

Ashford Inc.
Form 10-K
March 12, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

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

75254

Dallas, Texas

(Address of principal executive offices)

(Zip code)

(972) 490-9600

(Registrant's telephone number, including area code)

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

Title of each class Name of each exchange on which registered

Common Stock NYSE American

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

None

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

days. Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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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. Yes No

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

As of June 30, 2017, the aggregate market value of 1,600,587 shares of the registrant's common stock held by non-affiliates was approximately \$81,597,925.

As of March 8, 2018, the registrant had 2,102,518 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement pertaining to the 2018 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Form 10-K.

ASHFORD INC.
 YEAR ENDED DECEMBER 31, 2017
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SIGNATURES

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K and documents incorporated herein by reference contain 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,” “project,” “predict,” or other similar words or expressions. Additionally, statements regarding the following subjects are forward-looking by their nature:

- our business and investment strategy;
- our projected operating results and dividend rates;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- market trends;
- projected capital expenditures;
- the 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 referenced, including those set forth under the sections captioned “Item 1. Business,” “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations;”
- general volatility of the capital markets, the general economy or the hospitality industry, whether the result of market events or otherwise, and the market price of our common stock;
- availability, terms and deployment of capital;
- changes in our industry and the market in which we operate, interest rates or the general economy;
- the degree and nature of our competition;
- actual and potential conflicts of interest with or between Remington Lodging, Ashford Trust and Ashford Prime, our executive officers and our non-independent directors;
- availability of qualified personnel;
- changes in governmental regulations, accounting rules, tax rates and similar matters;
- legislative and regulatory changes;

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this annual report. The matters summarized under “Item 1A. Risk Factors” and elsewhere, could cause our actual results and performance to differ significantly from those contained in our forward-looking statements.

Accordingly, we cannot guarantee future results or performance. Readers are cautioned not to place undue reliance on

any of these forward-looking statements, which reflect our views as of the date of this Annual Report on Form 10-K. Furthermore, we do not intend to update any of our forward-looking statements after the date of this annual report to conform these statements to actual results and performance, except as may be required by applicable law.

PART I

Item 1. Business

Our Company

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 Ashford Hospitality Prime, Inc. (“Ashford Prime”). Ashford Trust commenced operating in August 2003 and is focused on investing in full service hotels in the upscale and upper-upscale segments in the U.S. that have revenue per available room (“RevPAR”) generally less than twice the national average. Ashford Prime invests primarily in luxury hotels and resorts with RevPAR of at least twice the U.S. national average. Ashford Prime became a publicly traded company in November 2013 upon the completion of its spin-off from Ashford Trust. Each of Ashford Trust and Ashford Prime is a real estate investment trust (“REIT”) as defined in the Internal Revenue Code, and the common stock of each of Ashford Trust and Ashford Prime is traded on the NYSE. The common stock of Ashford Inc. is listed on the NYSE American Exchange. Ashford Trust held approximately 598,000 shares of Ashford Inc. common stock, which represented an approximate 28.6% ownership interest in Ashford Inc. Ashford Prime held approximately 195,000 shares, which represented an approximate 9.3% ownership interest in Ashford Inc. as of December 31, 2017. 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 Hospitality Advisors LLC, a Delaware limited liability company and the operating company of the Company (“Ashford LLC”), with Ashford LLC surviving the Merger as a wholly-owned subsidiary of Ashford Holdings. Ashford Holdings is owned approximately 99.8% by Ashford Inc. and approximately 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 LLC. The Merger was effectuated in order to facilitate our investments in businesses that provide products and services to the hospitality industry. After the Merger, Ashford Inc. serves as the sole manager of Ashford Holdings.

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 the responsibility of the hotel management companies that operate the hotel properties owned by Ashford Trust and Ashford Prime.

We conduct our advisory business through an operating entity, Ashford LLC. We conduct our hospitality products and services business through an operating entity, Ashford Hospitality Services, LLC (“Ashford Services”). We own our assets through Ashford LLC and Ashford Services.

Our Business Strategy

Our principal business objective is to provide asset management, advisory and other products and services to other entities primarily in the hospitality industry. The Company seeks to grow in three primary areas; (i) expanding its existing platforms accretively and accelerating performance to earn incentive fees; (ii) starting new platforms for additional base and incentive fees; and (iii) acquiring, investing in or incubating strategic businesses that can achieve accelerated growth through doing business with our existing platforms and by leveraging our deep knowledge and extensive relationships within the hospitality sector. We operate our business primarily through two operating subsidiaries, Ashford LLC and Ashford Services. We operate our asset management and advisory business through Ashford LLC and we operate our hospitality products and services business primarily through Ashford Services. Currently, we, through our operating subsidiary Ashford LLC, act as the advisor to two publicly traded REITs, Ashford Trust and Ashford Prime.

In our asset management and advisory business, we earn advisory fees from each company that we advise. The fees for the REIT companies we advise include a base fee, payable in cash, quarterly for Ashford Trust and monthly for Ashford Prime, for managing the respective day-to-day operations of the companies we advise and the day-to-day operations of the respective subsidiaries, in each case in conformity with the respective investment guidelines of such entity. The base fee is determined as a percentage of each entity's total market capitalization, subject to a minimum fee. We may also be entitled to receive an incentive fee, payable in cash or a combination of cash and stock, from each of Ashford Trust and Ashford Prime based on their respective out-performance of their peers, as measured by the annual total stockholder return of such company compared to its peers. For

the year ended December 31, 2017, we earned advisory services revenues of \$55.2 million and \$10.8 million from Ashford Trust and Ashford Prime, respectively. For the year ended December 31, 2016, we earned advisory services revenues of \$51.0 million and \$16.2 million from Ashford Trust and Ashford Prime, respectively.

Separate from our advisory agreements, Lismore Capital, our wholly-owned subsidiary, provides mortgage placement services to our REIT clients. During the year ended December 31, 2017, Lismore Capital earned \$1.1 million in debt placement fees. No debt placement fees were earned during the years ended December 31, 2016 and 2015.

In our hospitality products and services business, we provide products and services to clients primarily in the hospitality industry, including Ashford Trust and Ashford Prime. Ashford Services generates revenue from customers in various forms depending on the particular product or service provided and the general accepted market condition for pricing such products or services. For the year ended December 31, 2017, we earned audio visual revenue and other services revenue of \$9.2 million and \$2.4 million, respectively. For the year ended December 31, 2016, we earned other services revenue of \$44,000.

Business Segments

We have two business segments: (i) REIT Advisory, which provides asset management and advisory services to other entities and (ii) Hospitality Products and Services, which provides products and services to clients primarily in the hospitality industry. A discussion of our operating segments is incorporated by reference to note 19 to our consolidated financial statements set forth in Part II, Item 8. Financial Statements and Supplementary Data.

Our Advisory Agreements

We advise Ashford Trust and Ashford Prime pursuant to our advisory agreements. The terms of the two advisory agreements are substantially similar, except as otherwise described below. The following summary of the terms of our advisory agreements does not purport to be complete and is subject to and qualified in its entirety by reference to a copy of the actual agreements, as amended, entered into with Ashford Trust or Ashford Prime, which have been included as exhibits to other documents filed with the Securities and Exchange Commission (the "SEC") and incorporated by reference in this Form 10-K.

General. Pursuant to our advisory agreements with Ashford Trust and Ashford Prime, we provide, or obtain on their behalf, the personnel and services necessary for each of these entities to conduct its respective business, as they have no employees of their own. All of the officers of each of Ashford Trust and Ashford Prime are our employees. We are not obligated to dedicate any of our employees exclusively to either Ashford Trust or Ashford Prime, nor are we or our employees obligated to dedicate any specific portion of time to the business of either Ashford Trust or Ashford Prime, except as necessary to perform the service required of us in our capacity as the advisor to such entities. The advisory agreements require us to manage the business affairs of each of Ashford Trust and Ashford Prime in conformity with the policies and the guidelines that are approved and monitored by the boards of such entities.

Additionally, we must refrain from taking any action that would (a) adversely affect the status of Ashford Trust or Ashford Prime as a REIT, (b) subject us to regulation under the Investment Company Act, (c) knowingly and intentionally violate any law, rule or regulation of any governmental body or agency having jurisdiction over us, (d) violate any of the rules or regulations of any exchange on which our securities are listed or (e) violate the charter, bylaws or resolutions of the board of directors of each of Ashford Trust and Ashford Prime, all as in effect from time to time. So long as we are the advisor to Ashford Prime, Ashford Prime's governing documents permit us to designate two persons as candidates for election as director at any stockholder meeting of Ashford Prime at which directors are to be elected. Such nominees may be our executive officers.

Our Duties as Advisor. Subject to the supervision of the respective boards of directors of each of Ashford Trust and Ashford Prime, we are responsible for, among other duties: (1) performing and administering the day-to-day operations of Ashford Trust and Ashford Prime, including all of the subsidiaries and joint ventures of such entities, (2) all services relating to the acquisition, disposition and financing of hotels, (3) performing asset management duties, (4) engaging and supervising, on behalf of such companies, third parties to provide various services included but not limited to overseeing development management, property management, project management, design and construction services and other professional services, (5) performing corporate governance and other management functions, including financial, capital markets, treasury, financial reporting, internal audit, accounting, tax and risk management services, SEC and regulatory compliance, and retention of legal counsel, auditors and other professional advisors, as well as other duties and services outlined in the advisory agreements.

Any increase in the scope of duties or services to be provided by us must be jointly approved by us and either Ashford Trust or Ashford Prime, as applicable, and is subject to additional compensation as outlined in the advisory agreements.

We are generally, the exclusive asset manager for each of Ashford Trust and Ashford Prime.

We also have the power to delegate all or any part of our rights and powers to manage and control the business and affairs of such companies to such officers, employees, affiliates, agents and representatives of ours or such company as we may deem

appropriate. Any authority delegated by us to any other person is subject to the limitations on our rights and powers specifically set forth in the advisory agreement or the charter of such company.

We have agreed, from time to time, to make mutually agreed upon “key money investments” in the subsidiaries and affiliates of each of Ashford Trust and Ashford Prime to facilitate such companies, subsidiaries or affiliates’ acquisition of one or more properties, if the independent directors of Ashford Trust or Ashford Prime, as applicable, and Ashford Inc. determine that without such an investment, the acquisition of such property would be uneconomic to Ashford Trust or Ashford Prime. Any such assets are referred to as “key money assets.” Any key money investment will be in the form of, but not limited to, cash, notes, equity of Ashford Inc., the acquisition of furniture, fixture and equipment for use at the subject hotel, or as agreed to at the time a key money investment is made. Upon any such key money investment, Ashford Trust or Ashford Prime will engage Ashford LLC as the asset manager for the related key money asset and will pay the key money asset management fees, which are included in the base fees. Ashford Trust or Ashford Prime may also agree to additional incentive fees based on the performance of any key money asset. Ashford Trust or Ashford Prime will be obligated to pay us the “key money clawback amount,” which is equal to the difference between a per annum return of 5% on a key money asset together with the initial key money investment amount and the amount actually received by us (through key money asset management fees and key money incentive fees, if applicable) related to such key money asset, if the Advisory Agreement (or the applicable asset management agreement) is terminated by Ashford Trust or Ashford Prime for any reason or such companies dispose of such key money asset (calculated on an investment by investment basis).

We have agreed to require our employees and officers who provide services to the companies we advise to comply with the codes and the policies of such companies.

Relationship with Ashford Trust and Ashford Prime. We advise both Ashford Trust and Ashford Prime. We are also permitted to have other advisory clients, which may include other REITs operating in the real estate industry or having the same or substantially similar investment guidelines as Ashford Trust or Ashford Prime. If either Ashford Trust or Ashford Prime materially revises its initial investment guidelines without our express written consent, we are required only to use our best judgment to allocate investment opportunities to Ashford Prime, Ashford Trust and other entities we advise, taking into account such factors as we deem relevant, in our discretion, subject to any of our then existing obligations to such other entities. Ashford Prime has agreed not to revise its initial investment guidelines to be directly competitive with Ashford Trust. Ashford Trust agrees, pursuant to the terms of the Ashford Trust advisory agreement, that it will revise its investment guidelines as necessary to avoid direct competition with (i) any entity or platform that Ashford Trust may create or spin-off in the future and (ii) any other entity advised by us, provided that in the case of clause (ii), we and Ashford Trust mutually agree to the terms of such revision of Ashford Trust’s investment guidelines. The advisory agreements give each of Ashford Trust and Ashford Prime the right to equitable treatment with respect to other clients of ours, but the advisory agreements do not give any entity the right to preferential treatment, except as follows:

Any new individual investment opportunities that satisfy Ashford Trust’s investment guidelines will be presented to its board of directors, which has up to 10 business days to accept any such opportunity prior to it being available to Ashford Prime or another business advised by us.

Any new individual investment opportunities that satisfy Ashford Prime’s investment guidelines will be presented to its board of directors, which has up to 10 business days to accept any such opportunity prior to it being available to Ashford Trust or another business advised by us.

To minimize conflicts between Ashford Trust and Ashford Prime, the advisory agreements require each such entity to designate an investment focus by targeted RevPAR, segments, markets and other factors or financial metrics. After consultation with us, such entity may modify or supplement its investment guidelines from time to time by giving written notice to us; however, if either Ashford Trust or Ashford Prime materially changes its investment guidelines without our express written consent, we are required only to use our best judgment to allocate investment opportunities to Ashford Trust, Ashford Prime and other entities we may advise, taking into account such factors as we deem relevant, in our discretion, subject to any then existing obligations we have to such other entities.

When determining whether an asset satisfies the investment guidelines of either Ashford Trust or Ashford Prime, we must make a good faith determination of projected RevPAR, taking into account historical RevPAR as well as such additional considerations as conversions or reposition of assets, capital plans, brand changes and other factors that

may reasonably be forecasted to raise RevPAR after stabilization of such initiative.

If Ashford Trust or Ashford Prime elect to spin-off, carve-out, split-off or otherwise consummate a transfer of a division or subset of assets for the purpose of forming a joint venture, a newly created private platform or a new publicly traded company to hold such division or subset of assets constituting a distinct asset type and/or investment guidelines, Ashford Trust and Ashford

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Prime have agreed that any such new entity will be advised by us pursuant to an advisory agreement containing substantially the same material terms set forth in our advisory agreement with Ashford Trust or Ashford Prime, as applicable.

Limitations on Liability and Indemnification. The advisory agreements provide that we have no responsibility other than to render the services and take the actions described in the advisory agreements in good faith and with the exercise of due care and are not responsible for any action the board of directors of either Ashford Trust or Ashford Prime takes in following or declining to follow any advice from us. The advisory agreements provide that we, and our officers, directors, managers, employees and members, will not be liable for any act or omission by us (or our officers, directors, managers, employees or members) performed in accordance with and pursuant to the advisory agreements, except by reason of acts constituting gross negligence, bad faith, willful misconduct or reckless disregard of our duties under the applicable advisory agreement.

Each of Ashford Trust and Ashford Prime has agreed to indemnify and hold us harmless (including our partners, directors, officers, stockholders, managers, members, agents, employees and each other person or entity, if any, controlling us) to the full extent lawful, from and against any and all losses, claims, damages or liabilities of any nature whatsoever with respect to or arising from any acts or omission by us (including ordinary negligence) in our capacity as advisor, except with respect to losses, claims, damages or liabilities with respect to or arising out of our gross negligence, bad faith or willful misconduct, or reckless disregard of our duties set forth in the applicable advisory agreement (for which we have indemnified Ashford Trust or Ashford Prime, as applicable).

Term and Termination of our Advisory Agreement with Ashford Trust. The term of our advisory agreement with Ashford Trust is 10 years, commencing from the effective date of the amended advisory agreement on June 10, 2015. Our advisory agreement with Ashford Trust provides for automatic five-year renewal terms unless previously terminated as described below. Following the 10-year initial term, our advisory agreement with Ashford Trust may be terminated by Ashford Trust, as applicable, with 180 days' written notice prior to the expiration of the then current term, on the affirmative vote of at least two-thirds of the independent directors of such entity, based upon a good faith finding that either (a) there has been unsatisfactory performance by us that is materially detrimental to such company and the subsidiaries of such company taken as a whole, or (b) the base fee and/or incentive fee (each as defined in the advisory agreements) is not fair based on the then-current market for such fees (and we do not offer to negotiate a lower fee that at least a majority of the independent directors determine is fair). If the reason for non-renewal specified by such company in the termination notice is (b) in the preceding sentence, then we may, at our option, provide a notice of proposal to renegotiate the base fee and incentive fee not less than 150 days prior to the pending termination date. Thereupon, each party has agreed to use its commercially reasonable efforts to negotiate in good faith to find a resolution on fees within 120 days following receipt by such company of the renegotiation proposal. If a resolution is achieved between us and at least a majority of the independent directors of such entity, within the 120-day period, then the applicable advisory agreement will continue in full force and effect with modification only to the agreed upon base fee and/or incentive fee, as applicable.

If no resolution on fees is reached within the 120-day period, or if Ashford Trust terminates the advisory agreement by reason of clause (a) above, or terminates the advisory agreement upon a change in control of such companies, the related advisory agreement will terminate and Ashford Trust will be required to pay us all fees and expense reimbursements due and owing through the date of termination as well as a termination fee equal to 1.1 times the greater of either:

12 multiplied by our Net Earnings for the 12-month period preceding the termination date of our advisory agreement. For purposes of this calculation, "Net Earnings" is defined in the advisory agreement as (A) our reported Adjusted EBITDA (as defined in the advisory agreement) for the 12-month period preceding the termination of the advisory agreement (adjusted to assume the advisory agreement was in place for the full 12-month period if it otherwise was not), as reported in our earnings releases less (B) our pro forma Adjusted EBITDA (as defined in the advisory agreement) assuming our advisory agreement was not in place during such period plus (C) all EBITDA (Net Income (per Generally Accepted Accounting Principles ("GAAP"))) plus interest expenses, income taxes, depreciation and amortization) of ours and any of our affiliates and subsidiaries from providing any service or product to the applicable company, its operating partnership or any of its affiliates or subsidiaries, exclusive of EBITDA directly resulting from the advisory agreement;

- the earnings multiple (calculated as our total enterprise value divided by our adjusted EBITDA) for our common stock per the 12-month period preceding the termination date multiplied by our Net Earnings (as defined in the advisory agreement) for the 12 months preceding the termination; or
- the simple average of our earnings multiples for the three fiscal years preceding the termination (calculated as our total enterprise value divided by our adjusted EBITDA for such periods) multiplied by our Net Earnings (as defined in the advisory agreement) for the 12 months preceding the termination;
- plus, in either case, a gross-up amount for federal and state tax liability, based on an assumed combined tax rate of 40%. Any such termination fee will be payable on or before the termination date.

Ashford Trust may also terminate the advisory agreement with 60 days' notice upon a change of control of such entity, if the change of control transaction is conditioned upon the termination of the advisory agreement. In such a circumstance, Ashford Trust would be required to pay the accrued costs and termination fee described above.

Ashford Trust may also terminate the applicable advisory agreement at any time, including during the 10-year initial term, without the payment of a termination fee, upon customary events of default and our failure to cure during certain cure periods, such as our default in performance of material obligations, the filing of bankruptcy or a dissolution action and other events, as outlined in the advisory agreement.

Upon any termination of the advisory agreement, we are expected to cooperate with and assist Ashford Trust in executing an orderly transition of the management of its assets to a new advisor, providing a full accounting of all accounts held in the name of or on behalf of such company, returning any funds held on behalf of such company and returning any and all of the books and records of such company. Ashford Trust will be responsible for paying all accrued fees and expenses and will be subject to certain non-solicitation obligations with respect to our employees upon any termination of the applicable advisory agreement other than termination as a result of change of control of our company.

Following the 10-year initial term, we may terminate the advisory agreement prior to the expiration of each successive then-current term with 180 days' prior written notice. Additionally, we may terminate the advisory agreement if Ashford Trust defaults in the performance or observance of any material term, condition or covenant under the applicable advisory agreement; provided, however, before terminating the advisory agreement, we must give Ashford Trust written notice of the default and provide Ashford Trust with an opportunity to cure the default within 45 days, or if such default is not reasonably susceptible to cure within 45 days, such additional cure period as is reasonably necessary to cure the default (not to exceed 90 days) so long as such entity is diligently and in good faith pursuing such cure. In the event of such a termination, we will be entitled to all accrued fees and expenses.

Base Fees under our Advisory Agreement with Ashford Trust. The total base fee per annum is based on a declining sliding scale percentage of the total market capitalization of Ashford Trust plus the Key Money Asset Management Fee (defined in our advisory agreement as the aggregate gross asset value of all key money assets multiplied by 0.7%). This amount is then divided by four to calculate the quarterly base fee; provided, however in no event shall the base fee for any quarter be less than the Minimum Base Fee (as defined by the advisory agreement). The "total market capitalization" for purposes of determining the base fee is calculated on a quarterly basis as follows:

- (i) average of the volume-weighted average price per share of common stock for Ashford Trust for each trading day of the preceding quarter multiplied by the average number of shares of common stock and common units outstanding during such quarter, on a fully-diluted basis (assuming all common units and long term incentive partnership units in Ashford Trust OP that have achieved economic parity with common units in the applicable operating partnership have been redeemed and Ashford Trust has elected to issue common stock in satisfaction of the redemption price), plus
- (ii) the quarterly average of the aggregate principal amount of the consolidated indebtedness of Ashford Trust (including its proportionate share of debt of any entity that is not consolidated but excluding its joint venture partners' proportionate share of consolidated debt), plus
- (iii) the quarterly average of the liquidation value of any outstanding preferred equity of such company, and multiplying the sum of (i), (ii), and (iii) above by the Key Money Asset Factor (defined in our advisory agreement
- (iv) as 1 minus the quotient resulting from dividing the aggregate gross book value of all key money assets by the aggregate gross book value of such entity's assets (including key money assets)).

The minimum base fee for Ashford Trust for each quarter beginning January 1, 2016 is equal to the greater of:

- (i) 90% of the base fee paid for the same quarter in the prior year; and
- (ii) the "G&A ratio" multiplied by the total market capitalization of Ashford Trust.

The "G&A ratio" is calculated as the simple average of the ratios of total general and administrative expenses, including any dead deal costs, less any non-cash expenses, paid in the applicable quarter by each member of a select peer group, divided by the total market capitalization of such peer group member. The peer group for each company may be adjusted from time-to-time by mutual agreement between us and a majority of the independent directors of Ashford Trust, negotiating in good faith. The base fee is payable quarterly in arrears in cash.

Term and Termination of our Advisory Agreement with Ashford Prime. The term of our advisory agreement with Ashford Prime is 10 years, commencing from the effective date of the amended advisory agreement June 21, 2017. Our advisory agreement with Ashford Prime provides for seven successive additional ten-year renewal terms upon written notice to Ashford Prime, given

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at least 210 days prior to the expiration of the then current term. The advisory agreement may be terminated by the Ashford Prime, with no termination fee due and payable, under the following circumstances: (i) upon our conviction (including a plea or nolo contendere) by a court of competent jurisdiction of a felony; (ii) if we commit an act of fraud against Ashford Prime, convert the funds of Ashford Prime or act in a manner constituting gross negligence in the performance of our material duties under the advisory agreement (including a failure to act); (iii) if we undergo a Bankruptcy Event (as defined by the advisory agreement); or (iv) upon the entry by a court of a final non-appealable order awarding monetary damages to Ashford Prime based on a finding that we committed a material breach or default of a material term, condition, obligation or covenant of the advisory agreement, which breach or default had a material adverse effect.

If Ashford Prime terminates the advisory agreement upon a change in control, the related advisory agreement will terminate and Ashford Prime will be required to pay us all fees and expense reimbursements due and owing through the date of termination as well as a termination fee equal to the greater of:

- 12 multiplied by (a) our Net Earnings for the 12-month period preceding the termination date of our advisory agreement and (b) to the extent not included in Net Earnings, any incentive fees under the advisory agreement that have accrued or are accelerated but have not yet been paid at the time of termination of the advisory agreement;
- (a) the quotient of (i) our total market capitalization on the trading day immediately preceding the date of payment of the termination fee, divided by (ii) our Adjusted EBITDA for the 12-month period preceding the termination date of our advisory agreement plus, to the extent not included in Net Earnings, any incentive fees under the advisory agreement that have accrued or are accelerated but have not yet been paid at the time of termination of the advisory agreement; and
- the simple average, for the three years preceding the fiscal year in which the termination fee is due of (a) the quotient of (i) our total market capitalization on the trading day immediately preceding the date of payment of the termination fee, divided by (ii) our Adjusted EBITDA for the 12-month period preceding the termination date of our advisory agreement plus, to the extent not included in Net Earnings, any incentive fees under the advisory agreement

For purposes of this calculation, "Net Earnings" is generally defined in the advisory agreement as (A) the total base fees and incentive fees, plus any other revenues reported on our income statement as pertaining to the advisory agreement (in each case, in accordance with GAAP) including all of EBITDA of us and our affiliates and of our subsidiaries from providing any additional services to Ashford Prime and its affiliates, less (B) the total incremental expenses determined in accordance with the advisory agreement, in each case for the 12-month period preceding the termination date of our advisory agreement.

Any such termination fee will be payable on or before the termination date.

Upon any termination of the advisory agreement, we are expected to cooperate with and assist Ashford Prime in executing an orderly transition of the management of its assets to a new advisor, providing a full accounting of all accounts held in the name of or on behalf of such company, returning any funds held on behalf of such company and returning any and all of the books and records of such company. Ashford Prime will be responsible for paying all accrued fees and expenses and will be subject to certain non-solicitation obligations with respect to our employees upon any termination of the applicable advisory agreement other than termination as a result of change of control of our company.

Base Fees under our Advisory Agreement with Ashford Prime. The total base fee per annum is an amount equal to 0.70% of the sum of (i) the Total Market Capitalization (as defined by the advisory agreement) for the prior month, and (ii) the Key Money Gross Asset Value (as defined by the advisory agreement), if any, on the last day of the prior month. This amount is then divided by 12 to calculate the monthly base fee; provided, however in no event shall the base fee for any month be less than the Minimum Base Fee (as defined by the advisory agreement). The "total market capitalization" for purposes of determining the base fee is calculated on a monthly basis as follows:

- (i) the average of the volume-weighted average price per share of common stock for Ashford Prime for each trading day of the preceding month multiplied by the average number of shares of common stock and common units outstanding during such month, on a fully-diluted basis (assuming all common units and long term incentive partnership units in th