

Ashford Inc  
Form 10-Q  
August 14, 2015

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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, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-36400

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

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

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

|                                                     |                                             |
|-----------------------------------------------------|---------------------------------------------|
| Common Stock, \$0.01 par value per share<br>(Class) | 1,989,770<br>Outstanding at August 12, 2015 |
|-----------------------------------------------------|---------------------------------------------|

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ASHFORD INC.  
FORM 10-Q  
FOR THE QUARTER ENDED JUNE 30, 2015

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (unaudited)

ASHFORD INC. AND SUBSIDIARIES  
CONDENSED BALANCE SHEETS

(unaudited, in thousands, except share amounts)

|                                                                                                                                                                                                          | June 30, 2015 | December 31,<br>2014 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------------|
| Assets                                                                                                                                                                                                   |               |                      |
| Current assets:                                                                                                                                                                                          |               |                      |
| Cash and cash equivalents                                                                                                                                                                                | \$21,077      | \$29,597             |
| Restricted cash                                                                                                                                                                                          | 7,270         | 3,337                |
| Investments in securities                                                                                                                                                                                | 138,030       | —                    |
| Prepaid expenses and other                                                                                                                                                                               | 1,912         | 1,360                |
| Receivables                                                                                                                                                                                              | 290           | —                    |
| Due from Ashford Trust OP, net                                                                                                                                                                           | 5,331         | 8,202                |
| Due from Ashford Prime OP                                                                                                                                                                                | 2,404         | 2,546                |
| Deferred tax asset                                                                                                                                                                                       | 374           | —                    |
| Total current assets                                                                                                                                                                                     | 176,688       | 45,042               |
| Investments in unconsolidated entities                                                                                                                                                                   | 4,434         | —                    |
| Furniture, fixtures and equipment, net                                                                                                                                                                   | 4,389         | 4,188                |
| Deferred tax asset                                                                                                                                                                                       | 1,899         | —                    |
| Other assets                                                                                                                                                                                             | 4,000         | —                    |
| Total assets                                                                                                                                                                                             | \$ 191,410    | \$49,230             |
| Liabilities and Equity                                                                                                                                                                                   |               |                      |
| Current liabilities:                                                                                                                                                                                     |               |                      |
| Accounts payable and accrued expenses                                                                                                                                                                    | \$5,983       | \$9,307              |
| Due to affiliates                                                                                                                                                                                        | 521           | 1,313                |
| Liabilities associated with investments in securities                                                                                                                                                    | 26,673        | —                    |
| Deferred compensation plan                                                                                                                                                                               | 81            | 175                  |
| Other liabilities                                                                                                                                                                                        | 7,362         | 3,337                |
| Total current liabilities                                                                                                                                                                                | 40,620        | 14,132               |
| Accrued expenses                                                                                                                                                                                         | 71            | —                    |
| Deferred compensation plan                                                                                                                                                                               | 18,364        | 19,780               |
| Total liabilities                                                                                                                                                                                        | 59,055        | 33,912               |
| Commitments and contingencies (Note 6)                                                                                                                                                                   |               |                      |
| Redeemable noncontrolling interests in Ashford LLC                                                                                                                                                       | 393           | 424                  |
| 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, 2015 and December 31, 2014                                                                                             | —             | —                    |
| Common stock, \$0.01 par value, 100,000,000 shares authorized, 1,990,446 and 1,986,851 shares issued and 1,989,770 and 1,986,851 shares outstanding at June 30, 2015 and December 31, 2014, respectively | 20            | 20                   |
| Additional paid-in capital                                                                                                                                                                               | 231,051       | 228,003              |
| Accumulated deficit                                                                                                                                                                                      | (210,232      | ) (213,042           |
| Treasury stock, at cost, 676 shares at June 30, 2015                                                                                                                                                     | (85           | ) —                  |
| Total stockholders' equity of the Company                                                                                                                                                                | 20,754        | 14,981               |
| Noncontrolling interests in consolidated entities                                                                                                                                                        | 111,208       | (87                  |

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|                                              |           |          |
|----------------------------------------------|-----------|----------|
| Total equity                                 | 131,962   | 14,894   |
| Total liabilities and equity                 | \$191,410 | \$49,230 |
| See Notes to Condensed Financial Statements. |           |          |

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ASHFORD INC. AND SUBSIDIARIES  
CONDENSED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)  
(unaudited, in thousands, except per share amounts)

|                                                                                      | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--------------------------------------------------------------------------------------|-----------------------------|------------|---------------------------|------------|
|                                                                                      | 2015                        | 2014       | 2015                      | 2014       |
| Revenue                                                                              |                             |            |                           |            |
| Advisory services                                                                    | \$14,489                    | \$3,913    | \$27,412                  | \$6,225    |
| Other                                                                                | —                           | —          | 195                       | —          |
| Total revenue                                                                        | 14,489                      | 3,913      | 27,607                    | 6,225      |
| Expenses                                                                             |                             |            |                           |            |
| Salaries and benefits                                                                | 5,688                       | 15,825     | 23,181                    | 25,935     |
| Depreciation                                                                         | 399                         | 87         | 528                       | 174        |
| General and administrative                                                           | 4,542                       | 1,456      | 8,672                     | 2,369      |
| Total expenses                                                                       | 10,629                      | 17,368     | 32,381                    | 28,478     |
| Operating income (loss)                                                              | 3,860                       | (13,455)   | (4,774)                   | (22,253)   |
| Equity in loss of unconsolidated entities                                            | (1,066)                     | —          | (1,066)                   | —          |
| Interest income                                                                      | 51                          | —          | 52                        | —          |
| Dividend income                                                                      | 166                         | —          | 172                       | —          |
| Unrealized loss on investments                                                       | (3,037)                     | —          | (2,990)                   | —          |
| Realized gain on investments                                                         | 1,037                       | —          | 1,035                     | —          |
| Other expenses                                                                       | (10)                        | —          | (10)                      | —          |
| Income (loss) before income taxes                                                    | 1,001                       | (13,455)   | (7,581)                   | (22,253)   |
| Income tax expense                                                                   | (233)                       | (20)       | (464)                     | (35)       |
| Net income (loss)                                                                    | 768                         | (13,475)   | (8,045)                   | (22,288)   |
| Loss from consolidated entities attributable to noncontrolling interests             | 3,154                       | —          | 4,115                     | —          |
| Net (income) loss attributable to redeemable noncontrolling interests in Ashford LLC | (8)                         | —          | 10                        | —          |
| Net income (loss) attributable to the Company                                        | \$3,914                     | \$(13,475) | \$(3,920)                 | \$(22,288) |
| Comprehensive income (loss) attributable to the Company                              | \$3,914                     | \$(13,475) | \$(3,920)                 | \$(22,288) |
| Income (loss) per share – basic:                                                     |                             |            |                           |            |
| Net income (loss) attributable to common stockholders                                | \$1.97                      | \$(6.80)   | \$(1.97)                  | \$(11.25)  |
| Weighted average common shares outstanding – basic                                   | 1,985                       | 1,981      | 1,989                     | 1,981      |
| Income (loss) per share – diluted:                                                   |                             |            |                           |            |
| Net income (loss) attributable to common stockholders                                | \$(1.26)                    | \$(6.80)   | \$(2.43)                  | \$(11.25)  |
| Weighted average common shares outstanding – diluted                                 | 2,197                       | 1,981      | 2,201                     | 1,981      |

See Notes to Condensed Financial Statements.

ASHFORD INC. AND SUBSIDIARIES  
CONDENSED STATEMENT OF EQUITY

(unaudited, in thousands)

|                                                                            | Common<br>Stock |        | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Treasury<br>Stock |          | Noncontrolling<br>Interests in<br>Consolidated<br>Entities | Total      | Redeemable<br>Noncontrolling<br>Interests in<br>Ashford<br>LLC |
|----------------------------------------------------------------------------|-----------------|--------|----------------------------------|------------------------|-------------------|----------|------------------------------------------------------------|------------|----------------------------------------------------------------|
|                                                                            | Shares          | Amount |                                  |                        | Shares            | Amount   |                                                            |            |                                                                |
| Balance at January 1,<br>2015                                              | 1,987           | \$ 20  | \$ 228,003                       | \$ (213,042 )          | —                 | \$ —     | \$ (87 )                                                   | \$ 14,894  | \$ 424                                                         |
| Purchase of treasury<br>stock                                              | —               | —      | —                                | —                      | (1 )              | (85 )    | —                                                          | (85 )      | —                                                              |
| Equity-based<br>compensation                                               | 2               | —      | 2,162                            | 6,709                  | —                 | —        | —                                                          | 8,871      | —                                                              |
| Excess tax benefit on<br>equity-based<br>compensation                      | —               | —      | 1,065                            | —                      | —                 | —        | —                                                          | 1,065      | —                                                              |
| Deferred compensation<br>plan distribution                                 | 1               | —      | 87                               | —                      | —                 | —        | —                                                          | 87         | —                                                              |
| Employee advances                                                          | —               | —      | (266 )                           | —                      | —                 | —        | —                                                          | (266 )     | —                                                              |
| Contributions from<br>noncontrolling interests<br>in consolidated entities | —               | —      | —                                | —                      | —                 | —        | 115,410                                                    | 115,410    | —                                                              |
| Redemption value<br>adjustment                                             | —               | —      | —                                | 21                     | —                 | —        | —                                                          | 21         | (21 )                                                          |
| Net loss                                                                   | —               | —      | —                                | (3,920 )               | —                 | —        | (4,115 )                                                   | (8,035 )   | (10 )                                                          |
| Balance at June 30,<br>2015                                                | 1,990           | \$ 20  | \$ 231,051                       | \$ (210,232 )          | (1 )              | \$ (85 ) | \$ 111,208                                                 | \$ 131,962 | \$ 393                                                         |

See Notes to Condensed Financial Statements.

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

|                                                                                   | Six Months Ended June 30, |             |
|-----------------------------------------------------------------------------------|---------------------------|-------------|
|                                                                                   | 2015                      | 2014        |
| Cash Flows from Operating Activities                                              |                           |             |
| Net loss                                                                          | \$(8,045                  | ) \$(22,288 |
| Adjustments to reconcile net loss to net cash flows used in operating activities: |                           |             |
| Depreciation                                                                      | 528                       | 174         |
| Straight-line rent amortization                                                   | —                         | (21         |
| Non-cash deferred compensation expense                                            | (1,423                    | ) —         |
| Equity in loss of unconsolidated entities                                         | 1,066                     | —           |
| Equity-based compensation                                                         | 8,871                     | 12,228      |
| Excess tax benefit on equity-based compensation                                   | (1,065                    | ) —         |
| Deferred tax benefit                                                              | (2,273                    | ) —         |
| Realized and unrealized gain on investments                                       | 1,955                     | —           |
| Purchases of investments in securities                                            | (70,410                   | ) —         |
| Sales of investments in securities                                                | 44,075                    | —           |
| Changes in operating assets and liabilities:                                      |                           |             |
| Restricted cash                                                                   | (3,933                    | ) —         |
| Prepaid expenses and other                                                        | (1,199                    | ) (822      |
| Receivables                                                                       | (290                      | ) —         |
| Due from Ashford Trust OP, net                                                    | (482                      | ) 245       |
| Due from Ashford Prime OP                                                         | 142                       | (2,114      |
| Accounts payable and accrued expenses                                             | (2,266                    | ) (2,332    |
| Due to affiliates                                                                 | (410                      | ) 588       |
| Other liabilities                                                                 | 4,025                     | —           |
| Due to broker                                                                     | 23,653                    | —           |
| Net cash used in operating activities                                             | (7,481                    | ) (14,342   |
| Cash Flows from Investing Activities                                              |                           |             |
| Additions to furniture, fixtures and equipment                                    | (1,033                    | ) (1,027    |
| Investments in unconsolidated entities                                            | (5,500                    | ) —         |
| Net cash used in investing activities                                             | (6,533                    | ) (1,027    |
| Cash Flows from Financing Activities                                              |                           |             |
| Excess tax benefit on equity-based compensation                                   | 1,065                     | —           |
| Purchase of treasury shares                                                       | (85                       | ) —         |
| Employee advances                                                                 | (266                      | ) —         |
| Contributions from owner                                                          | —                         | 17,617      |
| Contributions from noncontrolling interests in consolidated entities              | 4,780                     | —           |
| Net cash provided by financing activities                                         | 5,494                     | 17,617      |
| Net change in cash                                                                | (8,520                    | ) 2,248     |
| Cash at beginning of period                                                       | 29,597                    | 600         |
| Cash at end of period                                                             | \$21,077                  | \$2,848     |



|                                                                                    | Six Months Ended June 30, |        |
|------------------------------------------------------------------------------------|---------------------------|--------|
|                                                                                    | 2015                      | 2014   |
| Supplemental Cash Flow Information                                                 |                           |        |
| Interest paid                                                                      | \$—                       | \$—    |
| Income taxes paid                                                                  | 3,308                     | —      |
| Supplemental Disclosure of Non Cash Investing and Financing Activities             |                           |        |
| Contributions of securities from noncontrolling interests in consolidated entities | \$110,630                 | \$—    |
| Contributions associated with non-cash compensation                                | —                         | 12,228 |
| Dividends associated with deferred compensation plan                               | —                         | 374    |
| Contributions associated with deferred compensation plan                           | —                         | 754    |
| Dividends declared but not paid                                                    | —                         | 191    |
| Distribution from deferred compensation plan                                       | 87                        | —      |
| Capital expenditures accrued but not paid                                          | 226                       | 1,101  |
| See Notes to Condensed Financial Statements.                                       |                           |        |

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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED 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 the full service hotels in the upscale and upper-upscale segments in domestic and international markets that have revenue per available room (“RevPAR”) generally less than twice the national average, and in all methods including direct real estate, equity, securities and debt. Ashford Prime invests primarily in luxury, upper-upscale and upscale hotels with RevPAR of at least twice the then-current U.S. national average in gateway and resort locations. Ashford Prime became a publicly traded entity 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 (“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. Ashford LLC had no operations until November 19, 2013, the date of the Ashford Prime spin-off. As part of the Ashford Inc. spin-off from Ashford Trust, Ashford LLC became a subsidiary of Ashford Inc. on November 12, 2014. Ashford Inc. conducts its business and owns substantially all of its assets through Ashford LLC.

The spin-off of Ashford Inc. was completed on November 12, 2014, with a pro rata taxable distribution of Ashford Inc.’s common stock to Ashford Trust stockholders of record as of November 11, 2014. The distribution was comprised of one share of Ashford Inc. common stock for every 87 shares of Ashford Trust common stock held by the Ashford Trust common stockholders. In addition, for each common unit of Ashford Trust OP, the holder received one common unit of Ashford LLC. Each holder of common units of Ashford LLC could exchange up to 99% of those units for shares of Ashford Inc. stock at the rate of one share of Ashford Inc. common stock for every 55 common units. Immediately following the completion of the exchange offer, Ashford LLC effected a reverse split of its common units such that each common unit was automatically converted into 1/55 of a common unit. The distribution was completed on October 7, 2014, and the exchange and reverse split were completed on November 12, 2014. 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 as an investment adviser to any private securities funds sponsored by us or our affiliates (the “Funds”). AIM became a registered investment adviser with the Securities and Exchange Commission on January 5, 2015. 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 approximately 60% of Management 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 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 and Mr. J. Robison Hays, III 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 has 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. The Master Fund, the U.S. Fund and the Offshore Fund are collectively known as the “REHE 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 U.S. Fund and the 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

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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

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.

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

2. Significant Accounting Policies

**Basis of Presentation and Principles of Consolidation and Combination**—The accompanying consolidated financial statements, subsequent to our spin-off, include the accounts of Ashford Inc., its majority-owned subsidiaries and entities which it controls. All significant inter-company accounts and transactions between these entities have been eliminated in these historical consolidated financial statements. The REHE Funds are investment companies and follow the accounting and reporting guidance in Financial Accounting Standards Boards (“FASB”) Accounting Standards Codification (“ASC”) Topic 946.

For periods prior to the spin-off, the accompanying historical financial statements of Ashford Inc. have been “carved out” of Ashford Trust’s consolidated financial statements and reflect significant assumptions and allocations. These financial statements were prepared by combining the financial position and results of operations of Ashford LLC and certain assets, liabilities and operations of Ashford Trust OP (both Ashford LLC and Ashford Trust OP were under common control) related to certain activities that were historically accounted for by Ashford Trust. These activities include asset management, accounting and legal services to Ashford Trust and Ashford Prime. In addition, the combined statements of operations and comprehensive income (loss) include allocations of general and administrative expenses from Ashford Trust, which in the opinion of management, are reasonable. All significant inter-company accounts and transactions between combined entities were eliminated. The historical financial information is not necessarily indicative of the Company’s future results of operations, financial position and cash flows.

Since the Company was a consolidated subsidiary of Ashford Trust and there was no advisory agreement between Ashford Trust and the Company, the accompanying statements of operations and comprehensive income (loss) do not report revenue associated with its management and advisory services provided to Ashford Trust for the historical periods presented prior to our spin-off on November 12, 2014. It does include revenue associated with the advisory services provided to Ashford Prime for all periods presented.

The accompanying historical unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with instructions to 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.

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 REHE Fund is considered to be a VIE, as defined by authoritative accounting guidance. All major decisions related to the REHE 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 REHE Fund. The REHE Fund holds approximately \$138.3 million of total assets that primarily consists of investments in securities, cash and cash equivalents and receivables that can only be used to settle the obligations of the REHE Fund.

Additionally, the REHE Fund has liabilities of \$26.8 million that primarily consists of liabilities associated with investments in securities for which creditors do not have recourse to Ashford Inc.

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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

We hold a variable interest, in the form of a note receivable, in one of the consolidated entities in which the noncontrolling interest holder has a 100% 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, 2015 and December 31, 2014, the note receivable had an outstanding balance of \$1.5 million and \$420,000, respectively, which is eliminated in consolidation. This entity holds approximately \$216,000 of total assets that primarily consists of cash and cash equivalents and other assets that can only be used to settle the obligations of that entity. Additionally, that entity has accounts payable and accrued expenses of \$5,000 for which creditors do not have recourse to Ashford Inc.

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

**Cash and Cash Equivalents**—Cash and cash equivalents include cash on hand or held in banks and short-term investments with an initial maturity of three months or less at the date of purchase.

**Restricted Cash**—Restricted cash represents reserves for casualty insurance claims and the associated ancillary costs. At the beginning of each year, Ashford Inc.'s Risk Management department collects funds, from the Ashford Trust/Prime properties and their respective management companies, of an amount equal to the actuarial forecast of that year's expected casualty claims and associated fees. These funds are deposited into restricted cash and used to pay casualty claims throughout the year as they are incurred. The offset to restricted cash amounts is included in other liabilities. For purposes of the statements of cash flows, changes in restricted cash caused by using such funds are shown as operating activities.

**Investments in Unconsolidated Entities**—We hold an investment in an unconsolidated entity in which we have a first loss ownership interest of 10% that is accounted for under the equity method of accounting by recording the initial investment and our interest in the entity's net income/loss. We also hold an investment in an unconsolidated entity, with a carrying value 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 in the three and six months ended 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.

**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 balance sheets as these redeemable operating units do not meet the requirements for equity classification prescribed by the authoritative accounting guidance because the redemption feature requires the delivery of cash or registered shares at our option. 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 noncontrolling interests in consolidated entities represents noncontrolling ownership interests of 40% in AIM, 100% in the REHE Fund and 100% in the entity in which we hold a variable interest in the form of a note receivable

at June 30, 2015, and noncontrolling ownership interests of 40% in AIM and 100% in the entity in which we hold a variable interest in the form of a note receivable at December 31, 2014.

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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

**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 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 total stockholder return exceeds the total stockholder return for each company’s respective peer group, subject to the FCCR condition, as defined in the advisory agreements.

**Salaries and Benefits**—Salaries and benefits are expensed as incurred. Prior to the spin-off, salaries and benefits included an allocation of 100% of salaries and benefits of the employees of Ashford Trust and an allocation of 100% of employee equity-based compensation from Ashford Trust. All such expenses were allocated to Ashford Inc. because these expenses have historically been incurred by the asset management business of Ashford Trust. In the opinion of management, such allocations were considered reasonable. Salaries and benefits also includes expense for equity grants of Ashford Prime and 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. There is an offsetting amount, included in “advisory services” revenue.

**General and Administrative Expense**—General and administrative costs are expensed as incurred. Prior to the spin-off, general and administrative expense represents an allocation of certain Ashford Trust OP corporate general and administrative costs including rent expense, insurance expense, office expenses and other miscellaneous expenses either based upon specific identification or an allocation method determined by management to reflect the portion of the expenses related to Ashford Inc. With the exception of audit fees, these costs were allocated 100% to Ashford Inc. as management believes these costs were directly incurred by Ashford Trust in connection with its asset management business and will be ongoing costs of Ashford Inc. Audit fees were allocated based on management’s estimate of the audit costs incurred to audit the activities of Ashford Trust’s asset management business. In the opinion of management, such allocations were considered reasonable.

**Depreciation**—Our furniture, fixtures and equipment and computer software are depreciated over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the related assets. Presently, our furniture and equipment are depreciated using the straight-line method over a five year life and computer software placed into service is amortized on a straight-line basis over estimated useful lives ranging from three to five years. While we believe our estimates are reasonable, a change in estimated useful lives could affect depreciation expense and net income/loss as well as resulting gains or losses on potential sales.

**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.



Prior to the spin-off, all equity-based compensation of Ashford Trust employees was allocated to the Company as all Ashford Trust employees became employees of the Company.

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).

Due to Affiliates—Due to affiliates represents current payables resulting from general and administrative expense and furniture, fixture and equipment reimbursements. Due to affiliates is generally settled within a period not exceeding one year.

Due from Ashford Prime OP—Due from Ashford Prime OP represents current receivables related to the advisory services fee and reimbursable expenses. Due from Ashford Prime OP is generally settled within a period not exceeding one year.

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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

Due to/from Ashford Trust OP, net—Due to/from Ashford Trust OP, net, represents current receivables and payables resulting primarily from costs associated with our spin-off as well as receivables related to the advisory services fee and reimbursable expenses. Due to/from Ashford Trust OP, net is generally settled within a period not exceeding one year.

Income (Loss) Per Share—For periods prior to the spin-off, basic income (loss) per share was calculated by dividing net loss attributable to the Company by the 2.0 million shares of common stock outstanding upon the completion of the distribution including 4,000 shares for initial grants to the five independent members of our board of directors (in the aggregate) and excluding 5,000 unvested restricted shares. For both the three and six months ended June 30, 2014, the diluted loss per share was calculated by dividing the net loss attributable to the Company by 2.0 million shares which excludes 10,000 shares comprised of 5,000 unvested restricted shares and 5,000 shares issuable on the conversion of Ashford LLC common units held by Ashford LLC unit holders as the effect of including these shares would have been anti-dilutive.

For periods after the spin-off, basic income (loss) per common share is calculated by dividing net income (loss) attributable to the Company by the weighted average common shares outstanding during the period using the two-class method prescribed by applicable authoritative accounting guidance. Diluted income (loss) per common share is calculated using the two-class method, or the treasury stock method, if more dilutive. Diluted income (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares, whereby such exercise or conversion would result in lower income per share.

Deferred Compensation Plan—Effective January 1, 2008, Ashford Trust established a nonqualified deferred compensation plan (“DCP”) for certain executive officers, which was assumed by the Company in connection with the separation from Ashford Trust. 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. In connection with our spin-off and the assumption of the DCP obligation by the Company, the DCP was modified to give the participants various investment options, including Ashford Inc. common stock, for measurement that 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. 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 statements of operations and comprehensive income (loss).

Investments in Securities—Investments in securities consist of publicly traded equity securities, U.S. treasury securities and put and call options on certain publicly traded securities. The fair value of equity securities and U.S. treasury securities is based on quoted market closing prices at the balance sheet date. This is considered a Level 1 valuation technique. Put and call options are considered derivative instruments. The fair value of put and call options is based on quoted market closing prices at the balance sheet dates in active markets, which is considered a Level 1 valuation technique and inactive markets, which is considered a Level 2 valuation technique. The fair value of these investments is reported as “investments in securities” and “liabilities associated with investments in securities.” The cost of securities sold is based on the first-in, first-out method. Investment transactions are accounted for on a trade-date basis.

Dividends are recorded as income on the ex-dividend date and interest is recognized when earned on the accrual basis of accounting.

Due From/To Brokers—Due from/to brokers includes cash balances held with brokers, receivables and payables from unsettled trades, margin borrowings, and collateral on derivative transactions. Amounts due from brokers may be restricted to the extent that they serve as deposits for securities sold short. In addition, margin borrowings of \$23.6 million at June 30, 2015, are collateralized by certain securities and cash balances held by the REHE Fund. The REHE Fund is subject to interest on margin accounts based on daily margin borrowings. Due to brokers is included in

“liabilities associated with investments in securities.”

In the normal course of business, substantially all of the REHE Fund’s securities transactions, money balances, and security positions are transacted with the REHE Fund’s broker: Goldman Sachs & Co. and ConvergEx Group. Accounts with ConvergEx Group are cleared by JP Morgan Chase and Co. The REHE Fund is subject to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The REHE Fund’s management monitors the financial condition of such brokers and does not anticipate any losses from these counterparties.

Offsetting of Assets and Liabilities—Amounts due from and due to brokers are presented on a net basis, by counterparty, to the extent the REHE Fund has the legal right to offset the recognized amounts and intends to settle on a net basis. The REHE Fund presents on a net basis the fair value amounts recognized for over-the-counter (“OTC”) derivatives executed with the same counterparty under the same master netting agreement. Amounts due from brokers, net are included in “receivables” and due to brokers, net is included in “liabilities associated with investments in securities” on the balance sheet.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

**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 REHE Fund does not record a provision for U.S. federal, state, or local income taxes as it is a partnership, and the REHE Fund partners report their share of the REHE 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.

Prior to the spin-off, the Company's taxable income was "carved out" of Ashford Trust OP, a partnership, and Ashford LLC, its wholly-owned disregarded limited liability company, neither of which are subject to U.S. federal income taxes. Rather, the partnership's revenues and expenses passed through and were taxed to the owners. Therefore, the Company did not provide for federal income taxes. Partnerships are subject to the Texas Margin Tax. In accordance with authoritative accounting guidance, we provided for the Texas Margin Tax. Income tax expense was calculated on a separate stand-alone basis, although the Company's operations were historically included in the tax returns filed by Ashford Trust OP of which the Company's business was a part.

Our effective tax rates on income (loss) before income taxes for the three and six months ended June 30, 2015, were 23.3% and (6.1)%, respectively. The rates reflect the effects of permanent differences and changes in the valuation allowance on our deferred tax assets. 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.

At the end of each quarter, we assess the need for a valuation allowance which involves consideration of both positive and negative evidence related to the likelihood of realization of the deferred tax assets. As of June 30, 2015, we recorded gross deferred tax assets of \$9.6 million. After evaluating positive and negative evidence, including the generation of taxable income during the six months ended June 30, 2015 and carryback potential of certain deferred tax assets, we determined that it is more likely than not that we will utilize a portion of our deferred tax assets. We recorded a valuation allowance of \$7.3 million resulting in recognition of net deferred tax assets of \$2.3 million. For the three and six month periods ending June 30, 2015, we recorded corresponding non-cash deferred income tax benefits of \$1.3 million and \$2.3 million, respectively. A deferred tax benefit of \$520,000 related to the year ended December 31, 2014 was recorded in the six months ended June 30, 2015. We evaluated the impact of this adjustment and determined that the amount was immaterial to the financial statements for the current fiscal period and the prior fiscal year. The valuation allowance is primarily the result of uncertainties regarding the future realization of certain deductible temporary differences as well as the Company's cumulative operating losses recorded from the date of the spin-off through June 30, 2015. 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 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 2014 remain subject to potential examination by certain federal and state taxing authorities.

Recently Issued Accounting Standards—In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model, which requires a company to recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU 2015-14, Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date, which defers the effective date to fiscal periods beginning after December 15, 2017. Early adoption is permitted for fiscal periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our 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.

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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

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

3. Derivative Contracts

For the six months ended June 30, 2015, the volume of the REHE 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, 2015, was six long exposure contracts with a notional amount of \$538,000 and 12 short exposure contracts with a notional amount of \$(1.7) million.

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.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

## 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<br>Prices (Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level 2) | Total     |       |
|--------------------------------------|-----------------------------------|--------------------------------------------------------|-----------|-------|
| June 30, 2015                        |                                   |                                                        |           |       |
| Assets                               |                                   |                                                        |           |       |
| Derivative assets:                   |                                   |                                                        |           |       |
| Equity put options                   | \$2,798                           | \$507                                                  | \$3,305   | (1)   |
| Equity call options                  | 852                               | —                                                      | 852       | (1)   |
| Non-derivative assets:               |                                   |                                                        |           |       |
| Equity - American Depositary Receipt | 2,312                             | —                                                      | 2,312     | (1)   |
| Equity securities                    | 97,837                            | —                                                      | 97,837    | (1)   |
| U.S. treasury securities             | 33,724                            | —                                                      | 33,724    | (1)   |
| Total                                | 137,523                           | 507                                                    | 138,030   |       |
| Liabilities                          |                                   |                                                        |           |       |
| Derivative liabilities:              |                                   |                                                        |           |       |
| Short equity put options             | (1,645                            | ) (16                                                  | ) (1,661  | ) (2) |
| Short equity call options            | (1,218                            | ) (141                                                 | ) (1,359  | ) (2) |
| Non-derivative liabilities:          |                                   |                                                        |           |       |
| Deferred compensation plan           | (18,445                           | ) —                                                    | (18,445   | )     |
| Margin account balance               | (23,653                           | ) —                                                    | (23,653   | ) (2) |
| Total                                | (44,961                           | ) (157                                                 | ) (45,118 | )     |
| Net                                  | \$92,562                          | \$350                                                  | \$92,912  |       |
|                                      |                                   | Significant                                            |           |       |
|                                      | Quoted Market                     | Other                                                  | Total     |       |
|                                      | Prices (Level 1)                  | Observable                                             |           |       |
|                                      |                                   | Inputs (Level 2)                                       |           |       |
| December 31, 2014                    |                                   |                                                        |           |       |
| Liabilities                          |                                   |                                                        |           |       |
| Non-derivative liabilities:          |                                   |                                                        |           |       |
| Deferred compensation plan           | \$(19,955                         | ) \$—                                                  | \$(19,955 | )     |

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

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

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

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

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

|                                          | Gain (Loss) Recognized              |       | Six Months Ended June 30, |       |
|------------------------------------------|-------------------------------------|-------|---------------------------|-------|
|                                          | Three Months Ended June 30,<br>2015 | 2014  | 2015                      | 2014  |
| Assets                                   |                                     |       |                           |       |
| Derivative assets:                       |                                     |       |                           |       |
| Equity put options                       | \$427                               | \$—   | \$406                     | \$—   |
| Equity call options                      | 79                                  | —     | 81                        | —     |
| Non-derivative assets:                   |                                     |       |                           |       |
| Equity - American Depositary Receipt     | 39                                  | —     | 33                        | —     |
| Equity securities                        | (2,762)                             | ) —   | (2,722)                   | ) —   |
| U.S. treasury securities                 | (361)                               | ) —   | (351)                     | ) —   |
| Total                                    | (2,578)                             | ) —   | (2,553)                   | ) —   |
| Liabilities                              |                                     |       |                           |       |
| Derivative liabilities:                  |                                     |       |                           |       |
| Short equity put options                 | (83)                                | ) —   | (73)                      | ) —   |
| Short equity call options                | 457                                 | —     | 455                       | —     |
| Non-derivative liabilities:              |                                     |       |                           |       |
| Equity securities                        | 204                                 | —     | 216                       | —     |
| Deferred compensation plan               | 6,679                               | —     | 1,423                     | —     |
| Total                                    | 7,257                               | —     | 2,021                     | —     |
| Net                                      | \$4,679                             | \$—   | \$(532)                   | ) \$— |
| Total combined                           |                                     |       |                           |       |
| Unrealized loss on investment securities | \$(3,037)                           | ) \$— | \$(2,990)                 | ) \$— |
| Realized gain on investment securities   | 1,037                               | —     | 1,035                     | —     |
| Deferred compensation plan               | 6,679                               | (1) — | 1,423                     | (1) — |
| Net                                      | \$4,679                             | \$—   | \$(532)                   | ) \$— |

(1) Reported as a component of “salaries and benefits” in the statements of operations and comprehensive income (loss).



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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

## 5. Summary of Fair Value of Financial Instruments

Some 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, 2015  |                      | December 31, 2014 |                      |
|-------------------------------------------------------|----------------|----------------------|-------------------|----------------------|
|                                                       | Carrying Value | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| Financial assets measured at fair value:              |                |                      |                   |                      |
| Investments in securities                             | \$ 138,030     | \$ 138,030           | \$—               | \$—                  |
| Financial liabilities measured at fair value:         |                |                      |                   |                      |
| Liabilities associated with investments in securities | \$26,673       | \$26,673             | \$—               | \$—                  |
| Deferred compensation plan                            | 18,445         | 18,445               | 19,955            | 19,955               |
| Financial assets not measured at fair value:          |                |                      |                   |                      |
| Financial assets:                                     |                |                      |                   |                      |
| Cash and cash equivalents                             | \$21,077       | \$21,077             | \$29,597          | \$29,597             |
| Restricted cash                                       | 7,270          | 7,270                | 3,337             | 3,337                |
| Receivables                                           | 290            | 290                  | —                 | —                    |
| Due from Ashford Trust OP, net                        | 5,331          | 5,331                | 8,202             | 8,202                |
| Due from Ashford Prime OP                             | 2,404          | 2,404                | 2,546             | 2,546                |
| Financial liabilities not measured at fair value:     |                |                      |                   |                      |
| Financial liabilities:                                |                |                      |                   |                      |
| Accounts payable and accrued expenses                 | \$5,983        | \$5,983              | \$9,307           | \$9,307              |
| Due to affiliates                                     | 521            | 521                  | 1,313             | 1,313                |
| Other liabilities                                     | 7,362          | 7,362                | 3,337             | 3,337                |

Investments in securities and liabilities associated with investments in securities. Investment securities consist of U.S. treasury securities, publicly traded equity securities and equity put and call options on certain publicly traded equity securities. 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, 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—The Company is engaged in various legal proceedings which have arisen but have not been fully adjudicated. The likelihood of loss for these legal proceedings, based on definitions within contingency accounting literature, ranges from remote to reasonably possible and to probable. Based on estimates of the range of potential losses associated with these matters, management does not believe the ultimate resolution of these proceedings, either individually or in the aggregate, will have a material adverse effect 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.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

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

## 7. Related Party Transactions

In connection with our spin-off from Ashford Trust on November 12, 2014, we entered into an advisory agreement with Ashford Trust OP, which was later amended. 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, 2015, 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 will 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 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 total stockholder return exceeds the 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 Ended June 30, |      | Six Months Ended June 30, |      |
|------------------------------------------|-----------------------------|------|---------------------------|------|
|                                          | 2015                        | 2014 | 2015                      | 2014 |
| Advisory services revenue                |                             |      |                           |      |
| Base advisory fee                        | \$8,505                     | \$—  | \$16,516                  | \$—  |
| Reimbursable fees <sup>(1)</sup>         | 1,790                       | —    | 3,290                     | —    |
| Equity-based compensation <sup>(2)</sup> | 1,151                       | —    | 1,322                     | —    |
| Incentive management fee                 | —                           | —    | —                         | —    |
| Total advisory services revenue          | \$11,446                    | \$—  | \$21,128                  | \$—  |
| Other revenue                            |                             |      |                           |      |
| Non-advisory expense reimbursements      | \$—                         | \$—  | \$195                     | \$—  |

<sup>(1)</sup> Reimbursable fees 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, 2015 and December 31, 2014, we had a net receivable of \$5.3 million and \$8.2 million, respectively, from Ashford Trust OP associated with reimbursable expenses in connection with the spin-off and the advisory services fee discussed above.

On November 19, 2013, Ashford LLC entered into an advisory agreement with Ashford Prime OP. In connection with our separation from Ashford Trust, Ashford LLC became our operating company, and we assumed the advisory agreement with Ashford Prime OP, which was later amended. 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, 2015, 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

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

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 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 Prime's total stockholder return exceeds the 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 Ended June 30, |         | Six Months Ended June 30, |         |
|------------------------------------------|-----------------------------|---------|---------------------------|---------|
|                                          | 2015                        | 2014    | 2015                      | 2014    |
| Advisory services revenue                |                             |         |                           |         |
| Base advisory fee                        | \$2,164                     | \$2,239 | \$4,369                   | \$4,208 |
| Reimbursable fees <sup>(1)</sup>         | 437                         | 564     | 1,004                     | 907     |
| Equity-based compensation <sup>(2)</sup> | 442                         | 1,110   | 911                       | 1,110   |
| Incentive management fee                 | —                           | —       | —                         | —       |
| Total advisory services revenue          | \$3,043                     | \$3,913 | \$6,284                   | \$6,225 |

<sup>(1)</sup> Reimbursable fees 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.

At June 30, 2015 and December 31, 2014, we had receivables of \$2.4 million and \$2.5 million, respectively, from Ashford Prime OP associated with the advisory service fee discussed above.

Ashford Trust and Ashford Prime have management agreements with Remington, 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 financial statements. Under the agreements, we pay Remington 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. Prior to the spin-off, these costs were paid by Ashford Trust and were included in our carve-out financial statements. For the three and six months ended June 30, 2015, these reimbursements totaled \$1.2 million and \$2.2 million, respectively, and are included in "general and administrative" expenses on the statements of operations and comprehensive income (loss). For the three and six months ended June 30, 2014, these reimbursements totaled \$518,000 and \$1.0 million, respectively, and are included in "general and administrative" expenses on the statements of operations and comprehensive income (loss). The amounts due under these arrangements as of June 30, 2015 and December 31, 2014, are included in "due to affiliates" on our balance sheets.

Certain limited partners of the REHE 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. The aggregate value of the affiliated limited partners' share of partners' capital in the REHE Fund at June 30, 2015, was approximately \$110.9 million.

Certain employees of Remington 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 of \$2,000 and \$5,000 was recognized in the statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2015, respectively. Expense of \$(45,000) and \$(2,000) was recognized in the statements of operations and comprehensive income (loss) for the three and six

months ended June 30, 2014, respectively.

For periods prior to the spin-off, the operations of the Company were principally funded by Ashford Trust OP. Ashford Trust OP used a centralized approach to cash management and the financing of its operations. During the periods through November 12, 2014, Ashford Trust OP provided the capital to fund our operating and investing activities, which are presented as a component of additional paid-in capital. Amounts funded by Ashford Trust OP were \$17.6 million for the six months ended June 30, 2014.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

As the Company's financial statements through November 12, 2014 have been carved out of Ashford Trust OP, for the three and six months ended June 30, 2014, salaries and benefits and general and administrative expense represent an allocation of certain Ashford Trust OP corporate general and administrative costs. See Note 2.

On June 11, 2015, we announced that we are providing a total of \$6 million in key money consideration to our managed REITs for two acquisitions. We are providing \$4 million of key money in connection with the \$62.5 million acquisition of the 226-room Le Pavillon Hotel in New Orleans, Louisiana by Ashford Trust which closed in June 2015. We will purchase \$4 million of furniture, fixtures and equipment for the hotel. The \$4 million obligation is included in long-term "other assets" and "Due from Ashford Trust, net" on our balance sheet as of June 30, 2015. We have also agreed to provide \$2 million of key money consideration by paying approximately \$206,000 in cash and issuing 19,897 shares of our common stock to Ashford Prime for the acquisition of furniture, fixtures and equipment in connection with its \$85 million acquisition of the 62-room Bardessono Hotel and Spa in Yountville, California, which closed in July 2015.

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

**Equity-Based Compensation**—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, 2015, 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 of \$7.7 million and \$12.2 million was recognized for the three and six months ended June 30, 2014, respectively. As of June 30, 2015, the Company had approximately \$9.4 million of total unrecognized compensation expense related to stock options that will be recognized over the weighted average period of 2.5 years. 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. For the three and six months ended June 30, 2015, we recognized equity-based compensation expense of \$2.4 million and \$6.7 million related to these grants. As of June 30, 2015, the outstanding restricted stock/units related to the assumed Ashford Trust equity grants had vesting schedules between January 2016 and April 2017. As of June 30, 2015, the unrecognized cost of these unvested shares of restricted stock/units was \$11.0 million, which will be amortized over a period of 1.8 years. As described in Note 7, there was equity-based compensation associated with employees of an affiliate, included in "general and administrative" expense, of \$2,000 and \$5,000 for the three and six months ended June 30, 2015, respectively, as well as \$(45,000) and \$(2,000) for the three and six months ended June 30, 2014, respectively. Prior to the spin-off, equity-based compensation, included in "salaries and benefits", was allocated to the Company as described in Note 2.

**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 two 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. Although the rights were initially set to expire on March 15, 2015, on February 25, 2015, our board of directors extended the expiration date until the date of our 2015 annual stockholder meeting, at which time the stockholders approved further extension of the expiration date to February 25, 2018.



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ASHFORD INC. AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(unaudited)

Noncontrolling Interests in Consolidated Entities—Noncontrolling interests in consolidated entities represents noncontrolling ownership interests of 40% in AIM, 100% in the REHE Fund and 100% in the entity in which we hold a variable interest in the form of a note receivable with a total carrying value of \$111.2 million and noncontrolling ownership interests of 40% in AIM and 100% in the entity in which we hold a variable interest in the form of a note receivable with a total carrying value of \$(87,000) at December 31, 2014. Loss from consolidated entities attributable to these noncontrolling interests was \$3.2 million and \$4.1 million for the three and six months ended June 30, 2015. There was no income/loss from consolidated entities attributable to noncontrolling interests for the three and six months ended June 30, 2014.

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

9. Deferred Compensation Plan

Effective January 1, 2008, Ashford Trust established a nonqualified DCP for certain executive officers, which was assumed by the Company in connection with the separation from Ashford Trust. 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. For the periods the DCP was administered by Ashford Trust, the participants elected Ashford Trust common stock as their investment option. In accordance with the applicable authoritative accounting guidance, the deferred amounts and any dividends earned received equity treatment and were included in additional paid-in capital. In connection with our spin-off and the assumption of the DCP obligation by the Company, the DCP was modified to give the participants various investment options, including Ashford Inc. common stock, for measurement that 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. 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 statements of operations and comprehensive income (loss). 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 unrealized gain or loss was recorded for the three and six months ended June 30, 2014. 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.

No dividends were associated with the deferred compensation plan for the three and six months ended June 30, 2015. For the three and six months ended June 30, 2014, deferred compensation plan associated dividends, included as a component of accumulated deficit, totaled \$191,000 and \$374,000, respectively.

10. 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.

In connection with our spin-off, Ashford Trust OP unit holders received one common unit in Ashford LLC for every 55 common units held in Ashford Trust OP. Each holder of common units of Ashford LLC could then exchange up to 99% of the Ashford LLC common units for shares of Ashford Inc. common stock. During the year ended December 31, 2014, approximately 356,000 common units were exchanged for shares of Ashford Inc. common stock at the rate of one share of Ashford Inc. common stock for every 55 Ashford LLC common units. Following the completion of the exchange offer, Ashford LLC effected a reverse stock split of its common units such that each common unit was automatically converted into 1/55 of a common unit. Redeemable noncontrolling interests in Ashford LLC as of June

30, 2015 and December 31, 2014, were \$393,000 and \$424,000, respectively, which represented ownership of approximately 0.2% as of each period. The carrying value of redeemable noncontrolling interests as of June 30, 2015 and December 31, 2014 included adjustments of \$348,000 and \$369,000, respectively, to reflect the excess of redemption value over the accumulated historical cost. For the three and six months ended June 30, 2015, net income of \$8,000 and net loss of \$10,000, respectively, was allocated to the redeemable noncontrolling interests. No net income/loss was allocated to redeemable noncontrolling interests for the three and six months ended June 30, 2014.

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## ASHFORD INC. AND SUBSIDIARIES

## NOTES TO CONDENSED 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, |            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------|---------------------------|------------|
|                                                                                                                                                       | 2015                        | 2014       | 2015                      | 2014       |
| Net income (loss) attributable to common stockholders – basic and diluted:                                                                            |                             |            |                           |            |
| Net income (loss) attributable to the Company                                                                                                         | \$3,914                     | \$(13,475) | \$(3,920)                 | \$(22,288) |
| Less: Net income allocated to unvested shares                                                                                                         | (8)                         | —          | —                         | —          |
| Distributed and undistributed net income (loss) - basic                                                                                               | 3,906                       | (13,475)   | (3,920)                   | (22,288)   |
| Effect of deferred compensation plan                                                                                                                  | (6,679)                     | —          | (1,423)                   | —          |
| Distributed and undistributed net loss - diluted                                                                                                      | \$(2,773)                   | \$(13,475) | \$(5,343)                 | \$(22,288) |
| Weighted average common shares outstanding:                                                                                                           |                             |            |                           |            |
| Weighted average common shares outstanding – basic                                                                                                    | 1,985                       | 1,981      | 1,989                     | 1,981      |
| Effect of deferred compensation plan shares                                                                                                           | 212                         | —          | 212                       | —          |
| Weighted average common shares outstanding – diluted                                                                                                  | 2,197                       | 1,981      | 2,201                     | 1,981      |
| Income (loss) per share – basic:                                                                                                                      |                             |            |                           |            |
| Net income (loss) allocated to common stockholders per share                                                                                          | \$1.97                      | \$(6.80)   | \$(1.97)                  | \$(11.25)  |
| Loss per share – diluted:                                                                                                                             |                             |            |                           |            |
| Net loss allocated to common stockholders per share                                                                                                   | \$(1.26)                    | \$(6.80)   | \$(2.43)                  | \$(11.25)  |
| 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, |            | Six Months Ended June 30, |            |
|                                                                                                                                                       | 2015                        | 2014       | 2015                      | 2014       |
| Net income (loss) allocated to common stockholders is not adjusted for:                                                                               |                             |            |                           |            |
| Net income attributable to unvested restricted shares                                                                                                 | \$8                         | \$—        | \$—                       | \$—        |
| Net income (loss) attributable to redeemable noncontrolling interests in Ashford LLC                                                                  | 8                           | —          | (10)                      | —          |
| Total                                                                                                                                                 | \$16                        | \$—        | \$(10)                    | \$—        |
| Weighted average diluted shares are not adjusted for:                                                                                                 |                             |            |                           |            |
| Effect of unvested restricted shares                                                                                                                  | 3                           | 5          | 3                         | 5          |
| Effect of assumed exercise of stock options                                                                                                           | —                           | —          | 2                         | —          |
| Effect of assumed conversion of Ashford LLC units                                                                                                     | 5                           | 5          | 5                         | 5          |
| Total                                                                                                                                                 | 8                           | 10         | 10                        | 10         |

## 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 REHE 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" refers to Remington Lodging and Hospitality LLC, a Delaware limited liability company, 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; 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, 2014, as filed with the Securities and Exchange Commission (the "SEC") on March 24, 2015 (the "2014 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, 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; and
- legislative and regulatory changes.

When considering forward-looking statements, you should keep in mind the matters summarized under “Item 1A. Risk Factors” of our 2014 10-K and the discussion in this Management’s Discussion and Analysis of Financial Conditions and Results of Operations, 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 6, 2015, 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 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 January 29, 2015, Ashford Trust announced that its board of directors had approved the formation of Ashford Hospitality Select, Inc. (“Ashford Select”), a company dedicated to investing primarily in existing premium branded, upscale and upper-midscale, select-service hotels. On February 18, 2015, Ashford Trust entered into certain contribution and purchase and sale agreements in anticipation of the imminent launch of Ashford Select, which have since been terminated. As such, Ashford Trust is no longer pursuing a select-service strategy. On June 26, 2015, Ashford Trust announced that it planned to sell a portfolio of approximately 23 select-service hotels that are mostly brand-managed. The planned sale of the portfolio is consistent with Ashford Trust’s newly redefined strategy, which focuses predominately on full-service hotels in the upscale and upper-upscale segments in domestic and international markets that have RevPAR generally less than twice the national average. Ashford Inc. is still interested in sponsoring a select-service platform.

On June 10, 2015, the independent directors of the Company approved amended and restated advisory agreements with Ashford Trust and Ashford Prime, effective as of June 10, 2015. The amendments, among other things, permit Ashford Trust and Ashford Prime to engage an asset manager other than the Company with respect to any properties acquired by them, if Ashford Trust or Ashford Prime and the Company determine that such property would be uneconomic to Ashford Trust or Ashford Prime without incentives; shorten the initial term of the advisory agreement to ten years; extend the renewal terms to five years; provide for key money investments by Ashford LLC to facilitate Ashford Trust’s or Ashford Prime’s acquisition of properties under certain conditions, including Ashford LLC becoming the asset manager for the acquired property and receiving related asset management and other fees, as applicable; adjust the base fee payable to Ashford LLC to a declining sliding scale percentage of total market capitalization of Ashford Trust or Ashford Prime above \$6.0 billion; clarify the calculation of the termination fee; allow Ashford LLC to terminate the Advisory Agreement upon a Change of Control in Ashford Trust or Ashford Prime (as defined in the advisory agreement) and require Ashford Trust or Ashford Prime to pay a termination fee to Ashford LLC upon such termination; and grant Ashford LLC repurchase rights with respect to its shares held by Ashford Trust or Ashford Prime upon any termination of the advisory agreement.

On June 11, 2015, we announced that we are providing a total of \$6 million in key money consideration to our managed REITs for two acquisitions. We are providing \$4 million of key money in connection with the \$62.5 million acquisition of the 226-room Le Pavillon Hotel in New Orleans, Louisiana by Ashford Trust which closed in June 2015. We will purchase \$4 million of furniture, fixtures and equipment for the hotel. The \$4 million obligation is included in long-term “other assets” and “Due from Ashford Trust, net” on our balance sheet as of June 30, 2015. We have also agreed to provide \$2 million of key money consideration by paying approximately \$206,000 in cash and issuing

19,897 shares of our common stock to Ashford Prime for the acquisition of furniture, fixtures and equipment in connection with its \$85 million acquisition of the 62-room Bardessono Hotel and Spa in Yountville, California, which closed in July 2015.



## 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. For periods prior to spin-off, the combined historical financial statements have been prepared on a “carve out” basis from Ashford Trust’s consolidated financial statements using the historical results of operations, cash flows, assets and liabilities and include allocations of income, expenses, assets and liabilities from Ashford Trust. These allocations reflect significant assumptions, and the financial statements do not fully reflect what our financial position, results of operations and cash flows would have been had the asset management business of Ashford Trust been operated exclusively within a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of our future results of operations, financial position and cash flows.

For purposes of our “carve out” presentation, general and administrative expense represents an allocation of certain Ashford Trust corporate general and administrative costs including salaries and benefits, equity-based compensation, legal and professional fees, rent expense, insurance expense, office expenses and other miscellaneous expenses either based upon specific identification or an allocation method determined by management to reflect the portion of the expenses related to the asset management business. In the opinion of management, such allocations were considered reasonable.

## 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 and investments to grow our business. We expect to meet our long-term liquidity requirements through various sources of capital, including net cash provided by operations and a possible revolving credit facility.

### Sources and Uses of Cash

As of June 30, 2015 and December 31, 2014, we had \$21.1 million and \$29.6 million of cash, respectively.

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 which is primarily attributable to paying our employees and for certain strategic investments including but not limited to key money consideration.

**Net Cash Flows Used in Operating Activities.** Net cash flows used in operating activities were \$7.5 million and \$14.3 million for the six months ended June 30, 2015 and 2014, respectively. The decrease in cash flows used in operating activities was primarily a result of the completion of our spin-off from Ashford Trust which resulted in additional advisory fees offset by additional general and administrative expenses as a result of becoming a public company. Cash flows from operations is also 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 REHE Fund.

**Net Cash Flows Used in Investing Activities.** For the six months ended June 30, 2015 and 2014, investing activities used net cash flows of \$6.5 million and \$1.0 million, respectively. The increase in cash outlays was primarily attributable to investments in unconsolidated entities of \$5.5 million in addition to purchases of computer software, furniture, fixtures and equipment.

**Net Cash Flows Provided by Financing Activities.** For the six months ended June 30, 2015, net cash flows provided by financing activities was \$5.5 million. These cash inflows consisted of \$4.8 million of contributions from noncontrolling interests in consolidated entities, an 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 our treasury shares to cover tax withholdings for restricted stock vestings. For the six months ended June 30, 2014, net cash flows provided by financing activities was \$17.6 million, which consisted of cash contributions from Ashford Trust OP to fund operations.

## RESULTS OF OPERATIONS

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

The following table summarizes the changes in key line items from our condensed statements of operations for the three months ended June 30, 2015 and 2014 (in thousands):

|                                                                               | Three Months Ended June 30, |            |             |          |    |
|-------------------------------------------------------------------------------|-----------------------------|------------|-------------|----------|----|
|                                                                               | 2015                        | 2014       | \$ Change   | % Change |    |
| Revenue                                                                       |                             |            |             |          |    |
| Advisory services                                                             | \$ 14,489                   | \$ 3,913   | \$ 10,576   | 270.3    | %  |
| Total revenue                                                                 | 14,489                      | 3,913      | 10,576      | 270.3    | %  |
| Expenses                                                                      |                             |            |             |          |    |
| Salaries and benefits                                                         | 5,688                       | 15,825     | (10,137     | ) (64.1  | )% |
| Depreciation                                                                  | 399                         | 87         | 312         | 358.6    | %  |
| General and administrative                                                    | 4,542                       | 1,456      | 3,086       | 212.0    | %  |
| Total expenses                                                                | 10,629                      | 17,368     | (6,739      | ) (38.8  | )% |
| Operating income (loss)                                                       | 3,860                       | (13,455    | ) 17,315    | 128.7    | %  |
| Equity in loss of unconsolidated entities                                     | (1,066                      | ) —        | 1,066       |          |    |
| Interest income                                                               | 51                          | —          | 51          |          |    |
| Dividend income                                                               | 166                         | —          | 166         |          |    |
| Unrealized loss on investments                                                | (3,037                      | ) —        | 3,037       |          |    |
| Realized gain on investments                                                  | 1,037                       | —          | 1,037       |          |    |
| Other expenses                                                                | (10                         | ) —        | 10          |          |    |
| Income (loss) before income taxes                                             | 1,001                       | (13,455    | ) 14,456    | 107.4    | %  |
| Income tax expense                                                            | (233                        | ) (20      | ) 213       | 1,065.0  | %  |
| Net income (loss)                                                             | 768                         | (13,475    | ) 14,243    | 105.7    | %  |
| Loss from consolidated entities attributable to noncontrolling interests      | 3,154                       | —          | 3,154       |          |    |
| Net income attributable to redeemable noncontrolling interests in Ashford LLC | (8                          | ) —        | 8           |          |    |
| Net income (loss) attributable to the Company                                 | \$ 3,914                    | \$ (13,475 | ) \$ 17,389 | 129.0    | %  |

Advisory Services Revenue. Advisory services revenue increased \$10.6 million, or 270.3%, to \$14.5 million during the three months ended June 30, 2015 (the “2015 quarter”) compared to the three months ended June 30, 2014 (the “2014 quarter”). The increase is due to having revenue from both Ashford Prime and Ashford Trust in the 2015 quarter, as a result of entering into an advisory agreement with Ashford Trust in November 2014 upon our spin-off. The 2014 quarter only included advisory services revenue from our advisory agreement with Ashford Prime, which began on November 19, 2013, upon its spin-off from Ashford Trust.

During the 2015 quarter, advisory services revenue was comprised of base advisory fees of \$10.7 million, reimbursable overhead and internal audit, insurance claims advisory and asset management services 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.” During the 2014 quarter, advisory services revenue was comprised of a base advisory fee of \$2.2 million, reimbursable overhead and internal audit reimbursements of \$565,000 and equity-based compensation of \$1.1 million associated with equity grants of Ashford Prime’s common stock and LTIP units awarded to our officers and employees. No incentive management fee was earned for the 2015 quarter or the 2014 quarter in connection with our advisory agreements with Ashford Prime or Ashford Trust.

Salaries and Benefits Expense. Salaries and benefits expense decreased \$10.1 million, or 64.1%, to \$5.7 million during the 2015 quarter compared to the 2014 quarter. 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 deferred compensation plan (“DCP”). The decrease in salaries and benefits was attributable to lower non-cash expense associated with our DCP of \$6.7 million, lower non-cash equity-based

compensation of \$3.9 million, and lower salary expense of approximately \$199,000, offset by higher expenses for bonuses of approximately \$301,000 and payroll tax burden of \$328,000.

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. During the 2015 quarter, non-cash equity-based compensation consisted of \$2.4 million associated with prior Ashford Trust equity grants, \$1.0 million 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. During the 2014 quarter, the \$15.8 million of salaries and benefits expense included \$7.0 million of cash salaries and benefits, \$7.7 million of non-cash equity-based compensation and \$1.1 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 \$312,000, or 358.6%, to \$399,000 during the 2015 quarter compared to the 2014 quarter, as a result of furniture, fixtures and equipment additions in 2015.

**General and Administrative Expense.** General and administrative expenses increased \$3.1 million, or 212.0%, to \$4.5 million during the 2015 quarter compared to the 2014 quarter, as a result of higher professional fees of \$1.5 million, office expense of \$587,000, public company costs of \$337,000, director costs of \$172,000, travel and other expense of \$261,000 and stock-based compensation for stock grants to our independent directors, which vested immediately, of \$250,000.

**Equity in Loss of Unconsolidated Entities.** We recorded equity in loss of unconsolidated entities of \$1.1 million during the 2015 quarter which consisted of equity in loss in an unconsolidated investment fund for which AIM is the investment adviser. We did not have any equity in loss of unconsolidated entity in the 2014 quarter.

**Interest Income.** Interest income was \$51,000 for the 2015 quarter related to investments in the REHE Fund. There was no interest income in the 2014 quarter as the REHE Fund began operations in 2015.

**Dividend Income.** Dividend income was \$166,000 for the 2015 quarter related to investments in the REHE Fund. There was no dividend income in the 2014 quarter as the REHE Fund began operations in 2015.

**Unrealized Loss on Investments.** Unrealized loss on investments was \$3.0 million for the 2015 quarter related to investments in the REHE Fund and is based on changes in closing market prices during the period. There was no unrealized gain/loss on investments in the 2014 quarter as the REHE Fund began operations in 2015.

**Realized Gain on Investments.** Realized gain on investments was \$1.0 million for the 2015 quarter related to investments in the REHE Fund. There was no realized gain/loss on investments in the 2014 quarter as the REHE Fund began operations in 2015.

**Other Expenses.** Other expenses were \$10,000 for the 2015 quarter. There were no other expenses in the 2014 quarter.

**Income Tax Expense.** Income tax expense increased \$213,000 from \$20,000 for the 2014 quarter to \$233,000 for the 2015 quarter. The increase in income tax expense is primarily due to the provision for federal and state income taxes for the 2015 quarter. For the 2014 quarter, the Company's taxable income was "carved out" of Ashford Trust OP, a partnership, and its wholly-owned disregarded limited liability company which are not subject to U.S. federal income taxes. Rather, the partnership's revenues and expenses passed through to and were taxed to the owners. Therefore, the Company did not provide for federal income taxes. The income tax expense in the 2014 period is related to Texas margin tax.

**Loss from Consolidated Entities Attributable to Noncontrolling Interests.** The noncontrolling interests in consolidated entities were allocated a loss of \$3.2 million in the 2015 quarter. 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 Attributable to Redeemable Noncontrolling Interests in Ashford LLC.** Noncontrolling interests in Ashford LLC were allocated net income of \$8,000 in the 2015 quarter. Redeemable noncontrolling interests represented ownership interests of 0.2% in Ashford LLC at June 30, 2015.



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Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

The following table summarizes the changes in key line items from our condensed statements of operations for the six months ended June 30, 2015 and 2014 (in thousands):

|                                                                             | Six Months Ended June 30, |            |            |          |   |
|-----------------------------------------------------------------------------|---------------------------|------------|------------|----------|---|
|                                                                             | 2015                      | 2014       | \$ Change  | % Change |   |
| Revenue                                                                     |                           |            |            |          |   |
| Advisory services                                                           | \$27,412                  | \$6,225    | \$21,187   | 340.4    | % |
| Other                                                                       | 195                       | —          | 195        |          |   |
| Total revenue                                                               | 27,607                    | 6,225      | 21,382     | 343.5    | % |
| Expenses                                                                    |                           |            |            |          |   |
| Salaries and benefits                                                       | 23,181                    | 25,935     | (2,754)    | (10.6)   | % |
| Depreciation                                                                | 528                       | 174        | 354        | 203.4    | % |
| General and administrative                                                  | 8,672                     | 2,369      | 6,303      | 266.1    | % |
| Total expenses                                                              | 32,381                    | 28,478     | 3,903      | 13.7     | % |
| Operating income (loss)                                                     | (4,774)                   | (22,253)   | (17,479)   | 78.5     | % |
| Equity in loss of unconsolidated entities                                   | (1,066)                   | —          | 1,066      |          |   |
| Interest income                                                             | 52                        | —          | 52         |          |   |
| Dividend income                                                             | 172                       | —          | 172        |          |   |
| Unrealized loss on investments                                              | (2,990)                   | —          | 2,990      |          |   |
| Realized gain on investments                                                | 1,035                     | —          | 1,035      |          |   |
| Other expenses                                                              | (10)                      | —          | 10         |          |   |
| Loss before income taxes                                                    | (7,581)                   | (22,253)   | (14,672)   | (65.9)   | % |
| Income tax expense                                                          | (464)                     | (35)       | 429        | 1,225.7  | % |
| Net loss                                                                    | (8,045)                   | (22,288)   | (14,243)   | (63.9)   | % |
| Loss from consolidated entities attributable to noncontrolling interests    | 4,115                     | —          | 4,115      |          |   |
| Net loss attributable to redeemable noncontrolling interests in Ashford LLC | 10                        | —          | 10         |          |   |
| Net loss attributable to the Company                                        | \$(3,920)                 | \$(22,288) | \$(18,368) | (82.4)   | % |

Advisory Services Revenue. Advisory services revenue increased \$21.2 million, or 340.4%, to \$27.4 million during the six months ended June 30, 2015 (the “2015 period”) compared to the six months ended June 30, 2014 (the “2014 period”). The increase is due to having revenue from both Ashford Prime and Ashford Trust in the 2015 period, as a result of entering into an advisory agreement with Ashford Trust in November 2014 upon our spin-off. The 2014 period only included advisory services revenue from our advisory agreement with Ashford Prime.

During the 2015 period, advisory services revenue was comprised of base advisory fees of \$20.9 million and reimbursable overhead and internal audit, insurance claims advisory and asset management services of \$4.3 million. Advisory services revenue also included \$2.2 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.” During the 2014 period, advisory services revenue was comprised of a base advisory fee of \$4.2 million, reimbursable overhead and internal audit reimbursements of \$907,000 and equity-based compensation of \$1.1 million associated with equity grants of Ashford Prime’s common stock and LTIP units awarded to our officers and employees. No incentive management fee was earned for the 2015 period or the 2014 period in connection with our advisory agreements with Ashford Prime or Ashford Trust.

Other Revenue. Other revenue represents \$195,000 of other non-advisory expense reimbursements from Ashford Trust for the 2015 period. There was no other revenue for the 2014 period.

Salaries and Benefits Expense. Salaries and benefits expense decreased \$2.8 million, or 10.6%, to \$23.2 million during the 2015 period compared to the 2014 period. 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. The decrease in salaries and benefits was attributable to lower non-cash expense associated with our DCP of \$1.4 million,

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and lower non-cash equity-based compensation of \$2.5 million, offset by higher expenses for cash salaries of \$267,000, bonuses of \$376,000 and payroll tax burden of \$511,000.

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. During the 2015 period, 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. During the 2014 period, the \$25.9 million of salaries and benefits expense included \$12.6 million of cash salaries and benefits and \$12.2 million of non-cash equity-based compensation and \$1.1 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 \$354,000, or 203.4%, to \$528,000 during the 2015 period compared to the 2014 period, as a result of furniture, fixtures and equipment additions since June 30, 2014.

**General and Administrative Expense.** General and administrative expenses increased \$6.3 million, or 266.1%, to \$8.7 million during the 2015 period compared to the 2014 period as a result of higher professional fees of \$3.2 million, office expense of \$1.1 million, public company costs of \$594,000, director costs of \$637,000 and travel and other expense of \$835,000.

**Equity in Loss of Unconsolidated Entities.** We recorded equity in loss of unconsolidated entities of \$1.1 million in the 2015 period which consisted of equity in loss in an unconsolidated investment fund for which AIM is the investment adviser. We did not have any equity in loss of unconsolidated entity in the 2014 period.

**Interest Income.** Interest income was \$52,000 for the 2015 period related to investments in the REHE Fund. There was no interest income in the 2014 period as the REHE Fund began operations in 2015.

**Dividend Income.** Dividend income was \$172,000 for the 2015 period related to investments in the REHE Fund. There was no dividend income in the 2014 period as the REHE Fund began operations in 2015.

**Unrealized Loss on Investments.** Unrealized loss on investments was \$3.0 million for the 2015 period related to investments in the REHE Fund and is based on changes in closing market prices during the period. There was no unrealized gain/loss on investments in the 2014 period as the REHE Fund began operations in 2015.

**Realized Gain on Investments.** Realized gain on investments was \$1.0 million for the 2015 period related to investments in the REHE Fund. There was no realized gain/loss on investments in the 2014 period as the REHE Fund began operations in 2015.

**Other Expenses.** Other expenses was \$10,000 for the 2015 period. There were no other expenses in the 2014 period.

**Income Tax Expense.** Income tax expense increased \$429,000, from \$35,000 for the 2014 period, to \$464,000 for the 2015 period. The increase in tax expense is due to the provision for federal and state income taxes for the 2015 period. For the 2014 period, the Company's taxable income was "carved out" of Ashford Trust OP, a partnership, and its wholly-owned disregarded limited liability company which are not subject to U.S. federal income taxes. Rather, the partnership's revenues and expenses passed through to and were taxed to the owners. Therefore, the Company did not provide for federal income taxes. The income tax expense in the 2014 period is related to Texas margin tax.

**Loss from Consolidated Entities Attributable to Noncontrolling Interests.** The noncontrolling interests in consolidated entities were allocated a loss of \$4.1 million in the 2015 period. 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 Loss Attributable to Redeemable Noncontrolling Interests in Ashford LLC.** Noncontrolling interests in Ashford LLC were allocated net loss of \$10,000 in the 2015 period. Redeemable noncontrolling interests represented ownership interests of 0.2% in Ashford LLC at June 30, 2015. No income was allocated during the 2014 period as



there were no noncontrolling interests in the operating partnership prior to our spin-off from Ashford Trust.

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#### 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 financial statements.

#### Contractual Obligations and Commitments

There have been no material changes since December 31, 2014, 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 2014 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 2014 Form 10-K. There have been no material changes in these critical accounting policies.

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

We currently do not hold any 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, 2015. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as a result of the material weaknesses in our internal control over financial reporting, as of March 31, 2015, our disclosure controls and procedures were not effective to ensure that (i) 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 SEC’s rules and forms and (ii) 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. See “Risk Factors- We identified material weaknesses in our internal controls over financial reporting that existed for the three months ended March 31, 2015. If we fail to properly remediate the material weaknesses, or fail to properly identify or remediate any future weaknesses or deficiencies, or achieve and maintain effective internal control, our ability to produce accurate and timely financial statements could be impaired and investors could lose confidence in our financial statements.”

We previously noted a material weakness in internal control over financial reporting for the period ended December 31, 2014 that resulted from an operational deficiency in our controls surrounding management’s preparation and review of carve out financial statements. Since discovering the operational deficiency, we have not been required to prepare additional carve-out financial statements, nor do we expect to do so in the future. However, to address the identified weakness, we have hired additional accounting personnel and segregated certain accounting functions to provide for additional review functions. Should the need arise to prepare carve-out financial statements in the future, we believe the steps we have taken will eliminate any future similar operational deficiency.

#### PART II. OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

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



**ITEM 1A. RISK FACTORS**

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our 2014 Form 10-K and our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on March 15, 2015, 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.

We identified material weaknesses in our internal controls over financial reporting that existed for the three months ended March 31, 2015. If we fail to properly remediate the material weaknesses, or fail to properly identify or remediate any future weaknesses or deficiencies, or achieve and maintain effective internal control, our ability to produce accurate and timely financial statements could be impaired and investors could lose confidence in our financial statements.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. In August 2015, we became aware of deficiencies in the effectiveness of our controls that led to the following errors in our financial statements: (i) a misstatement related to income tax expense and deferred tax assets resulting from improper consideration of carryback potential of certain deferred tax assets in assessing whether it is more likely than not that a portion of our deferred tax assets will be realized, and (ii) a misstatement relating to the consolidation of certain private investment funds managed by AIM. These errors indicate design deficiencies in our controls surrounding management's preparation and review of (i) our interim income tax provision and (ii) analysis supporting VIE consolidation. We corrected these errors and restated our historical unaudited interim condensed financial statements as of March 31, 2015; however the lack of proper controls resulted in material weaknesses in internal control over financial reporting as defined in Public Company Accounting Oversight Board Auditing Standard No. 5. As of the date of filing this Form 10-Q, we are still remediating the material weaknesses.

There can be no assurance that our remedial measures will be sufficient to address the material weaknesses or that our internal control over financial reporting will not be subject to additional material weaknesses in the future. If the remedial measures that we take are insufficient to address the material weaknesses or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements, and we could be required to restate our financial results. Additionally, we may encounter problems or delays in implementing any changes necessary for management to make a favorable assessment of our internal control over financial reporting. If we cannot favorably assess the effectiveness of our internal control over financial reporting, investors could lose confidence in our financial information and the price of our common stock could decline.

**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 2015:

| 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 | 169                              | <sup>(1)</sup> \$109.17      | —                                                                     | \$—                                                                     |
| May 1 to May 31     | 13                               | 99.97                        | —                                                                     | —                                                                       |
| June 1 to June 30   | 12                               | 93.68                        | —                                                                     | —                                                                       |
| Total               | 194                              | \$107.59                     | —                                                                     |                                                                         |

<sup>(1)</sup> Includes 110 shares that were withheld to cover tax-withholding requirements related to the vesting of restricted stock units issued to employees pursuant to the Company's stockholder-approved stock incentive plan.

**ITEM 3. DEFAULT UPON SENIOR SECURITIES**

None.

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ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

On November 16, 2014, 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 outstanding on November 27, 2014 to the stockholders of record on that date. Each Right initially entitles the registered holder to purchase from us one one-thousandth of a share of our Series A Preferred Stock, par value \$0.01 per share (the "Preferred Shares"), at a price of \$275 per one one-thousandth of a Preferred Share represented by a Right, subject to adjustment. The description and terms of the Rights were set forth in a Rights Agreement (the "Rights Agreement"), dated effective November 17, 2014, between us and Computershare Trust Company, N.A., as Rights Agent (the "Rights Agent").

The Rights were initially set to expire on March 15, 2015 (the "Final Expiration Date"); however, on February 25, 2015, our board of directors extended the Final Expiration Date until the date of our annual stockholder meeting, held on May 13, 2015, at which time the stockholders approved a further extension of the Final Expiration Date to February 25, 2018. In order to integrate the extension of the Final Expiration Date pursuant to the stockholder vote, into the terms of the Rights Agreement, we entered into an Amended and Restated Rights Agreement, dated as of August 12, 2015, between us and the Rights Agent (the "Amended and Restated Rights Agreement"). Other than the extension of the Final Expiration Date, the terms of the Amended and Restated Rights Agreement are consistent with the terms of the Rights Agreement.

## ITEM 6. EXHIBITS

| Exhibit | Description                                                                                                                                                                                                                                                                                                                                                                         |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1     | Separation and Distribution Agreement, dated October 31, 2014, by and between Ashford Hospitality Trust, Inc., Ashford OP Limited Partner LLC, Ashford Hospitality Limited Partnership, Ashford Inc. and Ashford Hospitality Advisors LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on November 6, 2014) (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)                                                                                                                                                                                                              |
| 10.1    | Amended and Restated Advisory Agreement, dated as of June 10, 2015, by and between Ashford Hospitality Trust, Inc., Ashford Hospitality Limited Partnership, Ashford TRS Corporation, Ashford Inc. and Ashford Hospitality Advisors LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 12, 2015) (File No. 001-36400)                   |
| 10.2    | Third Amended and Restated Advisory Agreement, dated as of June 10, 2015, by and between Ashford Hospitality Prime, Inc., Ashford Hospitality Prime Limited Partnership, Ashford Prime TRS Corporation, Ashford Inc. and Ashford Hospitality Advisors LLC (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on June 12, 2015) (File No. 001-36400) |
| 10.3*   | Amended and Restated Rights Agreement, dated as of August 12, 2015, between Ashford Inc. and Computershare Trust Company, N.A.                                                                                                                                                                                                                                                      |
| 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, 2015, are formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Balance Sheets; (ii) Condensed Statements of Operations and Comprehensive Income (Loss); (iii) Condensed Statement of Equity; (iv) Condensed Statements of Cash Flows; and (v) Notes to the Condensed 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. |

\* 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 14, 2015

By: /s/ MONTY J. BENNETT  
Monty J. Bennett  
Chief Executive Officer

Date: August 14, 2015

By: /s/ DERIC S. EUBANKS  
Deric S. Eubanks  
Chief Financial Officer