Ashford Inc.
Form 10-Q
May 09, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from ________________ to ________________

Commission file number: 001-36400

ASHFORD INC.

(Exact name of registrant as specified in its charter)

Maryland	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. þ Yes ¨ No

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

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

Large accelerated filer ¨		Accelerated filer	þ
Non-accelerated filer	¨(Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	þ

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

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

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

Common Stock, $0.01 par value per share	2,103,353
(Class)	Outstanding at May 7, 2018

ASHFORD INC.
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2018

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (unaudited)
ASHFORD INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except share and per share amounts)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$34,910	$ 36,480
Restricted cash	15,045	9,076
Accounts receivable, net	7,141	5,127
Due from Ashford Trust OP	11,376	13,346
Due from Braemar OP	96	1,738
Inventories	1,137	1,066
Prepaid expenses and other	2,971	2,913
Total current assets	72,676	69,746
Investments in unconsolidated entities	500	500
Furniture, fixtures and equipment, net	23,259	21,154
Goodwill	13,103	12,947
Intangible assets, net	9,472	9,713
Other assets	587	750
Total assets	$119,597	$ 114,810
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$18,648	$ 20,451
Due to affiliates	3,999	4,272
Deferred income	342	459
Deferred compensation plan	320	311
Notes payable, net	1,736	1,751
Other liabilities	13,979	9,076
Total current liabilities	39,024	36,320
Accrued expenses	—	78
Deferred income	12,852	13,440
Deferred compensation plan	19,420	18,948
Notes payable, net	11,534	9,956
Total liabilities	82,830	78,742
Commitments and contingencies (note 9)		
MEZZANINE EQUITY		
Redeemable noncontrolling interests	4,662	5,111
EQUITY		
Preferred stock, $0.01 par value, 50,000,000 shares authorized:		
Series A cumulative preferred stock, no shares issued and outstanding at March 31, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value, 100,000,000 shares authorized, 2,103,353 and 2,093,556 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	21	21
Additional paid-in capital	255,037	249,695
Accumulated deficit	(224,281)	(219,396)
Accumulated other comprehensive income (loss)	(232)	(135)
Total stockholders’ equity of the Company	30,545	30,185

Noncontrolling interests in consolidated entities	1,560	772
Total equity	32,105	30,957
Total liabilities and equity	$119,597	$ 114,810

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
REVENUE		
Advisory services	$22,532	$12,431
Audio visual	23,310	—
Other	2,326	582
Total revenue	48,168	13,013
EXPENSES		
Salaries and benefits	26,517	11,032
Cost of revenues for audio visual	16,587	—
Depreciation and amortization	1,040	468
General and administrative	6,295	3,649
Impairment	1,919	—
Other	846	—
Total expenses	53,204	15,149
OPERATING INCOME (LOSS)	(5,036)	(2,136)
Interest expense	(143)	—
Amortization of loan costs	(23)	—
Interest income	112	33
Dividend income	—	93
Unrealized gain (loss) on investments	—	125
Realized gain (loss) on investments	—	(200)
Other income (expense)	(39)	(8)
INCOME (LOSS) BEFORE INCOME TAXES	(5,129)	(2,093)
Income tax (expense) benefit	(706)	(630)
NET INCOME (LOSS)	(5,835)	(2,723)
(Income) loss from consolidated entities attributable to noncontrolling interests	173	(25)
Net (income) loss attributable to redeemable noncontrolling interests	(61)	363
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$(5,723)	$(2,385)
INCOME (LOSS) PER SHARE - BASIC AND DILUTED		
Basic:		
Net income (loss) attributable to common stockholders	$(2.73)	$(1.18)
Weighted average common shares outstanding - basic	2,094	2,015
Diluted:		
Net income (loss) attributable to common stockholders	$(2.84)	$(1.34)
Weighted average common shares outstanding - diluted	2,115	2,046

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
NET INCOME (LOSS)	$(5,835)	$(2,723)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Foreign currency translation adjustment	(114)	—
COMPREHENSIVE INCOME (LOSS)	(5,949)	(2,723)
Comprehensive (income) loss attributable to noncontrolling interests	190	(25)
Comprehensive (income) loss attributable to redeemable noncontrolling interests	(61)	363
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$(5,820)	$(2,385)

See Notes to Condensed Consolidated Financial Statements.

ASHFORD INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(unaudited, in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Consolidated Entities	Total	Redeemable Noncontrolling Interests
Balance at January 1, 2018	2,094	$ 21	$ 249,695	$ (219,396)	$ (135)	$ 772	$ 30,957	$ 5,111
Equity-based compensation	—	—	3,789	—	—	8	3,797	—
Deferred compensation plan distribution	—	—	80	—	—	—	80	—
Employee advances	—	—	105	—	—	—	105	—
Purchase of OpenKey shares from noncontrolling interest holder	9	—	838	—	—	—	838	(838)
Contributions from noncontrolling interests	—	—	—	—	—	2,666	2,666	—
Reallocation of carrying value	—	—	530	—	—	(1,696)	(1,166)	1,166
Redemption value adjustment	—	—	—	838	—	—	838	(838)
Foreign currency translation adjustment	—	—	—	—	(97)	(17)	(114)	—
Net income (loss)	—	—	—	(5,723)	—	(173)	(5,896)	61
Balance at March 31, 2018	2,103	$ 21	$ 255,037	$ (224,281)	$ (232)	$ 1,560	$ 32,105	$ 4,662

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income (loss)	$(5,835)	$(2,723)
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	1,671	468
Change in fair value of deferred compensation plan	561	3,340
Equity-based compensation	3,797	2,272
Deferred tax expense (benefit)	—	(2,667)
Change in fair value of contingent consideration	213	—
Impairment	1,919	—
(Gain) loss on sale of furniture, fixtures and equipment	—	8
Amortization of loan costs	23	—
Realized and unrealized (gain) loss on investments, net	—	75
Changes in operating assets and liabilities, exclusive of the effect of acquisitions:		
Accounts receivable	(1,908)	6
Due from Ashford Trust OP	1,970	(408)
Due from Braemar OP	1,642	1,247
Inventories	(54)	—
Prepaid expenses and other	45	69
Other assets	(587)	—
Accounts payable and accrued expenses	(2,752)	4,647
Due to affiliates	(420)	86
Other liabilities	4,903	3,426
Deferred income	(759)	734
Net cash provided by (used in) operating activities	4,429	10,580
Cash Flows from Investing Activities		
Additions to furniture, fixtures and equipment	(2,663)	(159)
Proceeds from disposal of furniture, fixtures and equipment, net	—	15
Acquisition of assets related to RED Hospitality and Leisure LLC	(1,220)	—
Net cash provided by (used in) investing activities	(3,883)	(144)
Cash Flows from Financing Activities		
Payments on revolving credit facilities	(4,815)	—
Borrowings on revolving credit facilities	5,259	—
Proceeds from notes payable	1,350	—
Payments on notes payable and capital leases	(494)	—
Payments of loan costs	(15)	—
Purchases of common stock	—	(24)
Employee advances	105	742
Contributions from noncontrolling interest	2,666	650
Distributions to and redemptions by noncontrolling interests in consolidated entities	—	(52,375)
Net cash provided by (used in) financing activities	4,056	(51,007)
Effect of foreign exchange rate changes on cash and cash equivalents	(203)	—
Net change in cash, cash equivalents and restricted cash	4,399	(40,571)
Cash, cash equivalents and restricted cash at beginning of period	45,556	93,843

Cash, cash equivalents and restricted cash at end of period	$49,955	$53,272

6

	Three Months Ended March 31,	
	2018	2017
Supplemental Cash Flow Information		
Interest paid	$113	$—
Income taxes paid	143	5
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Distribution from deferred compensation plan	80	112
Capital expenditures accrued but not paid	1,953	1,102
Accrued but unpaid redemption of AQUA U.S. Fund	—	2,696
Ashford Inc. common stock consideration for purchase of OpenKey shares	838	—
Supplemental Disclosure of Cash, Cash Equivalents and Restricted Cash		
Cash and cash equivalents at beginning of period	$36,480	$84,091
Restricted cash at beginning of period	9,076	9,752
Cash, cash equivalents and restricted cash at beginning of period	$45,556	$93,843
Cash and cash equivalents at end of period	$34,910	$40,094
Restricted cash at end of period	15,045	13,178
Cash, cash equivalents and restricted cash at end of period	$49,955	$53,272

See Notes to Condensed Consolidated Financial Statements.

ASHFORD INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Description of Business
Ashford Inc. is a Maryland corporation formed on April 2, 2014, that provides asset management, advisory and other products and services primarily to clients in the hospitality industry. Ashford Inc. currently provides asset management and advisory services to Ashford Hospitality Trust, Inc. ("Ashford Trust") and Braemar Hotels & Resorts Inc. ("Braemar"), formerly Ashford Hospitality Prime, Inc. Ashford Trust commenced operating in August 2003 and is focused on investing in full service hotels in the upscale and upper-upscale segments in the U.S. that have revenue per available room ("RevPAR") generally less than twice the national average. Braemar commenced operating in November 2013 and invests primarily in luxury hotels and resorts with RevPAR of at least twice the U.S. national average. Each of Ashford Trust and Braemar is a real estate investment trust ("REIT") as defined in the Internal Revenue Code, and the common stock of each of Ashford Trust and Braemar is traded on the NYSE. The common stock of Ashford Inc. is listed on the NYSE American. As of March 31, 2018, Ashford Trust held approximately 598,000 shares of Ashford Inc. common stock, which represented an approximate 28.4% ownership interest in Ashford Inc., and Braemar held approximately 195,000 shares, which represented an approximate 9.3% ownership interest in Ashford Inc.
Ashford Inc. conducts its advisory and asset management business through its operating subsidiary, Ashford Hospitality Advisors LLC ("Ashford LLC"), a Delaware limited liability company. We conduct our hospitality products and services business through an operating entity, Ashford Hospitality Services, LLC. We own most of our assets through Ashford LLC and Ashford Hospitality Services, LLC.
In our capacity as the advisor to Ashford Trust and Braemar, we are responsible for implementing the investment strategies and managing the day-to-day operations of Ashford Trust and Braemar, 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 Braemar 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 Braemar, which duties are the responsibility of the hotel management companies that operate the hotel properties owned by Ashford Trust and Braemar.
On April 6, 2017, Ashford Inc. entered into the Amended and Restated Limited Liability Company Agreement (the "Amended and Restated LLC Agreement") of Ashford Hospitality Holdings LLC, a Delaware limited liability company and a subsidiary of the Company ("Ashford Holdings"), in connection with the merger (the "Merger") of Ashford Merger Sub LLC, a Delaware limited liability company, with and into Ashford LLC, with Ashford LLC surviving the Merger as a wholly-owned subsidiary of Ashford Holdings. Ashford Holdings is owned 99.8% by Ashford Inc. and 0.2% by noncontrolling interest holders. The terms of the Amended and Restated LLC Agreement are consistent with the terms of the Amended and Restated Limited Liability Company Agreement of Advisors. The Merger was effectuated in order to facilitate our investments in businesses that provide products and services to the hospitality industry.
On April 6, 2017, we acquired a 70% interest in Pure Rooms by issuing equity in our subsidiary, PRE Op Co LLC ("Pure Rooms"), with a fair value of $425,000 to the sellers and contributing $97,000 of cash. Pure Rooms' patented 7-step purification process treats a room's surfaces, including the air, and removes up to 99% of pollutants. See note notes 2, 4, 10, 11 and 14 to our condensed consolidated financial statements.
On November 1, 2017, we acquired an 85% controlling interest in a privately held company that conducts the business of J&S Audio Visual in the United States, Mexico, and the Dominican Republic ("J&S") for approximately $25.5 million. J&S provides an integrated suite of audio visual services including show and event services, hospitality services, creative services and design & integration services to its customers in various venues including hotels and convention centers in the United States, Mexico and the Dominican Republic. See notes 2, 4, 10, 11 and 14 to our condensed consolidated financial statements.
On January 2, 2018, the Company granted 8,962 shares of restricted common stock to the OpenKey redeemable noncontrolling interest holder in connection with the purchase of 519,647 shares of the outstanding membership

interests in OpenKey, Inc. The restricted common stock was granted pursuant to the exemption from the registration requirements under the Securities Act provided under Section 4(a)(2) thereunder and vests three years from the grant date.

On January 16, 2018, the Company closed on the acquisition of certain assets related to RED Hospitality & Leisure LLC ("RED") for $970,000 cash, comprised of a $750,000 deposit paid on December 11, 2017, which was reflected on our consolidated balance sheet as “other assets” as of December 31, 2017, and an additional $220,000 paid on January 16, 2018. On March 23, 2018, the RED operating subsidiary acquired additional assets for $1.0 million. The Company owns an 80% interest in RED, a premier provider of watersports activities and other travel and transportation services in the U.S. Virgin Islands.

The accompanying condensed consolidated financial statements reflect the operations of our advisory and asset management business, hospitality products and services business, and entities that we consolidate. In this report, the terms the "Company," "we," "us" or "our" refers to Ashford Inc. and all entities included in its condensed consolidated financial statements.

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation and Combination—The accompanying historical unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These condensed consolidated financial statements include the accounts of Ashford Inc., its majority-owned subsidiaries and entities which it controls. All significant intercompany accounts and transactions between these entities have been eliminated in these historical condensed consolidated financial statements. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made herein are adequate to prevent the information presented from being misleading. However, the condensed consolidated financial statements and related notes should be read in conjunction with the financial statements and notes thereto included in our 2017 Annual Report on Form 10-K filed with the SEC on March 12, 2018.

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. We determine whether we are the primary beneficiary of a VIE upon our initial involvement with the VIE and we reassess whether we are the primary beneficiary of a VIE on an ongoing basis. Our determination of whether we are the primary beneficiary of a VIE is based upon the facts and circumstances for each VIE and requires significant judgment.

Table of Contents
ASHFORD INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Noncontrolling Interests—The following tables present information about our noncontrolling interests, including those related to consolidated VIEs, as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018				
	Ashford LLC	J&S [3]	OpenKey[4]	Pure Rooms [5]	RED [6]
Ashford Inc. ownership interest[9]	99.80 %	85.00 %	45.61 %	70.00 %	80.00 %
Redeemable noncontrolling interests[1] [2]	0.20 %	15.00 %	29.65 %	— %	— %
Noncontrolling interests in consolidated entities	— %	— %	24.74 %	30.00 %	20.00 %
	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Carrying value of redeemable noncontrolling interests	$396	$2,877	$ 1,389	n/a	n/a
Redemption value adjustment, year-to-date	23	—	(861)	n/a	n/a
Redemption value adjustment, cumulative	381	—	1,160	n/a	n/a
Carrying value of noncontrolling interests	—	433	949	171	7
Assets, available only to settle subsidiary's obligations [7]	n/a	40,905	4,415	1,654	2,472
Liabilities, no recourse to Ashford Inc.[8]	n/a	23,712	758	1,558	828
Notes payable, no recourse to Ashford Inc.[8]	n/a	10,492	—	160	750
Revolving credit facility, no recourse to Ashford Inc.[8]	n/a	1,226	—	100	15

	December 31, 2017				
	Ashford LLC	J&S [3]	OpenKey[4]	Pure Rooms [5]	RED [6]
Ashford Inc. ownership interest[9]	99.80 %	85.00 %	43.90 %	70.00 %	— %
Redeemable noncontrolling interests[1] [2]	0.20 %	15.00 %	39.59 %	— %	— %
Noncontrolling interests in consolidated entities	— %	— %	16.51 %	30.00 %	— %
	100.00 %	100.00 %	100.00 %	100.00 %	— %
Carrying value of redeemable noncontrolling interests	$385	$2,522	$ 2,204	n/a	n/a
Redemption value adjustment, year-to-date	224	—	1,046	n/a	n/a
Redemption value adjustment, cumulative	358	—	2,021	n/a	n/a
Carrying value of noncontrolling interests	—	439	128	205	—
Assets, available only to settle subsidiary's obligations [7]	n/a	36,951	1,403	1,865	—
Liabilities, no recourse to Ashford Inc.[8]	n/a	21,821	889	1,652	—
Notes payable, no recourse to Ashford Inc.[8]	n/a	9,917	—	220	—
Revolving credit facility, no recourse to Ashford Inc.[8]	n/a	814	—	100	—

[1] Redeemable noncontrolling interests are included in the “mezzanine” section of our condensed consolidated balance sheets as they may be redeemed by the holder for cash or registered shares in certain circumstances outside of the Company’s control. The carrying value of the noncontrolling interests is based on the greater of the accumulated historical cost or the redemption value.
[2] Redeemable noncontrolling interests in Ashford Holdings represent the members’ proportionate share of equity in earnings/losses of Ashford Holdings or Ashford LLC as applicable and net income/loss attributable to the common

unit holders is allocated based on the weighted average ownership percentage of these members’ interest.

(3) Represents ownership interests in J&S, which we consolidate under the voting interest model. J&S provides audio visual products and services in the hospitality industry. See also notes 1, 10 and 11.
(4) Represents ownership interests in OpenKey, a VIE for which we are considered the primary beneficiary and therefore we consolidate it. OpenKey is a hospitality focused mobile key platform that provides a universal smartphone app for keyless entry into hotel guest rooms. See also notes 1, 10 and 11.
(5) Represents ownership interests in Pure Rooms, a VIE for which we are considered the primary beneficiary and therefore we consolidate it. Pure Rooms provides "allergy friendly" premium rooms in the hospitality industry. See also notes 1, 10 and 11.
(6) Represents ownership interests in RED, a VIE for which we are considered the primary beneficiary and therefore we consolidate it. RED is a premier provider of watersports activities and other travel and transportation services in the U.S. Virgin Islands. See also notes 1, 10 and 11.
(7) Total assets primarily consisted of cash and cash equivalents and other assets that can only be used to settle the subsidiaries obligations.
(8) Liabilities consist primarily of accounts payable, accrued expenses and notes payable for which creditors do not have recourse to Ashford Inc. except in the case of debt held by RED, for which the creditor has recourse to Ashford Inc.
(9) For certain of our investments we are provided a preferred return which is accounted for in our income allocation based on the applicable partnership agreement.

In addition to the consolidated entity information above, noncontrolling interests in consolidated entities included a noncontrolling ownership interest in AIM Performance Holdco LP ("AIM") of 40% as of March 31, 2018 and December 31, 2017.

Unconsolidated VIEs—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. 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.

We held an investment in an unconsolidated entity with a carrying value of $500,000 at both March 31, 2018 and December 31, 2017. No impairment of the investment was recorded during the three months ended March 31, 2018 or 2017.

Acquisitions—We account for acquisitions and investments in businesses as business combinations if the target meets the definition of a business and (a) the target is a VIE and we are the target's primary beneficiary, and therefore we must consolidate its financial statements, or (b) we acquire more than 50% of the voting interest of the target and it was not previously consolidated. We record business combinations using the acquisition method of accounting, which requires all of the assets acquired and liabilities assumed to be recorded at fair value as of the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired is recorded as goodwill. The application of the acquisition method of accounting for business combinations requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. The fair value assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. Significant assumptions and estimates include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset, if applicable. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the consolidated financial statements may be exposed to potential impairment of the intangible assets and goodwill.

If our investment involves the acquisition of an asset or group of assets that does not meet the definition of a business, the transaction is accounted for as an asset acquisition. An asset acquisition is recorded at cost, which includes capitalizing transaction costs, and does not result in the recognition of goodwill.

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

Impairment of Furniture, Fixtures and Equipment—Furniture, fixtures and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of the asset is measured by comparison of the carrying amount of the asset to the estimated future undiscounted cash flows, which take into account current market conditions and our intent with respect to holding or disposing of the asset. If our analysis indicates that the carrying value of the asset is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the asset net book value exceeds its estimated fair value, or fair value, less cost to sell. In evaluating impairment of assets, we make many assumptions and estimates, including projected cash flows, expected holding period, and expected useful life. Fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third-party appraisals, where considered necessary. Assets not yet placed into service are also reviewed for impairment whenever events or changes in circumstances indicate that all or a portion of the assets will not be placed into service. We recorded impairment charges of $1.9 million for the three months ended March 31, 2018. The impairment was recognized upon determination that a portion of the software will not be placed into service. No impairment charges were recorded for furniture, fixtures and equipment for the three months ended March 31, 2017.

Goodwill and Indefinite-Lived Intangible Assets—Goodwill is assigned to reporting units that are expected to benefit from the synergies of the business combination as of the acquisition date. Indefinite-lived intangible assets primarily include trademark rights resulting from our acquisition of J&S. We assess goodwill and indefinite-lived intangible assets, neither of which is amortized, for impairment annually as of October 1, or more frequently, if events and circumstances indicate impairment may have occurred. In the evaluation of goodwill for impairment, we perform a quantitative assessment and compare the fair value of the reporting unit to the carrying value. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we will record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise. We determine fair value based on discounted projected future operating cash flows using a discount rate that is commensurate with the risk inherent in our current business model. We base our measurement of fair value of trademarks using the relief-from-royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. No indicators of impairment were identified during our most recent annual test or as of March 31, 2018.

Definite-Lived Intangible Assets—Definite-lived intangible assets primarily include customer relationships resulting from our acquisition of J&S and Pure Rooms. These assets are amortized using the straight-line method over the estimated useful lives of the assets. We review the carrying amount of the assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying amount is not recoverable, we record an impairment charge for the excess of the carrying amount over the fair value. No indicators of impairment were identified as of March 31, 2018.

Salaries and Benefits—Salaries and benefits are expensed as incurred. Salaries and benefits includes expense for equity grants of Ashford Trust and Braemar common stock and performance-based Long-Term Incentive Plan ("LTIP") units awarded to our officers and employees in connection with providing advisory services equal to the fair value of the award in proportion to the requisite service period satisfied during the period. There is an offsetting amount, included in "advisory services" revenue. Salaries and benefits also includes changes in fair value in the deferred compensation plan liability. See further discussion in notes 2 and 13 to our condensed consolidated financial statements.

Depreciation and Amortization—Our furniture, fixtures and equipment are depreciated on a straight-line basis 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. Furniture and equipment are depreciated using the straight-line method over lives ranging from 3 to 7.5 years and computer software placed into service is amortized on a straight-line basis over

estimated useful lives ranging from 3 to 5 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. Definite-lived intangible assets, which include customer relationships resulting from our acquisitions of J&S and Pure Rooms, are amortized using the straight-line method over the estimated useful lives of the assets. See note 4.
Equity-Based Compensation—We adopted an equity incentive plan that provides for the grant of restricted or unrestricted shares of our common stock, options to purchase our common stock and other share awards, share appreciation rights, performance shares, performance units and other equity-based awards or any combination of the foregoing. 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. The amount of the expense may be subject to adjustment in future

periods depending on the specific characteristics of the equity-based award and the application of the accounting guidance. Options to purchase common stock granted to other non-employees are accounted for at fair value based on the market price of the options at period end in accordance with applicable authoritative accounting guidance that results in recording expense, included in “general and administrative,” equal to the fair value of the award in proportion to the requisite service period satisfied during the period. Our officers and employees can be granted common stock and LTIP units from Ashford Trust and Braemar in connection with providing advisory services that result in expense, included in “salaries and benefits,” equal to the fair value of the award in proportion to the requisite service period satisfied during the period, as well as offsetting revenue in an equal amount included in “advisory services” revenue.

Other Comprehensive Income (Loss)—Comprehensive loss for the three months ended March 31, 2018, consists of net loss and foreign currency translation adjustments. The foreign currency translation adjustment represents the unrealized impact of translating the financial statements of the J&S operations in Mexico and the Dominican Republic from their respective functional currencies to U.S. dollars. This amount is not included in net income and would only be realized upon the sale or upon complete or substantially complete liquidation of the foreign businesses. The accumulated other comprehensive loss is presented on the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017. There were no sources of other comprehensive income (loss) for the three months ended March 31, 2017.

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

Recently Adopted Accounting Standards—In May 2014, the FASB issued ASU 2014-09, also referred to as “ASC 606” Revenue from Contracts with Customers. The core principle of the guidance is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved. ASC 606 also specifies the accounting for certain costs to obtain or fulfill a contract with a customer. In addition, the new guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized.

Effective January 1, 2018, we adopted the new standard using the modified retrospective approach. Based on our assessment, adoption of the new guidance did not require a cumulative-effect adjustment to the opening retained earnings on January 1, 2018. We expect the new standard’s impact on net income will be immaterial on an ongoing annual basis; however, the Company does anticipate that the new standard will have an impact on its revenues in interim periods due to timing. The primary impact of adopting the new standard relates to the timing of recognition of incentive advisory fees, which are a form of variable consideration and therefore must be (i) deferred until such fees are probable of not being subject to significant reversal, and (ii) tied to a performance obligation in the contract with the customer so that revenue recognition depicts the transfer of the related advisory services to the customer. Accordingly, the Company will no longer record incentive advisory fee revenue in interim periods prior to the fourth quarter of the year in which the incentive fee is measured. The Company expects that this could impact its revenues in future interim periods, but we are unable to estimate the impact because future incentive advisory fees are calculated based on future changes in total stockholder return of our REIT clients compared to the total stockholder return of their respective peer group. We do not expect any material changes in revenue recognition for audio visual, investment management reimbursements, debt placement fees, claims management services revenue, lease revenue or

other services revenue. See note 3 for additional information regarding our adoption of ASC 606.
In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. ASU 2016-01 provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. It also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including

interim periods within those fiscal years. Certain provisions of ASU 2016-01 are eligible for early adoption. In February 2018, the FASB issued ASU 2018-03, as technical corrections and improvements to amend and clarify certain aspects of the guidance issued in ASU 2016-01. We have adopted this standard effective January 1, 2018, and the adoption of this standard did not have a material impact on our condensed consolidated financial statements and related disclosures. See "Unconsolidated VIEs" above in note 2.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments - a consensus of the Emerging Issues Task Force ("ASU 2016-15"). The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Certain issues addressed in this guidance include debt payments or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investments and beneficial interests in securitization transactions. We have adopted this standard effective January 1, 2018, and the adoption of this standard did not have a material impact on our condensed consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) - Clarifying the Definition of a Business ("ASU 2017-01"), which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether a transaction should be accounted for as an acquisition (or disposal) of an asset or a business. We have adopted this standard effective January 1, 2018.

Recently Issued Accounting Standards—In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor doesn't convey risks and rewards or control, an operating lease results. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases as well as for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the condensed consolidated financial statements, with certain practical expedients available. The accounting for leases where we are the lessor remains largely unchanged. While we are currently in the initial stages of assessing the impact ASU 2016-02 will have on our condensed consolidated financial statements, we expect the primary impact to our condensed consolidated financial statements upon adoption will be the recognition, on a discounted basis, of any future minimum rentals due under noncancelable leases on our condensed consolidated balance sheets resulting in the recording of ROU assets and lease obligations.

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

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"), which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, ASU 2017-04 clarifies that an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are evaluating the impact that ASU 2017-04 will have on our condensed consolidated financial statements and related disclosures.

3. Revenues

On January 1, 2018, we adopted ASC 606 using the modified retrospective method. As the adoption of this standard did not have a material impact on our condensed consolidated financial statements, no adjustments to opening retained earnings were made as of January 1, 2018. Results for reporting periods beginning after January 1, 2018, are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 605-Revenue Recognition.

Revenue Recognition—Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

We determine revenue recognition through the following steps:
•Identification of the contract, or contracts, with a customer
•Identification of the performance obligations in the contract
•Determination of the transaction price
•Allocation of the transaction price to the performance obligations in the contract
•Recognition of revenue when, or as, we satisfy a performance obligation

Advisory Services Revenue

Advisory services revenue is reported within our REIT Advisory segment and primarily consists of advisory fees and expense reimbursements that are recognized when services have been rendered. Advisory fees consist of base fees and incentive fees. For Ashford Trust, the quarterly base fee ranges from 0.70% to 0.50% per annum of the total market capitalization ranging from less than $6.0 billion to greater than $10.0 billion plus the Key Money Asset Management Fee, as defined in the respective advisory agreement, subject to certain minimums. The Braemar base fee is fixed at 0.70% of Braemar's total market capitalization plus the Key Money Asset Management Fee, as defined in the respective advisory agreement, subject to certain minimums. Reimbursements for overhead, internal audit, risk management advisory services and asset management services, including compensation, benefits and travel expense reimbursements, are recognized when services have been rendered. We record advisory revenue for equity grants of Ashford Trust and Braemar common stock and Long-Term Incentive Plan ("LTIP") units awarded to our officers and employees in connection with providing advisory services equal to the fair value of the award in proportion to the requisite service period satisfied during the period, as well an offsetting expense in an equal amount included in "salaries and benefits."

Incentive advisory fees are measured annually in each year that Ashford Trust's and/or Braemar's annual total stockholder return exceeds the average annual total stockholder return for each company's respective peer group, subject to the Fixed Charge Coverage Ratio ("FCCR") Condition, as defined in the respective advisory agreements. Incentive advisory fees are paid over a three-year period and each payment is subject to the FCCR Condition, which relates to the ratio of adjusted EBITDA to fixed charges for Ashford Trust or Braemar, as applicable. Historically, during the incentive advisory fee measurement period (i.e. the first year of each three year period), incentive advisory fees have been accrued (or reversed) quarterly based on the amount that would be due pursuant to the applicable advisory agreements as of the interim balance sheet date. The second and third year installments of incentive advisory fees have been recognized as revenue on a pro-rata basis each quarter for the amounts determined in the first year measurement period, subject to the December 31 FCCR Condition each year. Effective with our January 1, 2018 adoption of ASC 606, we will no longer record the first year's installment of incentive advisory fee revenue in interim periods prior to the fourth quarter. Prior to measurement in the fourth quarter of each year, our first year installment of incentive advisory fees are subject to significant fluctuation (i.e. based on annual total stockholder returns) and are contingent on a future event during the measurement period (e.g. meeting the FCCR Condition). Accordingly, incentive advisory fees will generally be recognized only upon measurement in the fourth quarter of the first year of the three year period. The second and third year installments of incentive advisory fees are recognized as revenue on a pro-rata basis each quarter as such amounts are not subject to significant reversal.

Table of Contents
ASHFORD INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

The table below presents the impact of applying the new revenue recognition standard to the components of total revenue within the condensed consolidated statement of operations for the three months ended March 31, 2018, as a result of the change in the timing of revenue recognition of incentive advisory fees during interim periods prior to the fourth quarter of the year in which the incentive fee is measured (in thousands):

	Three Months Ended March 31, 2018		
	As Reported	Financial Results Prior to Adoption of Revenue Recognition Standard	Impact of Adoption of Revenue Recognition Standard
Advisory services revenue:			
Base advisory fee	$10,711	$ 10,711	$ —
Incentive advisory fee	452	809	(357)
Reimbursable expenses	1,949	1,949	—
Non-cash stock/unit-based compensation	9,292	9,292	—
Other advisory revenue	128	128	—
Total advisory services revenue	22,532	22,889	(357)
Audio visual	23,310	23,310	—
Other	2,326	2,326	—
Total revenue	$48,168	$ 48,525	$ (357)

Audio Visual Revenue

Audio visual revenue primarily consists of revenue generated within our J&S segment by providing event technology services such as audio visual services, audio visual equipment rental, staging and meeting services and event-related communication systems as well as related technical support, to our customers in various venues including hotels and convention centers. We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered, the fee is fixed or determinable and collectability is reasonably assured. Revenue is recognized in the period in which services are provided pursuant to the terms of the contractual arrangements with our customers. We also evaluate whether it is appropriate to present (i) the gross amount that our customers pay for our services as revenue, and the related commissions paid to the venue as cost of revenue, or (ii) the net amount (gross revenue less the related commissions paid to the venue) as revenue. We are responsible for the delivery of the services, including providing the necessary labor and equipment to perform the services. We are generally subject to inventory risk, have latitude in establishing prices and selecting suppliers and, while in many cases the venue bills the end customer on our behalf, we bear the risk of collection from the customer. The venues' commissions are not dependent on collections. As a result, our revenue is primarily reported on a gross basis. Cost of revenues for audio visual principally includes commissions paid to venues, direct labor costs, the cost of equipment sub-rentals, depreciation of equipment, amortization of signing bonuses, as well as other costs such as supplies, freight, travel and other overhead from our venue and customer facing operations and any losses on equipment disposal.

Other Revenue

Debt placement fees are reported within our REIT Advisory segment and include revenues earned through provision of debt placement services by Lismore Capital, our wholly-owned subsidiary. These fees are recognized based on a stated percentage of the loan amount when services have been rendered and the subject loan has closed.

Certain of our consolidated entities enter into contracts with customers that contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. We determine the standalone selling prices based on our consolidated entities' overall pricing objectives taking into consideration market conditions and other factors, including the customer and the nature and value of the performance obligations within the applicable contracts.

Deferred Revenue and Contract Balances

Deferred revenue primarily consists of customer billings in advance of revenues being recognized from our advisory agreements and other hospitality products and services contracts. Generally, deferred revenue that could result in a cash payment within the next twelve-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent. The increase in the deferred revenue balance is primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by revenues recognized that were included in the deferred revenue balance at the beginning of the period.

For the three months ended March 31, 2018, we recognized $2.7 million of revenues that were included in deferred revenue at the beginning of the period, including (a) $346,000 of advisory revenue primarily related to our advisory agreements with Ashford Trust and Braemar, and (b) $2.4 million of "Other services" revenue earned by our hospitality products and services companies.

We do not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less. The transaction price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was primarily related to (i) reimbursed software costs that will be recognized evenly over the period the software is used to provide advisory services to Ashford Trust and Braemar, and (ii) a $5.0 million cash payment received in June 2017 from Braemar in connection with our Fourth Amended and Restated Braemar Advisory Agreement, which is recognized evenly over the 10-year initial contract period that we are providing Braemar advisory services. Incentive advisory fees that are contingent upon future market performance are excluded as the fees are considered variable and not included in the transaction price at March 31, 2018.

The timing of revenue recognition may differ from the timing of payment by customers. We record a receivable when revenue is recognized prior to payment and we have an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, we record deferred revenue until the performance obligations are satisfied. We had receivables related to revenues from contracts with customers of $7.1 million and $5.1 million included in "accounts receivable, net" primarily related to our hospitality products and services segment, $11.4 million and $13.3 million in "due from Ashford Trust OP", and $96,000 and $1.7 million included in "due from Braemar OP" related to REIT advisory services at March 31, 2018 and December 31, 2017, respectively. We had no significant impairments related to these receivables during the three months ended March 31, 2018.

The following table presents revenue by reporting segment and geography for the three months ended March 31, 2018 and 2017 (in thousands). See note 16 for more information about our segment reporting.

	Three Months Ended March 31, 2018				
	REIT Advisory	J&S	OpenKey	Corporate and Other (2)	Ashford Inc. Consolidated
United States	$23,653	$15,952	$ 319	$ 886	$ 40,810
Mexico	—	5,460	—	—	5,460
All other countries	—	1,898	—	—	1,898
	$23,653	$23,310	$ 319	$ 886	$ 48,168

	Three Months Ended March 31, 2017 (1)				
	REIT Advisory	J&S	OpenKey	Corporate and Other (2)	Ashford Inc. Consolidated
United States	$12,988	$—	$ 25	$ —	$ 13,013
Mexico	—	—	—	—	—
All other countries	—	—	—	—	—
	$12,988	$—	$ 25	$ —	$ 13,013

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(1) Prior period amounts were not adjusted for the adoption of the new revenue recognition guidance under ASC 606.
(2) Represents Pure Rooms and RED.

4. Acquisitions

J&S

On November 1, 2017, we completed the acquisition of an 85% controlling interest in J&S Audio Visual Communications, Inc., J&S Audiovisual Mexico, S. de R.L. de C.V. and J&S Audio Visual Dominican Republic, L.P., collectively referred to as "J&S." J&S provides an integrated suite of audio visual services including show and event services, hospitality services, creative

Table of Contents

services and design & integration services to its customers in various venues including hotels and convention centers in the United States, Mexico and the Dominican Republic.

The purchase price of approximately $25.5 million consisted of (i) $19.2 million in cash of which $10.0 million was funded with a term loan; (ii) 70,318 shares of Ashford Inc. common stock, which was determined based on an agreed upon value of approximately $4.3 million using a thirty-day volume weighted average price per share of $60.44 and had an estimated fair value of approximately $5.1 million as of the acquisition date; and (iii) contingent consideration with an estimated fair value of approximately $1.2 million. The results of operations of J&S were included in our consolidated financial statements from the date of acquisition.

The acquisition of J&S has been recorded using the acquisition method of accounting in accordance with the authoritative guidance for business combinations, and the purchase price allocation is based on our valuation of the fair value of the tangible and intangible assets acquired and liabilities assumed at the date of acquisition. We have completed our preliminary valuation to determine the fair value of the identifiable assets acquired and liabilities assumed. The fair values of the assets acquired were determined using various valuation techniques, including an income approach. The fair value measurements were primarily based on significant inputs that are not directly observable in the market and are considered Level 3 under the fair value measurements and disclosure framework. Key assumptions include cash flow projections of J&S and the discount rate applied to those cash flows. The excess of the purchase price over the estimated fair values of the identifiable net assets acquired was recorded as goodwill.

We have allocated the purchase price to the assets acquired and liabilities assumed on a preliminary basis using estimated fair value information currently available. We are in the process of evaluating the values assigned to working capital balances, furniture, fixtures and equipment, intangible assets, notes payable, capital leases, deferred taxes, noncontrolling interests and contingent consideration. Thus, the balances reflected below are subject to change, and any such changes could result in adjustments to the allocation. Any change to the amounts recorded within furniture, fixtures and equipment could also impact depreciation expense.

The fair value of the purchase price and preliminary allocation of the purchase price is as follows (in thousands):

Cash	$9,176
Term loan	10,000
Fair value of Ashford Inc. common stock	5,063
Fair value of contingent consideration	1,196
Purchase price consideration	25,435
Fair value of redeemable noncontrolling interest	2,724
Fair value of noncontrolling interest	324
Total fair value of purchase price	$28,483

	Fair Value	Estimated Useful Life
Current assets including cash	$6,564	
Furniture, fixtures and equipment	9,020	5 years
Goodwill	12,321	
Trademarks	3,201	
Customer relationships	6,519	7 years
Other assets	129	
Total assets acquired	37,754	
Current liabilities	7,080	
Notes payable, current	445	
Deferred income	1,213	
Note payable, non-current	533	

Total assumed liabilities	9,271
Net assets acquired	$28,483

18

We expect approximately $9.9 million of the goodwill balance to be deductible for tax purposes. The qualitative factors that make up the recorded goodwill include value associated with an assembled workforce and value attributable to expanding J&S' operations through our relationships with Ashford Trust and Braemar.

Results of J&S

The results of operations of J&S have been included in our results of operations since the acquisition date. Our consolidated statement of operations for the three months ended March 31, 2018, included total revenue of $23.3 million and net income of $2.1 million from J&S. The unaudited pro forma results of operations as if the acquisition had occurred on January 1, 2017, are included below under "Pro Forma Financial Results."

Pure Rooms

On April 6, 2017, we acquired a 70% interest in Pure Rooms. Pure Rooms' patented 7-step purification process treats a room's surfaces, including the air, and removes up to 99% of pollutants. To consummate the acquisition, Ashford Hospitality Services LLC ("AHS"), a subsidiary of Ashford Inc., entered into an Amended and Restated Limited Liability Company Agreement (the "LLC Agreement") with PRE Opco, LLC ("Pure Rooms"), pursuant to which AHS became the sole owner of the common equity, or Series A Units. In conjunction with the LLC Agreement, AHS contributed $97,000 cash to Pure Rooms as required by the LLC Agreement. Pursuant to the Asset and Liability Contribution Agreement (the "Contribution Agreement"), by and among Pure Rooms (as contributee) and PAFR, LLC, the members of PAFR, LLC and Brault Enterprises, LLC (collectively, the "Sellers"), the Sellers contributed liabilities, net of assets, of the predecessor operating company, Pure Rooms NA, LLC, with a fair value of $532,000 in exchange for certain equity interests in Pure Rooms, including 30% of the Series A Units, 100% of the Series B-1 Units, and 50% of the Series B-2 Units. The fair value of the remaining equity consideration included $42,000 of Series A Units, $181,000 of Series B-1 Units, and $202,000 of Series B-2 Units, totaling $425,000. As a result of the Contribution Agreement, our equity interest in Pure Rooms was 70%.

Per the LLC Agreement, the Series A Units are voting units and have the voting rights set forth in the Contribution Agreement but do not have management participation rights. The Series B-1 Units and Series B-2 Units are non-voting units and do not have voting or management participation rights. The distribution waterfall provides seniority as follows: Series B-1, Series B-2, and then Series A. There is no coupon or other preference associated with the Series B-1 and B-2 unit classes. On August 29, 2017, the Series B-1 unit holders redeemed their Series B-1 units for $200,000.

The acquisition of Pure Rooms has been recorded using the acquisition method of accounting in accordance with the authoritative guidance for business combinations, and the purchase price allocation is based on our valuation of the fair value of the tangible and intangible assets acquired and liabilities assumed at the date of acquisition. The fair values of the assets acquired were determined using various valuation techniques, including an income approach. The fair value measurements were primarily based on significant inputs that are not directly observable in the market and are considered Level 3 under the fair value measurements and disclosure framework. Key assumptions include cash flow projections of Pure Rooms and the discount rate applied to those cash flows. The excess of the purchase price over the estimated fair values of the identifiable net assets acquired was recorded as goodwill.

The fair value of the equity consideration of $425,000 was allocated as follows (in thousands):

	Fair Value	Estimated Useful Life
Cash	$ 129	
Furniture, fixtures and equipment	170	3 years
Customer relationships	175	5 years
Goodwill	782	
Total assets acquired	1,256	
Line of credit	100	
Note payable	375	
Other assumed liabilities, net	356	
Total assumed liabilities	831	
Net assets acquired	$ 425	

We expect approximately $547,000 of the goodwill balance to be deductible for income tax purposes. The qualitative factors that make up the recorded goodwill include value associated with an assembled workforce and value attributable to expanding Pure Rooms' operations through our relationships with Ashford Trust and Braemar.

Results of Pure Rooms

The results of operations of Pure Rooms have been included in our results of operations since the acquisition date. Our consolidated statement of operations for the three months ended March 31, 2018, included total revenue of $630,000 and a net loss of $90,000 from Pure Rooms. The unaudited pro forma results of operations as if the acquisition had occurred on January 1, 2017, are included below under "Pro Forma Financial Results."

Pro Forma Financial Results

The following table reflects the unaudited pro forma results of operations as if the J&S and Pure Rooms acquisitions had occurred and the applicable indebtedness was incurred on January 1, 2017, and the removal of $304,000 of transaction costs directly attributable to the acquisitions for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31,	
	2018	2017
Total revenue	$48,168	$33,101
Net income (loss)	(5,835)	(1,237)
Net income (loss) attributable to the Company	(5,723)	(1,233)
Pro forma income (loss) per share:		
Basic	$(2.73)	$(0.59)
Diluted	$(2.84)	$(0.75)
Pro forma weighted average common shares outstanding (in thousands):		
Basic	2,094	2,085
Diluted	2,115	2,120

The acquisition of certain assets related to RED was treated as an acquisition of property and equipment so the pro forma results of operations of RED are not included above.

Table of Contents
ASHFORD INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

5. Goodwill and Intangible Assets, net

The changes in the carrying amount of goodwill for the three months ended March 31, 2018, are as follows (in thousands):

	J&S	Corporate and Other	Consolidated
Balance at January 1, 2018	$12,165	$ 782	$ 12,947
Changes in goodwill:			
Additions	—	—	—
Adjustments	156	—	156
Balance at March 31, 2018	$12,321	$ 782	$ 13,103

Intangible assets, net as of March 31, 2018 and December 31, 2017, are as follows (in thousands):

	March 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:						
Pure Rooms customer relationships	$175	$ (35)	$ 140	$175	$ (26)	$ 149
J&S customer relationships	6,519	(388)	6,131	6,519	(156)	6,363
	$6,694	$ (423)	$ 6,271	$6,694	$ (182)	$ 6,512
Indefinite-lived intangible assets:						
J&S trademarks	$3,201			$3,201		
	$3,201			$3,201		

Amortization expense for definite-lived intangible assets was $241,000 for the three months ended March 31, 2018. Customer relationships for Pure Rooms and J&S were assigned a useful life of 5 years and 7 years, respectively.

6. Notes Payable, net

Notes payable, net consisted of the following (in thousands):

Indebtedness	Subsidiary	Maturity	Interest Rate	March 31, 2018	December 31, 2017
Senior revolving credit facility	Ashford Inc.	March 1, 2021	Base Rate[3] + 2.00% to 2.50% or LIBOR[4] + 3.00% to 3.50%	$ —	$ —
Term loan	J&S	November 1, 2022	One-Month LIBOR[2] + 3.25%	9,667	9,917
Revolving credit facility	J&S	November 1, 2022	One-Month LIBOR[2] + 3.25%	1,226	814
Capital lease obligations	J&S	Various	Various - fixed	770	896
Equipment note	J&S	November 1, 2022	One-Month LIBOR[2] + 3.25%	825	—
Term Loan	J&S	November 1, 2022	One-Month LIBOR[2] + 3.25%	—	—
Revolving credit facility	OpenKey	October 31, 2018	Prime Rate[1] + 2.75%	—	—
Term loan	Pure Rooms	October 1, 2018	5.00%	160	220
Revolving credit facility	Pure Rooms	On demand	Prime Rate[1] + 1.00%	100	100
Term loan	RED	April 5, 2025	Prime Rate[1] + 1.75%	750	—
Revolving credit facility	RED	March 5, 2019	Prime Rate[1] + 1.75%	15	—
Total notes payable				13,513	11,947
Less deferred loan costs, net				(243)	(240)
Total notes payable less net deferred loan costs				13,270	11,707
Less current portion				(1,736)	(1,751)
				$ 11,534	$ 9,956

(1) Prime Rate was 4.75% and 4.50% at March 31, 2018 and December 31, 2017, respectively.

(2) The one-month LIBOR rate was 1.88% and 1.56% at March 31, 2018 and December 31, 2017, respectively.

(3) Base Rate, as defined in the senior revolving credit facility agreement, is the greater of (i) the prime rate set by Bank of America, or (ii) federal funds rate plus 0.50%, or (iii) LIBOR plus 1.00%.

(4) Ashford Inc. may elect a 1, 2, 3 or 6 month LIBOR period for each borrowing.

On March 23, 2018, our RED operating subsidiary entered into a term loan of $750,000 and a revolving credit facility of $250,000 for which the creditor has recourse to Ashford Inc. Approximately $225,000 of the proceeds from the term loan is held in an escrow account, which is included in our condensed consolidated balance sheet within “other assets” as of March 31, 2018. During the three months ended March 31, 2018, $15,000 was drawn on the revolving credit facility. As of March 31, 2018, $235,000 of credit was available under the revolving credit facility.

On March 1, 2018, the Company and its subsidiary Ashford Hospitality Holdings LLC entered into a $35 million senior revolving credit facility with Bank of America, N.A. The credit facility provides for a three-year revolving line of credit and bears interest at the Base Rate plus 2.00% to 2.50% or LIBOR plus 3.00% to 3.50%, depending on the leverage level of the Company. There is a one-year extension option subject to the satisfaction of certain conditions.

The new credit facility includes the opportunity to expand the borrowing capacity by up to $40 million to an aggregate size of $75 million. At March 31, 2018, there were no outstanding borrowings under the facility.

On November 1, 2017, our J&S operating subsidiary entered into a series of financing transactions for which the creditors do not have recourse to Ashford Inc., including a $10.0 million term loan to finance the acquisition of J&S. The term loan bears interest at LIBOR plus 3.25% and matures on November 1, 2022. Net deferred loan costs associated with this financing of $218,000 and $226,000, respectively, are included as a reduction to “Notes payable, net” on the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017. As of March 31, 2018 and December 31, 2017, $1.0 million of the term loan was recorded in current portion of notes payable, net. In connection with the term loan, the subsidiary entered into an interest rate cap with an initial notional amount totaling $5.0 million and a strike rate of 4.0%. The fair value of the interest rate cap at March 31, 2018 and December 31, 2017, was not material. The subsidiary also entered into a $3.0 million revolving credit facility which bears interest at LIBOR plus 3.25% and matures on November 1, 2022. During the three months ended March 31, 2018, $5.2 million was drawn and approximately $4.8 million of payments were made on the revolving credit facility. As of March 31, 2018 and December 31, 2017, approximately $1.8 million and $2.2 million of credit, respectively, was available under the revolving c redit facility. These debt agreements contain various financial covenants that, among other things, require the maintenance of certain fixed charge coverage ratios. Our J&S operating subsidiary is currently in compliance with all financial covenants.

Also on November 1, 2017, in connection with the acquisition of J&S, our J&S operating subsidiary entered into a $3.0 million equipment note and a $2.0 million term loan agreement. These loans each bear interest at LIBOR plus 3.25% and mature on November 1, 2022. During the three months ended March 31, 2018, $825,000 was drawn on the equipment note and no amounts were drawn on the term loan. All the loans in connection with the acquisition of J&S are partially secured by a security interest on all of the assets and equity interests of our operating subsidiary.

On April 13, 2017, OpenKey entered into a Loan and Security Agreement for a line of credit in the amount of $1.5 million. The line of credit is secured by all of OpenKey's assets and matures on October 31, 2018, with an interest rate of Prime Rate plus 2.75%. Creditors do not have recourse to Ashford Inc. At March 31, 2018 and December 31, 2017, there were no borrowings outstanding under the Loan Agreement. In connection with the line of credit, OpenKey granted the creditors a 10-year warrant to purchase approximately 28,000 shares of OpenKey's preferred stock at $1.61 per share. The fair value of the warrants, estimated to be $28,000, was recorded in noncontrolling interests in consolidated entities and debt issuance costs, which is amortized over the term of the line of credit.

On April 6, 2017, Pure Rooms entered into a term loan of $375,000 and a line of credit of $100,000 for which the creditor does not have recourse to Ashford Inc. The term loan has a fixed interest rate of 5.00% per annum with a stated maturity date of October 1, 2018. The line of credit has a variable interest rate of Prime Rate plus 1.00%. There is no stated maturity date related to the line of credit as it is payable on demand; accordingly, the balance has been classified as a current liability on our condensed consolidated balance sheets.

7. 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.

Table of Contents
ASHFORD INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED 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 Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
March 31, 2018				
Liabilities				
Contingent consideration	$—	$ —	$ (2,475)	$(2,475)[1]
Deferred compensation plan	(19,740)	—	—	(19,740)
Total	$(19,740)	$ —	$ (2,475)	$(22,215)

	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2017				
Liabilities				
Contingent consideration	—	—	(2,262)	(2,262)[1]
Deferred compensation plan	(19,259)	—	—	(19,259)
Total	$(19,259)	$ —	$ (2,262)	$(21,521)

[1] Reported as "due to affiliates" in the condensed consolidated balance sheets.

The following table presents the rollforward of our Level 3 contingent consideration liability (in thousands):

	Contingent Consideration Liability [1]
Balance at December 31, 2017	$ (2,262)
Acquisitions	—
Gains (losses) included in earnings [2]	(213)
Dispositions and settlements	—
Transfers into/out of Level 3	—
Balance at March 31, 2018	$ (2,475)

[1] Includes Ashford Inc.'s contingent consideration associated with the acquisition of J&S, which is carried at fair value in the condensed consolidated balance sheet within "Due to Affiliates". The fair value was estimated using significant inputs that are not observable in the market and thus represent Level 3 fair value measurements. The significant inputs in the Level 3 measurement of the contingent consideration include the timing and amount of the ultimate payout based on our estimate of J&S operating performance during the earn-out period, calculated in accordance with the applicable agreement, and the risk adjusted discount rate used to discount the future payment.
[2] Reported as "other" operating expense in the condensed consolidated statements of operations.

Table of Contents
ASHFORD INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Effect of Fair Value Measured Assets and Liabilities on Condensed Consolidated Statements of Operations
The following table summarizes the effect of fair value measured assets and liabilities on the condensed consolidated statements of operations (in thousands):

	Three Months Ended March 31,	
	2018	2017
Assets		
Options on futures contracts	$—	$(75)
Total	—	(75)
Liabilities		
Contingent consideration	(213)	—
Deferred compensation plan	(561)	(3,340)
Total	(774)	(3,340)
Net	$(774)	$(3,415)
Total combined		
Unrealized gain (loss) on investments	$—	$125 [1]
Realized gain (loss) on investments	—	(200)
Contingent consideration	(213) [2]	—
Deferred compensation plan	(561) [3]	(3,340) [3]
Net	$(774)	$(3,415)

(1) Includes unrealized gain associated with investments in unconsolidated entities and reported as "unrealized gain (loss) on investment in unconsolidated entity" in the condensed consolidated statement of operations.
(2) Represents the accretion of contingent consideration associated with the acquisition of J&S. Reported as a component of other operating expense in the condensed consolidated statements of operations.
(3) Reported as a component of salaries and benefits in the condensed consolidated statements of operations.

8. Summary of Fair Value of Financial Instruments

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

	March 31, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial liabilities measured at fair value:				
Deferred compensation plan	$19,740	$ 19,740	$19,259	$ 19,259
Contingent consideration	2,475	2,475	2,262	2,262
Financial assets not measured at fair value:				
Cash and cash equivalents	$34,910	$ 34,910	$36,480	$ 36,480
Restricted cash	15,045	15,045	9,076	9,076
Accounts receivable, net	7,141	7,141	5,127	5,127
Due from Ashford Trust OP	11,376	11,376	13,346	13,346
Due from Braemar OP	96	96	1,738	1,738
Investments in unconsolidated entities	500	500	500	500
Financial liabilities not measured at fair value:				
Accounts payable and accrued expenses	$18,648	$ 18,648	$20,529	$ 20,529
Due to affiliates	3,999	3,999	4,272	4,272
Other liabilities	13,979	13,979	9,076	9,076
Notes payable	13,513	13,613	11,947	12,040

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.

Contingent consideration. The liability associated with the acquisition of J&S is carried at fair value based on the terms of the acquisition agreement and any changes to fair value are recorded in “other” operating expenses in the condensed consolidated statements of operations.

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.

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

Investments in unconsolidated entities. The carrying value of the asset resulting from investment in unconsolidated entities approximates fair value based on recent observable transactions. This is considered a level 2 valuation technique.

Notes payable. The carrying value of notes payable was $13.5 million and $11.9 million at March 31, 20