\$(9,677 )	\$(8,045 )
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Depreciation	544	528
Change in fair value of deferred compensation plan	(684 )	(1,423 )
Realized and unrealized loss of unconsolidated entities, net	1,460	1,066
Equity-based compensation	6,017	8,871
Excess tax (benefit) deficiency on equity-based compensation	314	(1,065 )
Deferred tax expense (benefit)	485	(2,273 )
Realized and unrealized loss on investments, net	5,448	1,955
Purchases of investments in securities	(78,760 )	(70,410 )
Sales of investments in securities	153,273	44,075
Changes in operating assets and liabilities:		
Restricted cash	(5,664 )	(3,933 )
Prepaid expenses and other	532	(1,199 )
Receivables	82	(290 )
Due from Ashford Trust OP, net	2,520	(482 )
Due from Ashford Prime OP, net	(2,273 )	142
Accounts payable and accrued expenses	(4,218 )	(2,266 )
Due to affiliates	499	(410 )
Other liabilities	5,664	4,025
Deferred income	1,752	—
Due to broker	—	23,653
Net cash provided by (used in) operating activities	77,314	(7,481 )
Cash Flows from Investing Activities		
Additions to furniture, fixtures and equipment	(335 )	(1,033 )
Investments in unconsolidated entities	—	(5,500 )
Distribution from investment in unconsolidated entity	1,375	—
Net cash provided by (used in) investing activities	1,040	(6,533 )
Cash Flows from Financing Activities		
Excess tax benefit (deficiency) on equity-based compensation	(314 )	1,065
Purchase of treasury stock	(20 )	(85 )
Employee advances	198	(266 )
Contributions from noncontrolling interest in consolidated entities	2,051	4,780
Distributions to noncontrolling interests in consolidated entities	(44,109 )	—
Net cash provided by (used in) financing activities	(42,194 )	5,494
Net change in cash and cash equivalents	36,160	(8,520 )
Cash and cash equivalents at beginning of period	50,272	29,597
Cash and cash equivalents at end of period	\$86,432	\$21,077



	Six Months Ended June 30,	
	2016	2015
Supplemental Cash Flow Information		
Interest paid	\$133	\$—
Income taxes paid	848	3,308
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Contributions of securities from noncontrolling interests in consolidated entities	\$—	\$110,630
Distribution from deferred compensation plan	—	87
Capital expenditures accrued but not paid	2,607	226
Accrued but unpaid redemption of offshore fund	7	—
Accrued but unpaid redemption of AQUA U.S. Fund	2,311	—
See Notes to Condensed Consolidated Financial Statements.		

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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization and Description of Business

Ashford Inc. is a Delaware corporation formed on April 2, 2014, that provides asset management and advisory services to Ashford Hospitality Trust, Inc. (“Ashford Trust”) and Ashford Hospitality Prime, Inc. (“Ashford Prime”). Ashford Trust commenced operating in August 2003 and is focused on investing in full service hotels in the upscale and upper-upscale segments in the U.S. that have revenue per available room (“RevPAR”) generally less than twice the national average. Ashford Prime invests primarily in luxury, upper-upscale and upscale hotels with RevPAR of at least twice the U.S. national average in gateway and resort locations. Ashford Prime became a publicly traded company in November 2013 upon the completion of its spin-off from Ashford Trust. Each of Ashford Trust and Ashford Prime is a real estate investment trust (“REIT”) as defined in the Internal Revenue Code, and the common stock of each of Ashford Trust and Ashford Prime is traded on the NYSE. The common stock of Ashford Inc. is listed on the NYSE MKT Exchange.

Ashford Inc. was formed through a spin-off of Ashford Trust’s asset management business in November 2014. The spin-off was completed by means of a distribution of common stock of Ashford Inc. and common units of Ashford Hospitality Advisors LLC (“Ashford LLC”), a Delaware limited liability company formed on April 5, 2013. Following the spin-off, Ashford Trust continues to hold approximately 598,000 shares of Ashford Inc. common stock for the benefit of its common stockholders, which represents an approximate 30% ownership interest in Ashford Inc. In connection with the spin-off, we entered into an advisory agreement with Ashford Trust.

Ashford Investment Management, LLC (“AIM”) is an indirect subsidiary of the Company, established to serve as an investment adviser to any private securities funds sponsored by us or our affiliates (the “Funds”) and is a registered investment adviser with the Securities and Exchange Commission (the “SEC”). AIM REHE Funds GP, LP (“AIM GP”), or an affiliate of AIM GP, serves as the general partner of any Funds. AIM Management Holdco, LLC (“Management Holdco”) owns 100% of AIM. We, through Ashford LLC, own 100% of Management Holdco. AIM Performance Holdco, LP (“Performance Holdco”) owns 99.99% of AIM GP with the remaining 0.01% general partner interest owned by our wholly owned subsidiary, AIM General Partner, LLC. We, through Ashford LLC and our 100% ownership interest in AIM General Partner, LLC, own approximately 60% of Performance Holdco, and Mr. Monty J. Bennett, our chief executive officer and chairman of our board of directors, and Mr. J. Robison Hays, III, our chief strategy officer and a member of our board of directors, own, in the aggregate, 40% of Performance Holdco. AIM, AIM GP, Management Holdco, Performance Holdco and AIM General Partner, LLC are all consolidated by Ashford Inc. as it has control.

AIM currently serves as investment adviser to AIM Real Estate Hedged Equity Master Fund, L.P. (the “Master Fund”), an investment partnership formed under the laws of the Cayman Islands and commenced operations on January 15, 2015. The Master Fund was organized for the purpose of purchasing, selling (including short sales), investing and trading in investments and engaging in financial transactions, including borrowing, financing, pledging, hedging and other derivative transactions. The Master Fund had two limited partners: AIM Real Estate Hedged Equity (U.S.) Fund, L.P. (the “U.S. Fund”), a U.S. investment limited partnership, and AIM Real Estate Hedged Equity (Cayman) Fund, Ltd. (the “Offshore Fund”), a Cayman Islands exempted investment company (collectively, the “Feeder Funds”). The Feeder Funds invest substantially all of their assets in the Master Fund. The Master Fund is managed by AIM GP and AIM. On February 23, 2016 the board of directors of the Offshore Fund, in consultation with AIM, resolved to wind down the Offshore Fund due to the administrative cost of running the Offshore Fund relative to invested capital. All investments in the Offshore Fund were redeemed on February 29, 2016. The Master Fund and the U.S. Fund continue to operate, but under new names – “Ashford Quantitative Alternatives Master Fund, LP” (the “AQUA Master Fund”) and “Ashford Quantitative Alternatives (U.S.), LP” (the “AQUA U.S. Fund”), respectively, effective March 1, 2016. The AQUA Master Fund and the AQUA U.S. Fund are collectively known as the “AQUA Fund.”

AIM is entitled to receive an investment management fee equal to 1.5% to 2.0% of the beginning quarterly capital account balance of certain limited partners. AIM GP serves as the general partner to the AQUA U.S. Fund and the AQUA Master Fund. As such, it is entitled to receive a performance allocation, which is earned annually and equals 15% to 20% of positive changes in the capital account balance of certain of its limited partners. Ashford Prime, Ashford Trust and other limited partners are not obligated to pay any portion of the management fee or the performance allocation to AIM or AIM GP, as applicable, but do share pro rata in all other applicable expenses. On March 8, 2016, our \$3.0 million note receivable from one of the consolidated entities in which the noncontrolling interest holder had a 100% interest was converted into equity of the entity pursuant to a financing arrangement between the Company and such entity, upon a \$2.0 million investment in the entity by Ashford Trust. See notes 2, 8 and 10.

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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

The accompanying condensed consolidated financial statements reflect the operations of our asset and investment management, business including the AQUA Fund and entities that we consolidate. Our asset and investment management business provides asset and investment management, accounting and legal services to Ashford Trust, Ashford Prime and the AQUA Fund. In this report, the terms the “Company,” “we,” “us” or “our” refers to Ashford Inc. and all entities included in its condensed consolidated financial statements.

2. Significant Accounting Policies

**Basis of Presentation and Principles of Consolidation**—The accompanying historical unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These condensed consolidated financial statements include the accounts of Ashford Inc., its majority-owned subsidiaries and entities which it controls. All significant inter-company accounts and transactions between consolidated entities have been eliminated in these historical condensed consolidated financial statements. The AQUA Funds are investment companies and follow the accounting and reporting guidance in Financial Accounting Standards Boards (“FASB”) Accounting Standards Codification (“ASC”) Topic 946. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP in the accompanying unaudited consolidated financial statements. We believe the disclosures made herein are adequate to prevent the information presented from being misleading. However, the condensed consolidated financial statements and related notes should be read in conjunction with the financial statements and notes thereto included in our 2015 Annual Report to Stockholders on Form 10-K filed with the SEC on March 15, 2016.

A variable interest entity (“VIE”) must be consolidated by a reporting entity if the reporting entity is the primary beneficiary because it has (i) the power to direct the VIE’s activities that most significantly impact the VIE’s economic performance, (ii) an implicit financial responsibility to ensure that a VIE operates as designed, and (iii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE.

The AQUA Fund is considered to be a VIE, as defined by authoritative accounting guidance. All major decisions related to the AQUA Fund that most significantly impact its economic performance, including but not limited to admittance of limited partners and purchasing, selling (including short sales), investing and trading in investments and engaging in financial transactions, including borrowing, financing, pledging, hedging and other derivative transactions are subject to the approval of our wholly-owned subsidiary, AIM GP. As such, we consolidate the AQUA Fund. As of June 30, 2016 and December 31, 2015, the AQUA Fund held approximately \$58.2 million and \$108.1 million, respectively, of total assets consisting primarily of investments in securities, cash and cash equivalents and receivables that can only be used to settle the obligations of the AQUA Fund. Additionally, as of June 30, 2016 and December 31, 2015, the AQUA Fund had liabilities of \$3.2 million and \$1.1 million, respectively, consisting primarily of liabilities associated with investments in securities for which creditors do not have recourse to Ashford Inc.

As of June 30, 2016, we held a variable interest in a consolidated VIE in which the redeemable noncontrolling interest holders had a 49.13% interest and the noncontrolling interest holders had a 12.50% interest. As we meet the conditions discussed above, we are considered the primary beneficiary of the entity and therefore we consolidate it. As of June 30, 2016 this entity held approximately \$1.2 million of total assets that primarily consisted of cash and cash equivalents and other assets that can only be used to settle the obligations of that entity. Additionally, as of June 30, 2016, that entity had accounts payable and accrued expenses of \$102,000 for which creditors do not have recourse to Ashford Inc. As of December 31, 2015, the variable interest was held in one of the consolidated entities in which the noncontrolling interest holder had a 100% interest, and it was held in the form of a note receivable with an outstanding balance of \$3.0 million that eliminated in consolidation. As of December 31, 2015, this entity held approximately

\$653,000 of total assets that primarily consisted of cash and cash equivalents and other assets that could only be used to settle the obligations of that entity. Additionally, as of December 31, 2015, that entity had accounts payable and accrued expenses of \$177,000 for which creditors did not have recourse to Ashford Inc.

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

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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

**Noncontrolling Interests**—The redeemable noncontrolling interests in Ashford LLC represent the members' proportionate share of equity in earnings/losses of Ashford LLC, which is an allocation of net income/loss attributable to the common unit holders based on the weighted average ownership percentage of these members' common unit holdings throughout the period. The redeemable noncontrolling interests in Ashford LLC is classified in the mezzanine section of the condensed consolidated balance sheets as these redeemable operating units do not meet the requirements for equity classification prescribed by the authoritative accounting guidance because these redeemable operating units may be redeemed by the holder. The carrying value of the noncontrolling interests in Ashford LLC is based on the greater of the accumulated historical cost or the redemption value.

The redeemable noncontrolling interests in subsidiary common stock as of June 30, 2016 represents the 49.13% ownership interest in a consolidated VIE retained by the party that previously held a 100% interest and was previously included in noncontrolling interests in consolidated entities as of December 31, 2015. The redeemable noncontrolling interest in subsidiary common stock is included in the "mezzanine" section of our condensed consolidated balance sheet as it is redeemable outside of the Company's control. The carrying value of the redeemable noncontrolling interests in subsidiary common stock is based on the accumulated historical cost adjusted to reflect the excess of redemption value over the accumulated historical cost.

At June 30, 2016, the noncontrolling interests in consolidated entities represented noncontrolling ownership interests of 40% in Performance Holdco, 100% in the AQUA Fund and 12.50% in the consolidated variable interest previously held in the form of a note receivable. At December 31, 2015, the noncontrolling interests in consolidated entities represented noncontrolling ownership interests of 40% in AIM, 100% in the AQUA Fund and 100% in the entity in which we held a variable interest in the form of a note receivable.

**Revenue Recognition**—Revenues primarily consist of advisory and investment management fees and expense reimbursements that are recognized when services have been rendered. Advisory fees consist of base management fees and incentive fees. The quarterly base fee ranges from 0.70% to 0.50% per annum of the total market capitalization ranges from less than \$6.0 billion to greater than \$10.0 billion of Ashford Prime and Ashford Trust, as defined in the amended advisory agreements, subject to certain minimums. Reimbursements for overhead, travel expenses, risk management and internal audit services are recognized when services have been rendered. We also record advisory revenue for equity grants of Ashford Prime and Ashford Trust common stock and Long-Term Incentive Plan ("LTIP") units awarded to our officers and employees in connection with providing advisory services equal to the fair value of the award in proportion to the requisite service period satisfied during the period, as well an offsetting expense in an equal amount included in "salaries and benefits." The incentive fee is earned annually in each year that Ashford Prime's and/or Ashford Trust's annual total stockholder return exceeds the average annual total stockholder return for each company's respective peer group, subject to the FCCR Condition, as defined in the advisory agreements. Incentive fees are paid over a three-year period and each payment is subject to the FCCR Condition. Accordingly, incentive fee revenue is recognized only when the amount earned is fixed and determinable and the FCCR Condition has been met. As incentive fees are earned annually, we recognize revenue quarterly based on the amount that would be due pursuant to the applicable advisory agreement as of the interim balance sheet date in accordance with the authoritative accounting guidance.

**Equity-Based Compensation**—Equity-based compensation included in "salaries and benefits" is accounted for at fair value based on the market price of the shares/options on the date of grant in accordance with applicable authoritative accounting guidance. The fair value is charged to compensation expense on a straight-line basis over the vesting period of the shares/options. Grants of restricted stock to independent directors are recorded at fair value based on the market price of our shares at grant date and this amount is fully expensed in "general and administrative" expense as the grants of stock are fully vested on the date of grant. Our officers and employees can be granted common stock and LTIP units from Ashford Trust and Ashford Prime in connection with providing advisory services that result in expense, included in "salaries and benefits," equal to the fair value of the award in proportion to the requisite service

period satisfied during the period, as well as offsetting revenue in an equal amount included in “advisory services” revenue.

Other Comprehensive Income (Loss)—As there are no transactions requiring presentation in other comprehensive income (loss), but not in net income (loss), the Company’s net income (loss) equates to other comprehensive income (loss).

Investments in Unconsolidated Entities—As of December 31, 2015, we held a first loss limited liability company interest (the "Interest") in an unconsolidated limited liability company (the "Fund"). The Fund was a private investment fund which generally invested its assets in one or more securities trading accounts that were managed by external investment advisers, including our subsidiary, Ashford Investment Management, LLC. Our initial investment in the Fund was made in May 2015 in the amount of \$5 million, which represented an approximate 2% ownership interest in the Fund. In accordance with the Fund's limited liability company agreement, a manager not affiliated with us possessed and exercised the full, complete and exclusive right, power and authority to manage and conduct the business and affairs of the Fund, subject only to certain withdrawal and voting rights we had and the requirements of applicable law. Due to our limited rights, we did not exercise significant influence over the Fund and

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

therefore did not account for the Interest under the equity method of accounting. The Fund was in an investment company (as defined by GAAP) for which the Interests do not have a readily determinable value. Instead, the manager of the Fund calculated a net asset value (“NAV”) for the Interests monthly in accordance with applicable authoritative accounting guidance. Changes in the NAV were recorded in “unrealized gain/loss in investment in unconsolidated entity.” We requested redemption of the Interest effective March 29, 2016. The redeemed amount of \$1.4 million was received during the second quarter of 2016, which reduced our carrying value to \$0 at June 30, 2016. At December 31, 2015, the carrying value of the investment, which approximated fair value, was \$2.8 million. No gain or loss was recognized for the three months ended June 30, 2016. We recognized an unrealized gain of \$2.1 million and a realized loss of \$3.6 million for the six months ended June 30, 2016. There were no unfunded commitments related to the investment as of June 30, 2016 and December 31, 2015. Requests for redemptions could be made on a quarterly basis with 30 days’ notice. Under certain circumstances involving extraordinary market conditions, the Fund may limit or suspend withdrawals and distributions, and/or defer payment of withdrawn amounts. There were no restrictions related to withdrawals or distributions at June 30, 2016 and December 31, 2015.

We also hold an investment in an unconsolidated entity, with a carrying value as of both June 30, 2016 and December 31, 2015 of \$500,000, which we account for under the cost method of accounting as we do not exercise significant influence over the entity. We review the investments in 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 in earnings/loss in unconsolidated entities. No such impairment was recorded during the three and six months ended June 30, 2016 or June 30, 2015.

Our investments in certain unconsolidated entities are considered to be variable interests in the underlying entities. 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.

**Income Taxes**—The Company is subject to federal and state corporate income taxes. In accordance with authoritative accounting guidance, we account for income taxes 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. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. The AQUA Fund does not record a provision for U.S. federal, state, or local income taxes as it is a partnership, and the AQUA Fund partners report their share of the AQUA Fund’s income or loss on their income tax returns. However, certain U.S. dividend income and interest income may be subject to a maximum 30% withholding tax for those limited partners that are foreign entities or foreign individuals.

Our effective tax rates on income (loss) before income taxes for the three and six months ended June 30, 2016 and June 30, 2015 were 33.9% and 0%, and 23.3% and (6.1)%, respectively. The rates reflect the effects of permanent differences, changes in the valuation allowance on our deferred tax assets, and losses attributable to noncontrolling interests in partnerships and LLC’s taxed as partnerships for which taxes are not the responsibility of the company. For the three and six months ended June 30, 2016, the rates also reflect the effect of a 0% effective tax rate on the net losses of a consolidated VIE due to it being more likely than not that the related deferred tax assets will not be realized primarily because of the entity's history of losses. The portion of equity-based compensation expense related to LTIP units granted to Ashford Trust employees prior to the spin-off is not deductible for income tax purposes and is accounted for as a permanent difference.

We evaluate the recoverability of our deferred tax assets quarterly to determine if valuation allowances are required or should be adjusted. We assess whether valuation allowances should be established against deferred tax assets based on



consideration of all available evidence, both positive and negative, using a “more likely than not” standard. The analysis utilized in determining the valuation allowance involves considerable judgment and assumptions. At June 30, 2016, we recorded gross deferred tax assets of \$9.6 million and a partial valuation allowance of \$6.2 million, resulting in recognition of net deferred tax assets of \$3.4 million. After consideration of all evidence, including the positive evidence of taxable income for the year ended December 31, 2015, and for the period after the spin-off from November 12, 2014, through December 31, 2014, we concluded that it is more likely than not that we will utilize a portion of our deferred tax assets due to the carryback potential of certain deferred tax assets. If our operating performance improves on a sustained basis, our conclusion regarding the need for a valuation allowance could change, resulting in the reversal of some or all of the valuation allowance in the future. The analysis utilized in determining the valuation allowance involves considerable judgment and assumptions.

The “Income Taxes” Topic of the FASB ASC 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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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 2013 through 2015 remain subject to potential examination by certain federal and state taxing authorities.

**Recently Adopted Accounting Standards**—In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis (“ASU 2015-02”). The ASU amends the consolidation guidance for VIEs and general partners’ investments in limited partnerships and modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. The ASU is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We have adopted this standard effective January 1, 2016, and the adoption of this standard did not have an impact on our financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”), as part of its simplification initiative to provide guidance on management’s responsibility to adjust provisional amounts recognized in a business combination and to provide related disclosure requirements. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 applies to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, with early adoption permitted. We have adopted this standard effective January 1, 2016, and the adoption of this standard did not have an impact on our financial position, results of operations or cash flows.

**Recently Issued Accounting Standards**—In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model, which requires a company to recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU 2015-14, Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date, which defers the effective date to fiscal periods beginning after December 15, 2017. The FASB has also issued additional updates that further clarify the requirements of Topic 606 and provide implementation guidance. Early adoption is permitted for fiscal periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method.

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

financial position, results of operations or cash flows.

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 OCI 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

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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interim periods within those fiscal years. Certain provisions of ASU 2016-01 are eligible for early adoption. We are evaluating the impact that ASU 2016-01 will have on our consolidated financial statements and related disclosures. 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 an 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. The new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn’t convey risks and rewards or control, an operating lease results. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases as well as for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are evaluating the impact that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting (“ASU 2016-07”). The new standard requires an investor to apply the equity method of accounting only from the date it qualifies for that method, i.e., the date the investor obtains significant influence over the operating and financial policies of an investee. The ASU eliminates the previous requirement to retroactively adjust the investment and record a cumulative catch up for the periods that the investment had been held, but did not qualify for the equity method of accounting. ASU 2016-07 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. We are evaluating the impact that ASU 2016-07 will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”) as part of the FASB simplification initiative. The new standard requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit on the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, the ASU increases the tax withholding requirements threshold to qualify for equity classification. The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The ASU provides an optional accounting policy election to be applied on an entity-wide basis to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We are evaluating the impact that ASU 2016-09 will have on our consolidated financial statements and related disclosures.

### 3. Derivative Contracts

As of June 30, 2016, the volume of the AQUA Fund’s option derivative activities based on their notional amounts, which are the fair values of the underlying shares as if the options were exercised at June 30, 2016, was 38,000 long

exposure contracts with a notional amount of \$2.5 million and 10,000 short exposure contracts with a notional amount of \$3.1 million.

As of December 31, 2015, the volume of the AQUA Fund's option derivative activities based on their notional amounts which are the fair values of the underlying shares as if the options were exercised at December 31, 2015, was 41,000 long exposure contracts with a notional amount of \$6.0 million and 27,000 short exposure contracts with a notional amount of \$114,000.

Options on Futures Contracts— During the six months ended June 30, 2016, we purchased options on Eurodollar futures for upfront costs of \$94,000 with a maturity date of June 2017. These options were not designated as cash flow hedges. During the six months ended June 30, 2015, we had no purchases of options on Eurodollar futures.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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## 4. Fair Value Measurements

Fair Value Hierarchy—Our financial instruments measured at fair value either on a recurring or a non-recurring basis are classified in a hierarchy for disclosure purposes consisting of three levels based on the observability of inputs in the market place as discussed below:

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

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Total	
June 30, 2016				
Assets				
Derivative assets:				
Equity call options	\$2,875	\$ —	\$2,875	(1)
Options on futures contracts	272	—	272	(1)
Total	3,147	—	3,147	
Liabilities				
Derivative liabilities:				
Short equity call options	(1,076 )	(1,943 )	(3,019 )	(2)
Non-derivative liabilities:				
Deferred compensation plan	(10,521 )	—	(10,521 )	
Total	(11,597 )	(1,943 )	(13,540 )	
Net	\$(8,450)	\$(1,943 )	\$(10,393)	

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Total	
December 31, 2015				
Assets				
Derivative assets:				
Equity put options	\$ 536	\$ 654	\$ 1,190	(1)
Equity call options	1,492	6	1,498	(1)
Options on futures contracts	225	—	225	(1)
Non-derivative assets:				
Equity securities	44,414	—	44,414	(1)
U.S. treasury securities	33,745	—	33,745	(1)
Total	80,412	660	81,072	
Liabilities				
Derivative liabilities:				
Short equity put options	(447 )	—	(447 )	(2)
Short equity call options	(507 )	(29 )	(536 )	(2)
Non-derivative liabilities:				
Deferred compensation plan	(11,205 )	—	(11,205 )	
Total	(12,159 )	(29 )	(12,188 )	
Net	\$ 68,253	\$ 631	\$ 68,884	

(1) Reported as “investments in securities” in the condensed consolidated balance sheets.

(2) Reported as “liabilities associated with investments in securities” in the condensed consolidated balance sheets.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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## Effect of Fair Value Measured Assets and Liabilities on Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

The following table summarizes the effect of fair value measured assets and liabilities on the condensed consolidated statements of operations and comprehensive income (loss) (in thousands):

	Gain (Loss) Recognized			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Assets				
Derivative assets:				
Equity put options	\$(184)	\$427	\$(470 )	\$406
Equity call options	2,116	79	1,881	81
Options on futures contracts	(106 )	—	(47 )	—
Non-derivative assets:				
Equity - American Depositary Receipt	—	39	—	33
Equity securities	(35 )	(2,762 )	(6,065 )	(2,722 )
U.S. treasury securities	—	(361 )	677	(351 )
Total	1,791	(2,578 )	(4,024 )	(2,553 )
Liabilities				
Derivative liabilities:				
Short equity put options	571	(83 )	174	(73 )
Short equity call options	(2,009)	457	(1,438 )	455
Non-derivative liabilities:				
Equity securities	(117 )	204	(160 )	216
Deferred compensation plan	(928 )	6,679	684	1,423
Total	(2,483)	7,257	(740 )	2,021
Net	\$(692)	\$4,679	\$(4,764)	\$(532 )
Total combined				
Unrealized gain (loss) on investment securities	\$(234)	\$(3,037)	\$895	\$(2,990)
Realized gain (loss) on investment securities	470	1,037	(6,343 )	1,035
Deferred compensation plan	(928 ) <sup>(1)</sup>	6,679	<sup>(1)</sup> 684	<sup>(1)</sup> 1,423
Net	\$(692)	\$4,679	\$(4,764)	\$(532 )

<sup>(1)</sup> Reported as a component of “salaries and benefits” in the condensed consolidated statements of operations and comprehensive income (loss).



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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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## 5. Summary of Fair Value of Financial Instruments

Certain of our financial instruments are not measured at fair value on a recurring basis. The estimates presented are not necessarily indicative of the amounts at which these instruments could be purchased, sold or settled. The carrying amounts and estimated fair values of financial instruments were as follows (in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets measured at fair value:				
Investments in securities	\$3,147	\$ 3,147	\$81,072	\$ 81,072
Financial liabilities measured at fair value:				
Liabilities associated with investments in securities	\$3,019	\$ 3,019	\$983	\$ 983
Deferred compensation plan	10,521	10,521	11,205	11,205
Financial assets not measured at fair value:				
Cash and cash equivalents	\$86,432	\$ 86,432	\$50,272	\$ 50,272
Restricted cash	11,348	11,348	5,684	5,684
Receivables	168	168	250	250
Due from Ashford Trust OP, net	3,336	3,336	5,856	5,856
Due from Ashford Prime OP, net	3,805	3,805	3,821	3,821
Financial liabilities not measured at fair value:				
Accounts payable and accrued expenses	\$6,630	\$ 6,630	\$10,832	\$ 10,832
Due to affiliates	3,709	3,709	782	782
Other liabilities	11,348	11,348	5,684	5,684

Investments in securities and liabilities associated with investments in securities. Investment securities consist of U.S. treasury securities, publicly traded equity securities, equity put and call options on certain publicly traded equity securities and futures contracts. Liabilities associated with investments in securities consist of a margin account balance and short equity put and call options. The fair value of these investments is based on quoted market closing prices at the balance sheet dates in active and inactive markets. This is considered either a Level 1 or Level 2 valuation technique. See notes 2, 3 and 4 for a complete description of the methodology and assumptions utilized in determining fair values.

Deferred compensation plan. The liability resulting from the deferred compensation plan is carried at fair value based on the closing prices of the underlying investments. This is considered a Level 1 valuation technique.

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

Receivables, due from Ashford Trust OP, net, due from Ashford Prime OP, net, accounts payable and accrued expenses, due to affiliates and other liabilities. The carrying values of these financial instruments approximate their fair values due to the short-term nature of these financial instruments. This is considered a Level 1 valuation technique.

## 6. Commitments and Contingencies

Litigation—On December 11, 2015, a purported stockholder class action and derivative complaint challenging the Remington acquisition, described in note 7, was filed in the Court of Chancery of the State of Delaware and styled Campbell v. Bennett et al., Case No. 11796. The complaint names as defendants each of the members of the Company's board of directors, Archie Bennett, Jr., Mark A. Sharkey, MJB Investments GP, LLC and Remington Holdings GP, as well as the Company as a nominal defendant. The complaint alleges that the members of the Company's board of directors breached their fiduciary duties to the Company's stockholders in connection with the

Transactions and that Monty Bennett, Archie Bennett, Jr., Mark A. Sharkey, MJB Investments GP, LLC and Remington Holdings GP aided and abetted the purported breaches of fiduciary duty. In support of these claims, the complaint alleges, among other things, that the Company's board of directors engaged in an unfair process with Remington Lodging and the Bennetts and as a result the Company overpaid for the 80% limited partnership and 100% general partnership interests in Remington Lodging. The complaint also alleges that the proxy statement filed with the SEC contains certain materially false and/

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or misleading statements. The action seeks injunctive relief, including enjoining the special meeting of stockholders and any vote on the contribution or the stock issuances or rescinding the Transactions if they are consummated, or in the alternative an award of damages, as well as unspecified attorneys' and other fees and costs, in addition to any other relief the court may deem proper. Since the filing of the complaint, the special meeting of stockholders and related vote occurred with the stockholders approving the acquisition.

The outcome of this matter cannot be predicted with any certainty. A preliminary injunction could delay or jeopardize the consummation of the Transactions, and an adverse judgment granting permanent injunctive relief could indefinitely prohibit consummation of the Transactions. The defendants have not yet responded to the complaint but intend to defend the claims raised in this lawsuit.

On March 14, 2016, Sessa Capital (Master), L.P. ("Sessa") filed third party claims against the Company and Ashford LLC in connection with a suit filed by Ashford Prime against Sessa, related parties, and Sessa's proposed Ashford Prime director nominees John E. Petry, Philip B. Livingston, Lawrence A. Cunningham, Daniel B. Silvers and Chris D. Wheeler. The case is captioned Ashford Hospitality Prime, Inc. v. Sessa Capital (Master), L.P., et al., No. 16-cv-00527 and is pending in the United States District Court for the Northern District of Texas, Dallas Division. Sessa generally alleges that the Company and Ashford LLC aided and abetted the Ashford Prime directors' breaches of fiduciary duty in connection with the June 2015 amendments to Ashford Prime's advisory agreement with Ashford LLC. Among other relief, Sessa seeks an injunction preventing the Company from attempting to solicit proxies on behalf of Ashford Prime until Ashford Prime's directors approve Sessa's proposed director nominees under the terms of the advisory agreement. There are currently no claims for monetary damages, but Sessa seeks reimbursement for its attorneys' fees and costs. The outcome of the litigation is pending but the Company intends to vigorously defend the claims filed by Sessa.

On March 22, 2016, the Company and Ashford LLC filed a lawsuit in Texas state district court in Dallas against Sessa, related entities, and John E. Petry, Philip B. Livingston, Lawrence A. Cunningham, Daniel B. Silvers and Chris D. Wheeler. The case is captioned Ashford Inc., et al v. Sessa Capital (Master), L.P., et al., Cause No. 16-DC-03340. The Company generally alleges that the defendants have engaged in wrongful acts, including engaging in an unlawful proxy contest for control of the Ashford Prime board, and are tortiously interfering with the Company and Ashford LLC's advisory agreement with Ashford Prime. Among other relief, the Company seeks actual and exemplary damages, as well as an injunction prohibiting defendants from further interference with the advisory agreement or the Company's managerial and operational control of Ashford Prime and its assets. The outcome of the litigation is pending.

On April 6, 2016, the United States District Court for the Northern District of Texas issued an order in the civil case in which the Company is a named defendant granting Ashford Prime's request for expedited discovery. The discovery request seeks the names and identities of Sessa's limited partners, communication between those limited partners and Sessa, and information about cooperation between Sessa and its limited partners in support of its claims that Sessa violated Ashford Prime's bylaws and federal securities laws. The Company understands that additional discovery will be pursued against the limited partners themselves as their identities are revealed regarding all communication between the limited partners and Sessa related to the Company, Ashford Prime and its affiliates.

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

could be materially adversely affected in future periods.

**Securities Sold Short**—The AQUA Fund is subject to certain inherent risks arising from selling securities short. The ultimate cost to the AQUA Fund to acquire these securities may exceed the liability reflected in these condensed consolidated financial statements.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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## 7. Related Party Transactions

We are a party to an amended and restated advisory agreement with Ashford Trust OP. The quarterly base fee is a percentage of Ashford Trust's total market capitalization and is based on a declining sliding scale, subject to a minimum quarterly base fee, as payment for managing its day-to-day operations in accordance with its investment guidelines. Total market capitalization includes the aggregate principal amount of its consolidated indebtedness (including its proportionate share of debt of any entity that is not consolidated but excluding its joint venture partners' proportionate share of consolidated debt). The range of base fees on the scale are between 0.70% and 0.50% per annum for total market capitalization that ranges from less than \$6.0 billion to greater than \$10.0 billion. At June 30, 2016, the quarterly base fee was 0.70% per annum. Reimbursement for overhead and internal audit, insurance claims advisory and asset management services, including compensation, benefits and travel expense reimbursements, are billed quarterly to Ashford Trust based on a pro rata allocation as determined by the ratio of Ashford Trust's net investment in hotel properties in relation to the total net investment in hotel properties for both Ashford Trust and Ashford Prime. We also record advisory revenue for equity grants of Ashford Trust common stock and LTIP units awarded to our officers and employees in connection with providing advisory services equal to the fair value of the award in proportion to the requisite service period satisfied during the period, as well as an offsetting expense in an equal amount included in "salaries and benefits." We are also entitled to an incentive fee that is earned annually in each year that Ashford Trust's annual total stockholder return exceeds the average annual total stockholder return for Ashford Trust's peer group, as defined in the advisory agreement.

The following table summarizes the advisory services revenue from Ashford Trust OP (in thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Advisory services revenue				
Base advisory fee	\$8,726	\$8,505	\$17,266	\$16,516
Reimbursable expenses <sup>(1)</sup>	1,628	1,790	3,126	3,290
Equity-based compensation <sup>(2)</sup>	1,748	1,151	2,648	1,322
Incentive fee	—	—	—	—
Total advisory services revenue	\$12,102	\$11,446	\$23,040	\$21,128
Other revenue				
Non-advisory expense reimbursements	\$—	\$—	\$—	\$195
Total revenue	\$12,102	\$11,446	\$23,040	\$21,323

<sup>(1)</sup> Reimbursable expenses include overhead, internal audit, insurance claims advisory and asset management services.

<sup>(2)</sup> Equity-based compensation revenue is associated with equity grants of Ashford Trust's common stock and LTIP units awarded to officers and employees of Ashford Inc.

At June 30, 2016 and December 31, 2015, we had a net receivable of \$3.3 million and \$5.9 million, respectively, from Ashford Trust OP associated with the advisory services fee discussed above.

We are also a party to an amended and restated advisory agreement with Ashford Prime OP. The quarterly base fee is a percentage of Ashford Prime's total market capitalization and is based on a declining sliding scale, subject to a minimum quarterly base fee, as payment for managing its day-to-day operations in accordance with its investment guidelines. Total market capitalization includes the aggregate principal amount of its consolidated indebtedness (including its proportionate share of debt of any entity that is not consolidated but excluding its joint venture partners' proportionate share of consolidated debt). The range of base fees on the scale are between 0.70% to 0.50% per annum for total market capitalization that ranges from less than \$6.0 billion to greater than \$10.0 billion. At June 30, 2016,

the quarterly base fee was 0.70% per annum. Reimbursement for overhead and internal audit, insurance claims advisory and asset management services, including compensation, benefits and travel expense reimbursements, are billed quarterly to Ashford Prime based on a pro rata allocation as determined by the ratio of Ashford Prime's net investment in hotel properties in relation to the total net investment in hotel properties for both Ashford Trust and Ashford Prime. We also record advisory revenue for equity grants of Ashford Prime common stock and LTIP units awarded to our officers and employees in connection with providing advisory services equal to the fair value of the award in proportion to the requisite service period satisfied during the period, as well as an offsetting expense in an equal amount included in "salaries and benefits." We are also

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

entitled to an incentive fee that is earned annually in each year that Ashford Prime's annual total stockholder return exceeds the average annual total stockholder return for Ashford Prime's peer group, as defined in the advisory agreement.

The following table summarizes the advisory services revenue from Ashford Prime OP (in thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Advisory services revenue				
Base advisory fee	\$2,206	\$2,164	\$4,231	\$4,369
Reimbursable expenses <sup>(1)</sup>	648	437	1,304	1,004
Equity-based compensation <sup>(2)</sup>	2,699	442	2,086	911
Incentive fee <sup>(3)</sup>	413	—	732	—
Total advisory services revenue	\$5,966	\$3,043	\$8,353	\$6,284
Other revenue				
Lease revenue	\$84	\$—	\$168	\$—
Total revenue	\$6,050	\$3,043	\$8,521	\$6,284

<sup>(1)</sup> Reimbursable expenses include overhead, internal audit, insurance claims advisory and asset management services.

<sup>(2)</sup> Equity-based compensation revenue is associated with equity grants of Ashford Prime's common stock and LTIP units awarded to officers and employees of Ashford Inc.

<sup>(3)</sup> Incentive fee includes the pro-rata portion of the second installment of the 2015 incentive fee in the amount of \$319,000 and \$638,000 for the three and six months ended June 30, 2016, respectively, and the pro-rata portion of the first installment of the 2016 incentive fee in the amount of \$94,000 for both the three and six months ended June 30, 2016, respectively.

At June 30, 2016 and December 31, 2015, we had receivables of \$3.8 million and \$3.8 million, respectively, from Ashford Prime OP associated with the advisory service fee discussed above.

Ashford Trust and Ashford Prime have management agreements with Remington Holdings L.P. and its subsidiaries ("Remington Lodging"), which is beneficially owned by our Chairman and Chief Executive Officer and Ashford Trust's Chairman Emeritus. Transactions related to these agreements are included in the accompanying condensed consolidated financial statements. Under the agreements, we pay Remington Lodging general and administrative expense reimbursements, approved by the independent directors of Ashford Trust and Ashford Prime, including rent, payroll, office supplies, travel and accounting. These charges are allocated based on various methodologies, including headcount and actual amounts incurred, which are then rebilled to Ashford Trust and Ashford Prime. These reimbursements are included in "general and administrative" expenses on the condensed consolidated statements of operations and comprehensive income (loss). The charges totaled \$1.3 million and \$3.2 million for the three and six months ended June 30, 2016, respectively and \$1.2 million and \$2.2 million, for the three and six months ended June 30, 2015, respectively. The amounts due under these arrangements as of June 30, 2016 and December 31, 2015, are included in "due to affiliates" on our condensed consolidated balance sheets.

Certain limited partners of the AQUA Fund, including our chief executive officer, Ashford Trust, Ashford Prime and certain directors of Ashford Trust and Ashford Prime are affiliated with the General Partner. As of June 30, 2016, Ashford Prime is no longer a limited partner of the AQUA Fund. The aggregate value of the affiliated limited partners' share of partners' capital in the AQUA Fund at June 30, 2016 and December 31, 2015, was approximately \$54.7 million and \$106.1 million, respectively.

Certain employees of Remington Lodging who perform work on behalf of Ashford Trust were granted shares of restricted stock under the Ashford Trust Stock Plan prior to our spin-off. These share grants were accounted for under the applicable accounting guidance related to share-based payments granted to non-employees and are recorded in “general and administrative” expense. Expense was recognized in the condensed consolidated statements of operations and comprehensive income (loss) in the amount of \$2,000 and \$5,000 for the three and six months ended June 30, 2016, respectively, and \$2,000 and \$5,000 for the three and six months ended June 30, 2015, respectively.



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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

On June 11, 2015, we announced that we are providing a total of \$6.0 million in key money consideration to our managed REITs for two acquisitions. In connection with our engagement to provide hotel advisory services to Ashford Trust, we are providing \$4.0 million of key money consideration to purchase furniture, fixtures and equipment related to Ashford Trust's \$62.5 million acquisition of the 226-room Le Pavillon Hotel in New Orleans, Louisiana, which closed in June 2015. The \$4.0 million obligation is included in non-current "other assets" and "Due from Ashford Trust, net" on our condensed consolidated balance sheet as of June 30, 2016. Separately, in connection with our engagement to provide hotel advisory services to Ashford Prime, we have also provided \$2.0 million of key money consideration comprised of \$206,000 in cash and the issuance of 19,897 shares of our common stock to purchase furniture, fixtures and equipment related to Ashford Prime's \$85.0 million acquisition of the 62-room Bardessono Hotel and Spa in Yountville, California, which closed in July 2015. The initial value assigned to the common stock was based on the previous 10-day closing prices as of July 1, 2015, which was approximately \$1.8 million. The key money consideration was paid on September 14, 2015. In return for the key money consideration, Ashford Prime transferred furniture, fixtures and equipment to Ashford Inc., which was subsequently leased back at no cost for a term of five years. The fair value of the key money consideration transferred on September 14, 2015, was approximately \$1.6 million, which decreased in value from July 1, 2015 solely due to the change in the price of Ashford Inc. common stock.

The hotel advisory services and the lease are considered a multiple element arrangement, in accordance with the applicable accounting guidance. As such, a portion of the base advisory fee should be allocated to lease revenue equal to the estimated fair value of the lease payments that would have been made. As a result, advisory revenue of \$84,000 and \$168,000 was allocated to lease revenue for the three and six months ended June 30, 2016, respectively. Lease revenue is included in "other" revenue in the condensed consolidated statements of operations and comprehensive income (loss).

On September 17, 2015, we entered into an Acquisition Agreement (the "Remington Acquisition Agreement") to acquire 80% of Remington Lodging for total consideration of \$331.7 million, with an estimated fair value of \$330.7 million. Under the agreement, Ashford Inc.'s existing business along with 80% of Remington Lodging will be contributed to a new subsidiary of Ashford Inc., Ashford Advisors, Inc. ("Ashford Advisors"). The total consideration will be in the form of 916,500 shares of Ashford Advisors, Inc. Class B non-voting common stock, representing a 29.4% initial ownership in Ashford Advisors, Inc., with an estimated fair value of approximately \$91.7 million; (ii) 9,200,000 shares of Ashford Advisors, Inc. 6.625% non-voting convertible preferred stock with an estimated fair value of approximately \$230.0 million; and (iii) \$10.0 million zero coupon note payable issued by Remington Hospitality Management, Inc., a wholly owned subsidiary of Ashford Advisors, with an estimated fair value of approximately \$9.0 million.

The Ashford Advisors preferred and common stock and the 20% interest retained by the principals of Remington Lodging will be subject to certain put, call and/or conversion rights which could result in the previous owners of Remington Lodging receiving subsidiary voting shares and/or preferred or common shares of Ashford Inc. On April 12, 2016, Ashford Inc.'s stockholders approved the acquisition. This transaction is subject to customary closing conditions, including certain tax related conditions.

The incremental EBITDA that Ashford receives from Remington Lodging for managing properties for Ashford Trust and Ashford Prime will not be included in the calculation of any termination fees due under the advisory agreements. The Board of Ashford has entered into side letter agreements with the boards of Ashford Trust and Ashford Prime that address the exclusion of this income from the termination fee calculation.

All of the equity received by the Remington Sellers in this transaction will be non-voting equity and we will be subject to an investor rights agreement that will limit the voting control for the Remington Sellers combined equity to no more than 25% for four years, and will provide the Remington Sellers with the right to nominate a director to the boards of each of Ashford Inc. and Remington Hospitality Management, Inc. Ashford Inc. will have contractual rights

to acquire the remaining interest in Remington, including a right of first refusal for the life of Ashford Inc.'s ownership as well as there being a formula to call that remaining ownership after ten years and a right to call the preferred after five years.

The Remington Acquisition Agreement contains termination rights for both the Company and Remington Lodging, including the right of either party to terminate the Remington Acquisition Agreement if the Transactions are not consummated by the stated deadline. On June 22, 2016, the Remington Acquisition Agreement was amended to extend the deadline to October 7, 2016. If the Remington Acquisition Agreement is terminated by the Company as provided in the Remington Acquisition Agreement, the Company is required to pay the Remington Sellers a termination fee of \$6.7 million plus the costs and expenses incurred by them.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

**8. Equity and Equity-Based Compensation**

**Equity-Based Compensation**—Equity-based compensation expense of \$3.1 million and \$6.0 million was recognized for the three and six months ended June 30, 2016, respectively and included \$1.6 million and \$2.6 million, respectively, of expense attributable to our stock options. Equity-based compensation expense of \$3.6 million and \$8.9 million was recognized for the three and six months ended June 30, 2015, respectively, and included \$961,000 and \$1.9 million, respectively, of expense attributable to our stock options. Equity-based compensation expense also included \$250,000 for both the three and six months ended June 30, 2016, associated with shares of our common stock issued to our independent directors and included in “general and administrative expense” on our statements of operations and comprehensive income (loss). Equity-based compensation expense included \$250,000 for both the three and six months ended June 30, 2015, associated with shares of our common stock issued to our independent directors. As of June 30, 2016, the Company had approximately \$12.7 million of total unrecognized compensation expense related to stock options that will be recognized over a weighted average period of 2.1 years. Additionally, as a result of our spin-off, we assumed all of the unrecognized equity-based compensation associated with prior Ashford Trust equity grants. As a result, we will continue to recognize equity-based compensation expense related to these grants through the final vesting date in April 2017. We recognized equity-based compensation expense related to these grants of \$1.2 million and \$3.2 million for the three and six months ended June 30, 2016, respectively, and \$2.4 million and \$6.7 million for the three and six months ended June 30, 2015, respectively. As of June 30, 2016, the outstanding restricted stock/units related to the assumed Ashford Trust equity grants had vesting schedules between February 2017 and April 2017. As of June 30, 2016, the unrecognized cost of these unvested shares of restricted stock/units was \$2.9 million which will be amortized over a period of 0.8 years. As described in note 7, equity-based compensation associated with employees of an affiliate, included in “general and administrative” expense, of \$2,000 and \$5,000 was recorded for the three and six months ended June 30, 2016, respectively, as well as \$2,000 and \$5,000 for the three and six months ended and June 30, 2015, respectively.

**Preferred Stock**—In accordance with Ashford Inc.’s charter, we are authorized to issue 50 million shares of preferred stock which currently includes up to 2.0 million shares of series A cumulative preferred stock. The holders of series A cumulative preferred stock are entitled to receive dividends in preference to holders of shares of any class or series of stock ranking junior to it, equal to 1,000 multiplied by the aggregate per share amount of all dividends of common stock. Each share of series A cumulative preferred stock shall entitle the holder to 1,000 votes on all matters submitted to a vote of the stockholders of Ashford Inc. No shares of series A cumulative preferred stock are currently outstanding.

**Shareholder Rights Plan**—On November 16, 2014, our board of directors adopted a shareholder rights plan (the “2014 Rights Plan”). The 2014 Rights Plan is intended to improve the bargaining position of our board of directors in the event of an unsolicited offer to acquire our outstanding shares of common stock. Pursuant to the 2014 Rights Plan, our board of directors declared a dividend of one preferred share purchase right (a “Right”) payable on November 27, 2014, for each outstanding share of common stock, par value \$0.01 per share (the “Common Shares”), outstanding on November 27, 2014 (the “Record Date”) to the stockholders of record on that date. Each Right initially entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Preferred Stock, par value \$0.01 per share (the “Preferred Shares”), of the Company, at a price of \$275 per one one-thousandth of a Preferred Share represented by a Right (the “Purchase Price”), subject to adjustment. The Rights become exercisable upon certain conditions, as defined in the rights agreement. At any time prior to the time any person or group becomes an Acquiring Person, as defined in the rights agreement, the board of directors of the Company may redeem the Rights in whole, but not in part, at a price of \$0.001 per Right. The value of the rights is de minimis. The rights are set to expire on February 25, 2018.

**Noncontrolling Interests in Consolidated Entities**—As of June 30, 2016, noncontrolling interests in consolidated entities represented noncontrolling ownership interests of 40% in Performance Holdco, 100% in the AQUA Fund and 12.50%

in the consolidated variable interest previously held in the form of a notes receivable. Noncontrolling interests in consolidated entities represented noncontrolling ownership interests of 40% in AIM, 100% in the AQUA Fund and 100% in the entity in which we held a variable interest in the form of a note receivable at December 31, 2015. At June 30, 2016 and December 31, 2015 noncontrolling interests in consolidated entities had a total carrying value of \$55.1 million and \$104.5 million, respectively. Income (loss) from consolidated entities attributable to these noncontrolling interests was income of \$182,000 and loss of \$6.4 million for the three and six months ended June 30, 2016, respectively, and losses of \$3.2 million and \$4.1 million for the three and six months ended June 30, 2015, respectively.

With respect to the 100% noncontrolling interests in the AQUA Fund, limited partners have redemption rights which contain certain restrictions with respect to rights of withdrawal from the AQUA Fund as specified in the limited partnership agreement.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

## 9. Deferred Compensation Plan

We administer a nonqualified DCP for certain executive officers. The plan allows participants to defer up to 100% of their base salary and bonus and select an investment fund for measurement of the deferred compensation obligation. The DCP provides for various investment options, including Ashford Inc. common stock, for measurement that can be changed by the participant at any time. The DCP obligation is recorded as a liability in accordance with the applicable authoritative accounting guidance. Distributions under the DCP are made in cash, unless the participant has elected Ashford Inc. common stock as the investment option, in which case any such distributions would be made in Ashford Inc. common stock. Additionally, the DCP obligation is carried at fair value with changes in fair value reflected in “salaries and benefits” in our condensed consolidated statements of operations and comprehensive income (loss). For the three and six months ended June 30, 2016, we recorded an unrealized loss of \$928,000 and an unrealized gain of \$684,000, respectively. For the three and six months ended June 30, 2015, we recorded an unrealized gain of \$6.7 million and \$1.4 million, respectively. No distributions of shares were made to participants during the three and six months ended June 30, 2016. A distribution of 930 shares with a fair value of \$87,000 was made to one participant for both the three and six months ended June 30, 2015.

## 10. Redeemable Noncontrolling Interests

Redeemable Noncontrolling Interests in Ashford LLC—Redeemable noncontrolling interests in Ashford LLC represents certain members’ proportionate share of equity and their allocable share of equity in earnings/loss of Ashford LLC, which is an allocation of net income/loss attributable to the members based on the weighted average ownership percentage of these members’ interest. Beginning one year after issuance, each common unit of membership interest may be redeemed by the holder, for either cash or, at our sole discretion, one share of our common stock.

Redeemable noncontrolling interests in Ashford LLC as of June 30, 2016 and December 31, 2015, were \$225,000 and \$240,000, respectively, which represented ownership of approximately 0.2% as of each date. The carrying value of redeemable noncontrolling interests as of June 30, 2016 and December 31, 2015, included adjustments of \$179,000 and \$188,000, respectively, to reflect the excess of redemption value over the accumulated historical cost. For the three and six months ended June 30, 2016, net loss of \$4,000 and \$7,000, respectively, was allocated to these redeemable noncontrolling interests. For the three and six months ended June 30, 2015, net income of \$8,000 and net loss of \$10,000, respectively, were allocated to these redeemable noncontrolling interests.

Redeemable Noncontrolling Interest in Subsidiary Common Stock—Redeemable noncontrolling interest in subsidiary common stock represented the 49.13% ownership interest in a consolidated VIE, at June 30, 2016, which was retained by the party that previously held a 100% interest and that was previously included in noncontrolling interests in consolidated entities as of December 31, 2015. On March 8, 2016, the 100% noncontrolling interest in the entity was reduced to 49.28% upon a \$2.0 million investment by Ashford Trust, which represented a 12.23% ownership interest and resulted in the conversion of our note receivable into our 38.49% ownership interest. The carrying value of redeemable noncontrolling interest in subsidiary common stock as of June 30, 2016 was \$1.0 million. The carrying value of the redeemable noncontrolling interest included adjustments of \$490,000 to reflect the excess of redemption value over the accumulated historical cost. The redeemable noncontrolling interest in subsidiary common stock is included in the “mezzanine” section of our condensed consolidated balance sheet as it is redeemable outside of the Company’s control. For the three months ended June 30, 2016, net loss of \$351,000 was allocated to the redeemable noncontrolling interest in subsidiary common stock. For the period from March 8, 2016 through June 30, 2016, net loss of \$466,000 was allocated to the redeemable noncontrolling interest in subsidiary common stock.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

## 11. Income (Loss) Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss) attributable to common stockholders – basic and diluted:				
Net income (loss) attributable to the Company	\$(1,106)	\$3,914	\$(2,838)	\$(3,920)
Less: Net income allocated to unvested shares	—	(8)	—	—
Distributed and undistributed net income (loss) - basic	(1,106)	3,906	\$(2,838)	\$(3,920)
Net loss attributable to redeemable noncontrolling interests in Ashford LLC	(4)	—	—	—
Effect of deferred compensation plan	—	(6,679)	(684)	(1,423)
Effect of contingently issuable shares	(351)	—	(466)	—
Distributed and undistributed net loss - diluted	\$(1,461)	\$(2,773)	\$(3,988)	\$(5,343)
Weighted average common shares outstanding:				
Weighted average common shares outstanding – basic	2,011	1,985	2,010	1,989
Effect of deferred compensation plan shares	—	212	105	212
Effect of contingently issuable shares	32	—	37	—
Effect of assumed conversion of operating partnership units	5	—	—	—
Weighted average common shares outstanding – diluted	2,048	2,197	2,152	2,201
Income (loss) per share – basic:				
Net income (loss) allocated to common stockholders per share	\$(0.55)	\$1.97	\$(1.41)	\$(1.97)
Loss per share – diluted:				
Net loss allocated to common stockholders per share	\$(0.71)	\$(1.26)	\$(1.85)	\$(2.43)

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

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income (loss) allocated to common stockholders is not adjusted for:		
Net income attributable to unvested restricted shares	\$—	\$—
Net income (loss) attributable to redeemable noncontrolling interests in Ashford LLC	8	\$(10)
Total	\$8	\$(10)
Weighted average diluted shares are not adjusted for:		
Effect of unvested restricted shares	13	13
Effect of assumed exercise of stock options	10	152
Effect of assumed conversion of Ashford LLC units	5	5
Total	118	2110

## 12. Segment Reporting

We operate in one business segment: asset and investment management, which includes managing the day-to-day operations of Ashford Prime and its subsidiaries, Ashford Trust and its subsidiaries and the AQUA Fund in conformity with each entity's investment guidelines.

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

As used in this Quarterly Report on Form 10-Q, unless the context otherwise indicates, the references to "we," "us," "our", the "Company" refer to Ashford Inc., a Delaware corporation and, as the context may require, its consolidated subsidiaries, including Ashford Hospitality Advisors LLC, a Delaware limited liability company, which we refer to as "Ashford LLC" or "our operating company." "AIM" refers to Ashford Investment Management, LLC, a Delaware limited liability company. "Ashford Prime" or "AHP" refers to Ashford Hospitality Prime, Inc., a Maryland corporation, and, as the context may require, its consolidated subsidiaries, including Ashford Hospitality Prime Limited Partnership, a Delaware limited partnership, which we refer to as "Ashford Prime OP." "Ashford Trust" or "AHT" refers to Ashford Hospitality Trust, Inc., a Maryland corporation, and, as the context may require, its consolidated subsidiaries, including Ashford Hospitality Limited Partnership, a Delaware limited partnership and Ashford Trust's operating partnership, which we refer to as "Ashford Trust OP." "Remington Lodging" refers to Remington Lodging and Hospitality LLC, a Delaware limited liability company, and, as the context may require, its consolidated subsidiaries, a property management company owned by Mr. Monty J. Bennett, our chief executive officer and chairman, and his father, Mr. Archie Bennett, Jr., chairman emeritus of Ashford Trust.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain 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 words or expressions. Additionally, statements regarding the following subjects are forward-looking by their nature:

- our business and investment strategy;
- our projected operating results and dividend rates;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- market trends;
- projected capital expenditures;
- the expectations of the parties to the Remington Acquisition Agreement we entered into on September 17, 2015 to acquire all of the general partner interest and 80% of the limited partner interests of Remington Lodging for total consideration of \$331.7 million, with an estimated fair value of \$330.7 million (such transactions contemplated by the Remington Acquisition Agreement referred to herein as the "Transactions") regarding the timing, completion and tax treatments of the Transactions; and
- the impact of technology on our operations and business.

Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward-looking information. Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, taking into account all information currently available to us, our actual results and performance could differ materially from those set forth in our forward-looking statements. Factors that could have a material adverse effect on our forward-looking statements include, but are not limited to:

- the factors discussed in our Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (the "SEC") on March 15, 2016 (the "2015 10-K"), including those set forth under the sections captioned "Item 1. Business," "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations;"
- general volatility of the capital markets, the general economy or the hospitality industry, whether the result of market events or otherwise, and the market price of our common stock;
- availability, terms and deployment of capital;
- changes in our industry and the market in which we operate, interest rates or the general economy;
- the degree and nature of our competition;
-



actual and potential conflicts of interest with or between Remington Lodging, Ashford Prime and Ashford Trust, our executive officers and our non-independent directors;

• availability of qualified personnel;

• changes in governmental regulations, accounting rules, tax rates and similar matters;

- legislative and regulatory changes;
- the ability of the parties to the Transactions to consummate the Transactions;
- the conditions to the completion of the Transactions, including the receipt of approval of our stockholders;
- the regulatory approvals required for the Transactions not being obtained on the terms expected or on the anticipated schedule;
- the ability of the parties to the Transactions to meet expectations regarding the timing, completion and tax treatments of the Transactions;
- the possibility that the parties may not realize any or all of the anticipated benefits from the Transactions;
- disruptions from the Transactions may harm relationships with customers, employees and regulators;
- unexpected costs may be incurred; and
- changes in our stock price prior to the closing of the Transactions and following the Transactions.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements summarized under “Item 1A. Risk Factors” of our 2015 10-K, the discussion in this Management’s Discussion and Analysis of Financial Conditions and Results of Operations, and elsewhere which could cause our actual results and performance to differ significantly from those contained in our forward-looking statements. Accordingly, we cannot 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 Form 10-Q. Furthermore, we do not intend to update any of our forward-looking statements after the date of this Form 10-Q to conform these statements to actual results and performance, except as may be required by applicable law.

#### Overview

We were formed as a Delaware corporation in April 2014 and became a public company on November 12, 2014, when Ashford Trust, a NYSE-listed REIT, completed the spin-off of our company through the distribution of our outstanding common stock to the Ashford Trust stockholders. As of August 5, 2016, Ashford Trust beneficially owned approximately 598,000 shares of our common stock, representing approximately 30% of our company. Our principal business objective is to provide asset management and other advisory services to other entities. Currently, we, through our operating subsidiary Ashford LLC, act as the advisor to Ashford Trust and Ashford Prime. In our capacity as the advisor to Ashford Trust and Ashford Prime, we are responsible for implementing the investment strategies and managing the day-to-day operations of Ashford Trust and Ashford Prime, in each case subject to the supervision and oversight of the respective board of directors of such entity. We provide the personnel and services necessary to allow each of Ashford Trust and Ashford Prime to conduct its respective business. We may also perform similar functions for new or additional platforms. We are not responsible, but may in the future be responsible, for managing the day-to-day operations of the individual hotel properties owned by either Ashford Trust or Ashford Prime, which duties are, and will continue to be, the responsibility of the property management companies that operate the hotel properties owned by Ashford Trust and Ashford Prime.

#### Recent Developments

On March 8, 2016, our \$3.0 million note receivable from one of the consolidated entities in which the noncontrolling interest holder had a 100% interest was converted into equity of the entity pursuant to a financing arrangement between the Company and such entity, upon the investment of \$2.0 million in the entity by Ashford Trust. For further discussion see notes 1, 2, 8 and 10 to our condensed consolidated financial statements.

#### Discussion of Presentation

The discussion below relates to the financial condition and results of operations of Ashford Inc. and its majority-owned subsidiaries and entities which it controls. The historical financial information is not necessarily indicative of our future results of operations, financial position and cash flows.

## LIQUIDITY AND CAPITAL RESOURCES

Our short-term liquidity requirements consist primarily of funds necessary for operating expenses primarily attributable to paying our employees. We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under a possible revolving credit facility.

Our long-term liquidity requirements consist primarily of funds necessary to pay for operating expenses attributable to paying our employees, investments to grow our business and key money consideration. We expect to meet our long-term liquidity requirements through various sources of capital, including net cash provided by operations, a possible revolving credit facility and future equity issuances.

### Sources and Uses of Cash

As of June 30, 2016 and December 31, 2015, we had \$86.4 million and \$50.3 million of cash and cash equivalents, respectively, which included cash and cash equivalents of \$57.4 million and \$26.9 million, respectively, associated with the AQUA U.S. Fund.

We anticipate that our principal sources of funds to meet our cash requirements will include cash on hand and positive cash flow from operations. We anticipate using funds for operating expenses primarily attributable to paying our employees and for certain strategic investments including key money consideration.

**Net Cash Flows Provided by (Used in) Operating Activities.** Operating activities provided net cash flows of \$77.3 million for the six months ended June 30, 2016 and used net cash of \$7.5 million for the six months ended June 30, 2015. The increase in cash flows provided by operating activities was primarily a result of the liquidation of investments in securities held by the AQUA U.S. Fund. Cash flows from operations is impacted by the timing of receipt of advisory fees from Ashford Trust and Ashford Prime, the timing of paying vendors and the activity of the AQUA U.S. Fund.

**Net Cash Flows Provided by (Used in) Investing Activities.** For the six months ended June 30, 2016, investing activities provided net cash flows of \$1.0 million, which is attributable to a distribution from an investment in an unconsolidated investment entity of \$1.4 million offset by purchases of computer software, furniture, fixtures and equipment of \$335,000. For the six months ended June 30, 2015, investing activities used net cash flows of \$6.5 million primarily attributable to investments in unconsolidated entities of \$5.5 million and purchases of computer software, furniture, fixtures and equipment of \$1.0 million.

**Net Cash Flows Provided by (Used in) Financing Activities.** For the six months ended June 30, 2016, net cash flows used in financing activities was \$42.2 million. These cash outflows consisted of \$44.1 million of distributions to noncontrolling interests in consolidated entities, utilization of excess tax benefit associated with stock-based compensation of \$314,000 and \$20,000 for the purchase of treasury shares associated with tax withholdings for restricted stock vestings, partially offset by \$2.1 million of contributions from noncontrolling interests in a consolidated entity and a decrease in advances to employees of \$198,000 associated with tax withholdings for restricted stock vestings. For the six months ended June 30, 2015, net cash flows provided by financing activities was \$5.5 million, which consisted of \$4.8 million of contributions from noncontrolling interests in a consolidated entity and excess tax benefit associated with stock-based compensation of \$1.1 million partially offset by advances to employees of \$266,000 associated with tax withholdings for restricted stock vestings and \$85,000 for the purchase of treasury shares associated with tax withholdings for restricted stock vestings.

## RESULTS OF OPERATIONS

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

The following table summarizes the changes in key line items from our condensed consolidated statements of operations for the three months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		\$ Change	% Change	
	2016	2015			
Revenue					
Advisory services	\$18,068	\$14,489	\$3,579	24.7	%
Other	84	—	84		
Total revenue	18,152	14,489	3,663	25.3	%
Expenses					
Salaries and benefits	15,984	5,688	10,296	181.0	%
Depreciation	272	399	(127)	(31.8)	)%
General and administrative	4,088	4,542	(454)	(10.0)	)%
Total expenses	20,344	10,629	9,715	91.4	%
Operating income (loss)	(2,192)	3,860	6,052	156.8	%
Unrealized gain (loss) on investment in unconsolidated entity	—	(1,066)	1,066	100.0	%
Interest income	10	51	(41)	(80.4)	)%
Dividend income	33	166	(133)	(80.1)	)%
Unrealized loss on investments	(234)	(3,037)	(2,803)	(92.3)	)%
Realized gain on investments	470	1,037	(567)	(54.7)	)%
Other expenses	(21)	(10)	11	110.0	%
Income (loss) before income taxes	(1,934)	1,001	2,935	293.2	%
Income tax benefit (expense)	655	(233)	888	381.1	%
Net income (loss)	(1,279)	768	2,047	266.5	%
(Income) loss from consolidated entities attributable to noncontrolling interests	(182)	3,154	3,336	105.8	%
Net (income) loss attributable to redeemable noncontrolling interests in Ashford LLC	4	(8)	12	150.0	%
Net loss attributable to redeemable noncontrolling interests in subsidiary common stock	351	—	351		
Net income (loss) attributable to the Company	\$(1,106)	\$3,914	\$5,020	128.3	%

Net Income (Loss) Attributable to the Company. Net income (loss) attributable to the Company changed \$5.0 million, or 128.3%, from net income of \$3.9 million for the three months ended June 30, 2015 (the “2015 quarter”) to a loss of \$1.1 million for the three months ended June 30, 2016 (the “2016 quarter”).

Advisory Services Revenue. Advisory services revenue increased \$3.6 million, or 24.7%, to \$18.1 million during the 2016 quarter compared to the 2015 quarter. The increase is comprised of higher base advisory fees of \$264,000, higher incentive advisory fees of \$413,000, higher reimbursable expense of \$49,000 and higher equity-based compensation of \$2.9 million.

During the 2016 quarter, advisory services revenue was comprised of base advisory fees of \$10.9 million, reimbursable expenses of \$2.3 million, as well as equity-based compensation of \$4.4 million associated with equity grants of Ashford Trust’s and Ashford Prime’s common stock and LTIP units awarded to our officers and employees with an equal amount of offsetting expense included in “salaries and benefits.” Additionally, advisory services revenue included \$413,000 of incentive fees. Specifically, incentive fee revenue included \$319,000 for the pro-rata portion of the second installment of the 2015 incentive fee for which the payment is due January 2017 subject to meeting the FCCR Condition at December 31, 2016, as defined in our advisory agreement with Ashford Prime. Incentive fee revenue also included \$94,000 for the pro-rata portion of the first installment of the 2016 incentive fee for which the

payment is due January 2017 subject to Ashford Prime's annual total stockholder return exceeding the average annual total stockholder return of Ashford Prime's peer group as of December 31, 2016 and the FCCR Condition as of December 31, 2016, as defined in our advisory agreement with Ashford Prime.

During the 2015 quarter, advisory services revenue was comprised of a base advisory fee of \$10.7 million, reimbursable expenses of \$2.2 million and equity-based compensation of \$1.6 million associated with equity grants of Ashford Trust's and Ashford Prime's common stock and LTIP units awarded to our officers and employees. We recorded an offsetting expense in an equal amount included in "salaries and benefits." No incentive fee was earned for the 2015 quarter in connection with our advisory agreements with Ashford Prime or Ashford Trust.

Other Revenue. Other revenue was \$84,000 for the 2016 quarter, which represents lease revenue as a result of our key money transaction with Ashford Prime. There was no other revenue in the 2015 quarter.

Salaries and Benefits Expense. Salaries and benefits expense increased \$10.3 million, or 181.0%, to \$16.0 million during the 2016 quarter compared to the 2015 quarter. The increase in salaries and benefits was attributable to higher non-cash expense associated with our DCP of \$7.6 million, non-cash equity-based compensation of \$2.3 million, cash salaries of approximately \$318,000 and payroll tax burden of \$77,000, partially offset by lower bonuses of approximately \$6,000.

In connection with our spin-off, we assumed the DCP obligation, which was modified to give the participants various investment options including Ashford Inc. common stock for measurement, which options can be changed by the participant at any time. These modifications resulted in the DCP obligation being recorded as a liability in accordance with the applicable authoritative accounting guidance. The DCP obligation is carried at fair value with changes in fair value reflected in earnings. Additionally, as a result of the spin-off, we assumed all of the unrecognized equity-based compensation associated with prior Ashford Trust equity grants. As a result, we will continue to recognize equity-based compensation expense related to these grants through the final vesting date in April 2017.

During the 2016 quarter, salaries and benefits expense included \$7.8 million of cash salaries and benefits, \$7.3 million of non-cash equity-based compensation and a \$928,000 non-cash loss associated with our deferred compensation plan ("DCP"). Additionally, during the 2016 quarter, non-cash equity-based compensation consisted of \$1.2 million associated with prior Ashford Trust equity grants, \$1.6 million in connection with stock option grants and \$4.4 million associated with equity grants of Ashford Trust's and Ashford Prime's common stock and LTIP units awarded to our officers and employees, in which we record offsetting revenue in an equal amount.

During the 2015 quarter, salaries and benefits expense included \$7.4 million of cash salaries and benefits, \$5.0 million of non-cash equity-based compensation and a \$6.7 million non-cash gain associated with our DCP. Additionally, during the 2015 quarter, non-cash equity-based compensation consisted of \$2.4 million associated with prior Ashford Trust equity grants, \$961,000 in connection with stock option grants and \$1.6 million associated with equity grants of Ashford Trust's and Ashford Prime's common stock and LTIP units awarded to our officers and employees, in which we record offsetting revenue in an equal amount.

Depreciation Expense. Depreciation expense decreased \$127,000, or 31.8%, to \$272,000 during the 2016 quarter compared to the 2015 quarter, as a result of adjustment made in the third quarter of 2015 to reduce depreciation expense by \$228,000 for an asset that was not yet placed in service. This decrease was partially offset by higher depreciation expense associated with furniture, fixtures and equipment additions since June 30, 2015.

General and Administrative Expense. General and administrative expenses decreased \$454,000, or 10.0%, to \$4.1 million during the 2016 quarter compared to the 2015 quarter, as a result of lower professional fees of \$473,000, office expense of \$68,000, public company costs of \$46,000, and director costs of \$30,000, partially offset by higher travel and other expenses of \$52,000 and \$110,000 of non-capitalizable costs associated with ongoing software implementation projects.

Unrealized Gain (Loss) on Investment in Unconsolidated Entity. We did not have an unrealized gain or loss on investment in an unconsolidated entity in the 2016 quarter. We recorded an unrealized loss on investment in an unconsolidated entity of \$1.1 million during the 2015 quarter which consisted of an unrealized loss in an unconsolidated investment fund for which AIM is the investment adviser.

Interest Income. Interest income decreased \$41,000, or 80.4%, to \$10,000 during the 2016 quarter compared to the 2015 quarter, as a result of investments in the AQUA U.S. Fund.

Dividend Income. Dividend income decreased \$133,000, or 80.1%, to \$33,000 during the 2016 quarter compared to the 2015 quarter, as a result of investments in the AQUA U.S. Fund.

Unrealized Loss on Investments. Unrealized loss on investments decreased \$2.8 million, or 92.3%, to \$234,000 during the 2016 quarter compared to the 2015 quarter, as a result of investments in the AQUA U.S. Fund and is based on changes in closing market prices during the period.

Realized Gain on Investments. Realized gain on investments decreased \$567,000, or 54.7% to \$470,000 during the 2016 quarter compared to the 2015 quarter, as a result of investments in the AQUA U.S. Fund.

Other Expenses. Other expenses increased \$11,000, or 110.0%, to \$21,000 for the 2016 quarter compared to the 2015 quarter.

Income Tax Benefit (Expense). Income tax benefit (expense) changed \$888,000 from an expense of \$233,000 for the 2015 quarter to a benefit of \$655,000 for the 2016 quarter. The decrease in income tax expense is primarily due to the recognition of the tax benefits from the cumulative losses on our investment in unconsolidated entity, the Fund, during the second quarter of 2016. When the manager of the Fund filed the 2015 income tax return during the second quarter of 2016, the manager chose to make a tax election affecting 2015 and subsequent tax years. The election allowed us to revise the treatment of the 2015 and first quarter of 2016 losses from disallowed capital loss carryovers to ordinary loss deductions.

(Income) Loss from Consolidated Entities Attributable to Noncontrolling Interests. The noncontrolling interests in consolidated entities were allocated income of \$182,000 in the 2016 quarter and a loss of \$3.2 million in the 2015 quarter. At June 30, 2016, noncontrolling interests in consolidated entities represented ownership interests of 40% in one entity, 100% in one entity and 12.50% in one entity with a combined total carrying value of \$55.1 million. At June 30, 2015, noncontrolling interests in consolidated entities represented ownership interests of 40% in one entity and 100% in two entities with a total carrying value of \$111.2 million.

Net (Income) Loss Attributable to Redeemable Noncontrolling Interests in Ashford LLC. Redeemable noncontrolling interests in Ashford LLC were allocated net loss of \$4,000 and net income of \$8,000 in the 2016 quarter and 2015 quarter, respectively. Redeemable noncontrolling interests represented ownership interests of 0.2% in Ashford LLC at both June 30, 2016 and June 30, 2015.

Net Loss Attributable to Redeemable Noncontrolling Interests in Subsidiary Common Stock. Redeemable noncontrolling interest in subsidiary common stock was allocated a net loss of \$351,000 in the 2016 quarter.

Redeemable noncontrolling interest in subsidiary common stock represented an ownership interest of 49.13% in subsidiary common stock at June 30, 2016. No income or loss was allocated during the 2015 quarter as there were no redeemable noncontrolling interests in subsidiary common stock.



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Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

The following table summarizes the changes in key line items from our condensed consolidated statements of operations for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended			
	June 30, 2016	2015	\$ Change	% Change
Revenue				
Advisory services	\$31,393	\$27,412	\$3,981	14.5 %
Other	168	195	(27 )	(13.8 )%
Total revenue	31,561	27,607	3,954	14.3 %
Expenses				
Salaries and benefits	25,192	23,181	2,011	8.7 %
Depreciation	544	528	16	3.0 %
General and administrative	8,529	8,672	(143 )	(1.6 )%
Total expenses	34,265	32,381	1,884	5.8 %
Operating loss	(2,704 )	(4,774 )	(2,070 )	43.4 %
Realized gain (loss) on investment in unconsolidated entity	(3,601 )	—	3,601	
Unrealized gain (loss) on investment in unconsolidated entity	2,141	(1,066 )	3,207	300.8 %
Interest income	23	52	(29 )	(55.8 )%
Dividend income	46	172	(126 )	(73.3 )%
Unrealized gain (loss) on investments	895	(2,990 )	3,885	129.9 %
Realized gain (loss) on investments	(6,343 )	1,035	7,378	712.9 %
Other expenses	(149 )	(10 )	139	1,390.0 %
Loss before income taxes	(9,692 )	(7,581 )	2,111	27.8 %
Income tax benefit (expense)	15	(464 )	479	103.2 %
Net loss	(9,677 )	(8,045 )	1,632	20.3 %
Loss from consolidated entities attributable to noncontrolling interests	6,366	4,115	2,251	54.7 %
Net loss attributable to redeemable noncontrolling interests in Ashford LLC	7	10	(3 )	(30.0 )%
Net loss attributable to redeemable noncontrolling interests in subsidiary common stock	466	—	466	
Net loss attributable to the Company	\$(2,838 )	\$(3,920 )	\$(1,082 )	(27.6 )%

Net Loss Attributable to the Company. Net loss attributable to the Company decreased \$1.1 million, or 27.6%, to \$2.8 million for the six months ended June 30, 2016 (the “2016 period”) compared to the six months ended June 30, 2015 (the “2015 period”) as a result of the factors discussed below.

Advisory Services Revenue. Advisory services revenue increased \$4.0 million, or 14.5%, to \$31.4 million during the 2016 period compared to the 2015 period. The increase is comprised of higher base advisory fees of \$613,000, higher reimbursable expense of \$136,000, higher incentive advisory fees of \$732,000 and higher equity-based compensation associated with equity grants of Ashford Trust’s and Ashford Prime’s common stock and LTIP units of \$2.5 million. During the 2016 period, advisory services revenue was comprised of base advisory fees of \$21.5 million and reimbursable expenses of \$4.4 million. Advisory services revenue also included \$4.7 million of equity-based compensation associated with equity grants of Ashford Trust’s and Ashford Prime’s common stock and LTIP units awarded to our officers and employees, and we recorded an offsetting expense in an equal amount which is included in “salaries and benefits.” Additionally, advisory services revenue included \$732,000 of incentive fees. Specifically, incentive fee revenue included \$638,000 for the pro-rata portion of the second installment of the 2015 incentive fee for which the payment is due January 2017 subject to meeting the FCCR Condition at December 31, 2016, as defined in our advisory agreement with Ashford Prime. Incentive fee revenue also included \$94,000 for the pro-rata portion of the first installment of the 2016 incentive fee for which the payment is due January 2017 subject to Ashford Prime’s annual total stockholder return exceeding the average annual total stockholder return of Ashford Prime’s peer group as

of December 31, 2016 and the FCCR Condition as of December 31, 2016, as defined in our advisory agreement with Ashford Prime.

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During the 2015 period, advisory services revenue was comprised of a base advisory fee of \$20.9 million, reimbursable expenses of \$4.3 million. Advisory services revenue also included equity-based compensation of \$2.2 million associated with equity grants of Ashford Trust's and Ashford Prime's common stock and LTIP units awarded to our officers and employees, and we recorded an offsetting expense in an equal amount which is included in "salaries and benefits." No incentive fee was earned for the 2015 period in connection with our advisory agreements with Ashford Prime or Ashford Trust.

**Other Revenue.** Other revenue of \$168,000 for the 2016 period represents lease revenue as a result of our key money transaction with Ashford Prime. Other revenue for the 2015 period consisted of \$195,000 of other non-advisory expense reimbursements from Ashford Trust.

**Salaries and Benefits Expense.** Salaries and benefits expense increased \$2.0 million, or 8.7%, to \$25.2 million during the 2016 period compared to the 2015 period. The increase in salaries and benefits was attributable to higher cash salaries of \$1.2 million, non-cash expense associated with our DCP of \$739,000 and payroll tax burden of \$486,000, offset by lower non-cash equity-based compensation of \$355,000 and cash bonus expense of \$85,000.

In connection with our spin-off, we assumed the DCP obligation, which was modified to give the participants various investment options including Ashford Inc. common stock for measurement, which options can be changed by the participant at any time. These modifications resulted in the DCP obligation being recorded as a liability in accordance with the applicable authoritative accounting guidance. The DCP obligation is carried at fair value with changes in fair value reflected in earnings. Additionally, as a result of the spin-off, we assumed all of the unrecognized equity-based compensation associated with prior Ashford Trust equity grants. As a result, we will continue to recognize equity-based compensation expense related to these grants through the final vesting in April 2017.

During the 2016 period, salaries and benefits expense included \$15.4 million of cash salaries and benefits, \$10.5 million of non-cash equity-based compensation and a \$684,000 non-cash gain associated with our DCP. Non-cash equity-based compensation consisted of \$3.2 million associated with prior Ashford Trust equity grants, \$2.6 million in connection with stock option grants and \$4.7 million associated with equity grants of Ashford Trust's and Ashford Prime's common stock and LTIP units awarded to our officers and employees, in which we record offsetting revenue in an equal amount.

During the 2015 period, salaries and benefits expense included \$13.7 million of cash salaries and benefits, \$10.9 million of non-cash equity-based compensation and a \$1.4 million non-cash gain associated with our DCP. Non-cash equity-based compensation consisted of \$6.7 million associated with prior Ashford Trust equity grants, \$1.9 million in connection with stock option grants and \$2.2 million associated with equity grants of Ashford Trust's and Ashford Prime's common stock and LTIP units awarded to our officers and employees, in which we record offsetting revenue in an equal amount.

**Depreciation Expense.** Depreciation expense increased \$16,000, or 3.0%, to \$544,000 during the 2016 period compared to the 2015 period, as a result of furniture, fixtures and equipment additions since June 30, 2015. This increase was partially offset by an adjustment made in the third quarter of 2015 to reduce depreciation expense by \$228,000 for an asset that was not yet placed in service.

**General and Administrative Expense.** General and administrative expenses decreased \$143,000, or 1.6%, to \$8.5 million during the 2016 period compared to the 2015 period as a result of lower director costs of \$299,000, travel and other expenses of \$50,000, professional fees of \$557,000, public company costs of \$95,000 and office expense of \$46,000, partially offset by \$904,000 of non-capitalizable costs associated with ongoing software implementation projects.

**Realized Gain (Loss) on Investment in Unconsolidated Entity.** We recorded a realized loss on an investment in an unconsolidated entity of \$3.6 million in the 2016 period from an unconsolidated investment fund for which AIM was the investment adviser. We did not recognize any realized gains/losses in the 2015 period.

**Unrealized Gain (Loss) on Investment in Unconsolidated Entity.** We recorded an unrealized gain on an investment in an unconsolidated entity of \$2.1 million in the 2016 period compared to an unrealized loss on an investment in an unconsolidated entity of \$1.1 million in the 2015 period from an unconsolidated investment fund for which AIM was the investment adviser.

Interest Income. Interest income was \$23,000 and \$52,000 for the 2016 period and 2015 period, respectively, related to investments in the AQUA U.S. Fund which began operations in 2015.

Dividend Income. Dividend income was \$46,000 and \$172,000 for the 2016 period and 2015 period, respectively, related to investments in the AQUA U.S. Fund which began operations in 2015.

Unrealized Gain (Loss) on Investments. Unrealized gain on investments was \$895,000 for the 2016 period and unrealized loss on investments was \$3.0 million for the 2015 period, related to investments in the AQUA U.S. Fund which began operations during the first quarter of 2015. The unrealized gain on investments is based on changes in closing market prices during the period.

**Realized Gain (Loss) on Investments.** Realized loss on investments was \$6.3 million for the 2016 period and realized gain on investments was \$1.0 million for the 2015 period. The realized gain (loss) on investments is related to investments in the AQUA U.S. Fund which began operations during the first quarter of 2015.

**Other Expenses.** Other expenses was \$149,000 and \$10,000 for the 2016 period and 2015 period, respectively.

**Income Tax Benefit (Expense).** Income tax expense changed \$479,000, from an expense of \$464,000 for the 2015 period, to a benefit of \$15,000 for the 2016 period. The decrease in income tax expense is primarily due to the recognition of the tax benefits from the 2015 losses on our investment in unconsolidated entity, the Fund, during the 2016 period. When the manager of the Fund filed the 2015 income tax return during the second quarter of 2016, the manager chose to make a tax election affecting 2015 and subsequent tax years. The election allowed us to revise the treatment of the 2015 losses from disallowed capital loss carryovers to ordinary loss deductions.

**Loss from Consolidated Entities Attributable to Noncontrolling Interests.** The noncontrolling interests in consolidated entities were allocated a loss of \$6.4 million in the 2016 period and a loss of \$4.1 million in the 2015 period. At June 30, 2016, noncontrolling interests in consolidated entities represented ownership interests of 40% in one entity, 100% in one entity and 12.50% in one entity. At June 30, 2015, noncontrolling interests in consolidated entities represented ownership interests of 40% in one entity and 100% in two entities.

**Net Loss Attributable to Redeemable Noncontrolling Interests in Ashford LLC.** Redeemable noncontrolling interests in Ashford LLC were allocated net loss of \$7,000 and \$10,000 in the 2016 period and 2015 period, respectively.

Redeemable noncontrolling interests in Ashford LLC represented ownership interests of 0.2% in Ashford LLC at both June 30, 2016 and June 30, 2015.

**Net Loss Attributable to Redeemable Noncontrolling Interests in Subsidiary Common Stock.** Redeemable noncontrolling interest in subsidiary common stock was allocated net loss of \$466,000 in the 2016 period.

Redeemable noncontrolling interest in subsidiary common stock represented an ownership interest of 49.13% in subsidiary common stock at June 30, 2016. No income or loss was allocated during the 2015 period as there were no redeemable noncontrolling interests in subsidiary common stock.

#### **Off-Balance Sheet Arrangements**

In the normal course of business, we may form or invest in partnerships or joint ventures. 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 see notes 1 and 2 to the condensed consolidated financial statements.

#### **Contractual Obligations and Commitments**

There have been no material changes since December 31, 2015, outside the ordinary course of business, to contractual obligations specified in the table of contractual obligations included in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2015 Form 10-K.

#### **Critical Accounting Policies**

Our accounting policies that are critical or most important to understanding our financial condition and results of operations and that require management to make the most difficult judgments are described in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2015 Form 10-K. There have been no material changes in these critical accounting policies.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

We hold 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 satisfied.

We together with our wholly-owned subsidiaries do not hold any other financial instruments that subject us to market risk.



#### ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2016. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the evaluation date, our disclosure controls and procedures are effective (i) to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

#### PART II. OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

On December 11, 2015, a purported stockholder class action and derivative complaint challenging the Remington acquisition, described in note 11, was filed in the Court of Chancery of the State of Delaware and styled *Campbell v. Bennett et al.*, Case No. 11796. The complaint names as defendants each of the members of the Company's board of directors, Archie Bennett, Jr., Mark A. Sharkey, MJB Investments GP, LLC and Remington Holdings GP, as well as the Company as a nominal defendant. The complaint alleges that the members of the Company's board of directors breached their fiduciary duties to the Company's stockholders in connection with the Transactions and that Monty Bennett, Archie Bennett, Jr., Mark A. Sharkey, MJB Investments GP, LLC and Remington Holdings GP aided and abetted the purported breaches of fiduciary duty. In support of these claims, the complaint alleges, among other things, that the Company's board of directors engaged in an unfair process with Remington Lodging and the Bennetts and as a result the Company overpaid for the 80% limited partnership and 100% general partnership interests in Remington Lodging. The complaint also alleges that the proxy statement filed with the SEC contains certain materially false and/or misleading statements. The action seeks injunctive relief, including enjoining the special meeting of stockholders and any vote on the contribution or the stock issuances or rescinding the Transactions if they are consummated, or in the alternative an award of damages, as well as unspecified attorneys' and other fees and costs, in addition to any other relief the court may deem proper. Since the filing of the complaint, the special meeting of stockholders and related vote occurred with the stockholders approving the acquisition.

The outcome of this matter cannot be predicted with any certainty. A preliminary injunction could delay or jeopardize the consummation of the Transactions, and an adverse judgment granting permanent injunctive relief could indefinitely prohibit consummation of the Transactions. The defendants have not yet responded to the complaint but intend to defend the claims raised in this lawsuit.

On March 14, 2016, Sessa Capital (Master), L.P. ("Sessa") filed third party claims against the Company and Ashford LLC in connection with a suit filed by Ashford Prime against Sessa, related parties, and Sessa's proposed Ashford Prime director nominees John E. Petry, Philip B. Livingston, Lawrence A. Cunningham, Daniel B. Silvers and Chris D. Wheeler. The case is captioned *Ashford Hospitality Prime, Inc. v. Sessa Capital (Master), L.P., et al.*, No. 16-cv-00527 and is pending in the United States District Court for the Northern District of Texas, Dallas Division. Sessa generally alleges that the Company and Ashford LLC aided and abetted the Ashford Prime directors' breaches of fiduciary duty in connection with the June 2015 amendments to the Ashford Prime's advisory agreement with Ashford LLC. Among other relief, Sessa seeks an injunction preventing the Company from attempting to solicit proxies on behalf of Ashford Prime until Ashford Prime's directors approve Sessa's proposed director nominees under the terms of the advisory agreement. There are currently no claims for monetary damages, but Sessa seeks reimbursement for its attorneys' fees and costs. The outcome of the litigation is pending but the Company intends to vigorously defend the claims filed by Sessa.

On March 22, 2016, the Company and Ashford LLC filed a lawsuit in Texas state district court in Dallas against Sessa, related entities, and John E. Petry, Philip B. Livingston, Lawrence A. Cunningham, Daniel B. Silvers and Chris D. Wheeler. The case is captioned *Ashford Inc., et al v. Sessa Capital (Master), L.P., et al.*, Cause No. 16-DC-03340. The Company generally alleges that the defendants have engaged in wrongful acts, including engaging in an unlawful

proxy contest for control of the Ashford Prime board, and are tortiously interfering with the Company and Ashford LLC's advisory agreement with Ashford Prime. Among other relief, the Company seeks actual and exemplary damages, as well as an injunction prohibiting defendants from further interference with the advisory agreement or the Company's managerial and operational control of Ashford Prime and its assets. The outcome of the litigation is pending.

On April 6, 2016, the United States District Court for the Northern District of Texas issued an order in the civil case in which the Company is a named defendant granting Ashford Prime's request for expedited discovery. The discovery request seeks the



names and identities of Sessa's limited partners, communication between those limited partners and Sessa, and information about cooperation between Sessa and its limited partners in support of its claims that Sessa violated Ashford Prime's bylaws and federal securities laws. The Company understands that additional discovery will be pursued against the limited partners themselves as their identities are revealed regarding all communication between the limited partners and Sessa related to the Company, Ashford Prime and its affiliates.

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

#### ITEM 1A. RISK FACTORS

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our 2015 Form 10-K, filed with the SEC on March 15, 2016, which describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies, or prospects in a material and adverse manner.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

##### Purchases of Equity Securities by the Issuer

The following table provides the information with respect to purchases of our common stock during each of the months in the second quarter of 2016:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plan
Common stock:				
April 1 to April 30	—	\$—	—	\$ —
May 1 to May 31	—	—	—	—
June 1 to June 30	13	45.75	—	—
Total	13	\$45.75	—	

#### ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

#### ITEM 4. MINE SAFETY DISCLOSURES

None.

#### ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit	Description
2.1	First Amendment to Acquisition Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 24, 2016) (File No. 001-36400)
3.1	Amended and Restated Certificate of Incorporation of Ashford Inc. (incorporated by reference to Exhibit 3.1 of Form 10-K, filed on March 24, 2015) (File No. 001-36400)
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation dated May 18, 2015 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on May 18, 2015) (File No. 001-36400)
3.3	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on November 6, 2014) (File No. 001-36400)
31.1*	Certifications of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of Securities Exchange Act of 1934, as amended
31.2*	Certifications of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of Securities Exchange Act of 1934, as amended
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The following materials from the Company’s quarterly report on Form 10-Q for the quarter ended June 30, 2016, are formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss); (iii) Condensed Consolidated Statement of Equity; (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to the Condensed Consolidated Financial Statements. In accordance with Rule 402 of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

101.INS	XBRL Instance Document	Submitted electronically with this report.
101.SCH	XBRL Taxonomy Extension Schema Document	Submitted electronically with this report.
101.CAL	XBRL Taxonomy Calculation Linkbase Document	Submitted electronically with this report.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Submitted electronically with this report.
101.LAB	XBRL Taxonomy Label Linkbase Document.	Submitted electronically with this report.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.	Submitted electronically with this report.

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\* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ASHFORD INC.

Date: August 9, 2016 By: /s/ MONTY J. BENNETT

Monty J. Bennett  
Chief Executive Officer

Date: August 9, 2016 By: /s/ DERIC S. EUBANKS

Deric S. Eubanks  
Chief Financial Officer