

Ashford Inc.  
Form 10-K  
March 16, 2017

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, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 001-36400

ASHFORD INC.

(Exact name of registrant as specified in its charter)

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 New York Stock Exchange MKT

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, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of June 30, 2016, the aggregate market value of 805,132 shares of the registrant's common stock held by non-affiliates was approximately \$40,256,600.

As of March 14, 2017, the registrant had 2,015,281 shares of common stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement pertaining to the 2017 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this Form 10-K.

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ASHFORD INC.  
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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.” “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 expectations of the parties to the acquisition agreement we entered into on September 17, 2015 (the “Remington Acquisition Agreement”) to acquire all of the general partner interest and 80% of the limited partner interests of Remington Lodging for total consideration of \$331.7 million, with an estimated fair value of \$330.7 million (such transactions contemplated by the Remington Acquisition Agreement referred to herein as the “Transactions”) regarding the timing, completion and tax treatments of the Transactions; and
- the impact of technology on our operations and business.

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

- the factors 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 Prime and Ashford Trust, our executive officers and our non-independent directors;
- availability of qualified personnel;
- changes in governmental regulations, accounting rules, tax rates and similar matters;
- legislative and regulatory changes;

the ability of the parties to the Transactions to consummate the Transactions;  
the conditions to the completion of the Transactions, including the receipt of approval of our stockholders;

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the regulatory approvals required for the Transactions not being obtained on the terms expected or on the anticipated schedule;

the ability of the parties to the Transactions to meet expectations regarding the timing, completion and tax treatments of the Transactions;

the possibility that the parties may not realize any or all of the anticipated benefits from the Transactions;

disruptions from the Transactions may harm relationships with customers, employees and regulators;

unexpected costs may be incurred; and

changes in our stock price prior to the closing of the Transactions and following the Transactions.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements 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 Delaware corporation formed on April 2, 2014, subsequently reincorporated in Maryland effective October 31, 2016, that provides asset management and advisory services to other entities, primarily within the hospitality industry. We became a public company on November 12, 2014, when Ashford Trust, a NYSE-listed real estate investment trust (“REIT”), completed the spin-off of our company through the distribution of shares of our common stock to the Ashford Trust stockholders. We serve as the advisor to Ashford Prime, an NYSE-listed REIT that invests primarily in high revenue per available room (“RevPAR”), luxury hotels and resorts. High RevPAR, for purposes of Ashford Prime’s investment strategy means RevPAR of at least twice the then-current U.S. national average RevPAR for all hotels as determined by Smith Travel Research. Ashford Prime became a publicly traded company in November 2013 upon the completion of its spin-off from Ashford Trust. We also serve as the advisor to Ashford Trust, which is focused on investing opportunistically in the hospitality industry with a focus on full-service upper-upscale hotels in the U.S. that have a RevPAR generally less than twice the U.S. national average. Ashford Trust has been a public company since August 2003.

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 business and own substantially all of our assets through an operating entity, Ashford LLC. We own 99.8% of the outstanding common units of Ashford LLC and serve as its sole manager.

#### Our Business Strategy

Our principal business objectives are to provide asset management and other advisory services to other entities. Currently, we, through our operating subsidiary Ashford LLC, act as the advisor to Ashford Trust and Ashford Prime. We earn advisory fees from each company that we advise. These fees include a quarterly base fee, payable in cash, 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 total annual stockholder return of such company compared to its peers. For the year ended December 31, 2016, we earned revenues of \$16.6 million and \$51.0 million from Ashford Prime and Ashford Trust, respectively. For the year ended December 31, 2015, we earned revenues of \$15.5 million and \$43.4 million from Ashford Prime and Ashford Trust, respectively.

We expect to expand our business through growth by (i) managing additional assets of the existing platforms of Ashford Trust or Ashford Prime; (ii) managing assets of newly formed platforms; (iii) acquiring other businesses that provide services to the hospitality industry (which may or may not provide such services to our advisory clients), or acquiring the expertise or personnel necessary to provide such services, and (iv) acquiring third-party asset management contracts and businesses.

Ashford Investment Management, LLC (“AIM”), an indirect subsidiary of ours, or an affiliate of AIM, currently serves, or will serve in the future, as the investment adviser to any private securities funds sponsored by us or our affiliates, which may include, but are not limited to, hedge funds, private equity funds, separately managed accounts, UCITS funds, open or closed end funds registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”) business development companies and other private or public alternative investment funds (the “Funds”). AIM became a registered investment adviser with the Securities and Exchange Commission on January 5, 2015. AIM REHE Funds GP, LP (“AIM GP”), or an affiliate of AIM GP, currently serves, or will serve in the future, as the general



partner or similar capacity of any Funds. AIM or any affiliate serving as investment adviser to any Funds is entitled to a management fee or other fees or compensation for its role as investment adviser to such Funds. AIM GP, or the applicable affiliate of AIM GP serving as the general partner or similar capacity of any Funds, is entitled to a performance allocation or carried interest, based, generally, on the net profits of the investors in such Funds. AIM Management Holdco, LLC (“Management Holdco”) owns 100% of AIM. We, through Ashford LLC, own 100% of Management Holdco. AIM Performance Holdco, LP (“Performance Holdco”) owns 99.99% of AIM GP with the remaining 0.01% general

partner interest owned by our wholly owned subsidiary, AIM General Partner, LLC. We, through Ashford LLC and our 100% ownership interest in AIM General Partner, LLC, own approximately 60% of Performance Holdco, and Mr. Monty J. Bennett and Mr. J. Robison Hays, III own, in the aggregate, 40% of Performance Holdco. During 2016, AIM served as investment adviser to the AIM Real Estate Hedged Equity (U.S.) Fund, LP, (the "U.S. Fund"), AIM Real Estate Hedged Equity (Cayman) Fund, Ltd.(the "Offshore Fund") and AIM Real Estate Hedged Equity Master Fund, LP (the "Master Fund"), a master-feeder private fund focused on investing in various securities.

On February 23, 2016 the board of directors of the "Offshore Fund"), in consultation with AIM, resolved to wind down the Offshore Fund. All investments in the Offshore Fund were redeemed on February 29, 2016. The Master Fund and the U.S. Fund continued to operate, but under new names: "Ashford Quantitative Alternatives Master Fund, LP" (the "AQUA Master Fund") and "Ashford Quantitative Alternatives (U.S.), LP" (the "AQUA U.S. Fund" and, together with the AQUA Master Fund, the "AQUA Fund"), respectively, effective March 1, 2016.

On January 19, 2017, AIM entered into an Investment Management Agreement (the "Agreement") with AHT SMA, LP, a Delaware limited partnership (the "Client") and a wholly-owned subsidiary of Ashford Trust to manage all or a portion of Ashford Trust's excess cash (the "Account"). Pursuant to the Agreement, Client retained and appointed AIM as the investment manager of Client. The Agreement will govern the relationship between Client and AIM, as well as grant AIM certain rights, powers and duties to act on behalf of Client. AIM will not be compensated by Client for its services under the Agreement. Client bears all costs and expenses of the establishment and ongoing maintenance of the Account as well as all costs and expenses of AIM.

On March 7, 2017, AIM GP, the general partner of the AQUA U.S. Fund, provided written notice to the AQUA U.S. Fund's limited partners of its election to dissolve the AQUA U.S. Fund pursuant to Section 6.1(a) of the Second Amended and Restated Limited Partnership Agreement of the AQUA U.S. Fund as of March 31, 2017 (the "Dissolution Date"). In connection with the dissolution of the AQUA U.S. Fund, the AQUA Master Fund will also be liquidated in accordance with the laws of the Cayman Islands.

The balance of all limited partners' capital accounts in the AQUA U.S. Fund, less an audit hold-back of 5%, will be distributed to limited partners in cash on the Dissolution Date, and thereafter limited partners will cease to be a limited partner of the AQUA U.S. Fund. The balance will be paid to limited partners (without interest) promptly following the completion of the audits of the AQUA U.S. Fund's and the AQUA Master Fund's financial statements for the period January 1, 2017 through March 31, 2017, which we expect to be on or before June 30, 2017.

#### Our Advisory Agreements

We currently advise two publicly traded REITs, Ashford Prime and Ashford Trust, pursuant to 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 Prime or Ashford Trust, 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 Prime and Ashford Trust, 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 Prime and Ashford Trust are our employees. We are not obligated to dedicate any of our employees exclusively to either Ashford Prime or Ashford Trust, nor are we or our employees obligated to dedicate any specific portion of time to the business of either Ashford Prime or Ashford Trust, 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 Prime and Ashford Trust 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 Prime or Ashford Trust 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 Prime and Ashford Trust, 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 Prime and Ashford Trust, we are responsible for, among other duties: (1) performing and administering the day-to-day operations of Ashford Prime and Ashford Trust, 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 Prime or Ashford Trust, as applicable, and is subject to additional compensation as outlined in the advisory agreements.

We are the exclusive asset manager for each of Ashford Prime and Ashford Trust; provided, that if the independent directors of either Ashford Prime or Ashford Trust along with our independent directors determine that a proposed acquisition of property would be uneconomic to Ashford Prime or Ashford Trust without additional incentives, Ashford Prime or Ashford Trust will have the option of utilizing us as the asset manager or engaging a third party as the asset manager.

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 Prime or Ashford Trust, as applicable, and Ashford Inc. determine that without such an investment, the acquisition of such property would be uneconomic to Ashford Prime or Ashford Trust. 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 Prime or Ashford Trust 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 Prime or Ashford Trust may also agree to additional incentive fees based on the performance of any key money asset. Ashford Prime or Ashford Trust 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 Prime or Ashford Trust 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.

**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 Prime or Ashford Trust 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 Prime and Ashford Trust 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 Prime or Ashford Trust, as applicable).

Term and Termination. The terms of our advisory agreements with Ashford Prime and Ashford Trust are 10 years, in each case commencing from the effective date of the applicable advisory agreement. Each advisory agreement provides for automatic five-year renewal terms unless previously terminated as described below. Following the 10-year initial terms, the advisory agreements may be terminated by Ashford Prime or 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 or Ashford Prime, as applicable, 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 or Ashford Prime, as applicable, 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 the our net earnings (as defined in the advisory agreement) for the 12-month period preceding the termination date of our advisory agreement. For purposes of this calculation, "Net Earnings" is defined as (A) our reported Adjusted EBITDA (as defined in our advisory agreement) for the 12-month period preceding the termination of our advisory agreement (adjusted to assume our 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 our 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 our 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 Prime and Ashford Trust have agreed that if we and Remington Lodging consummate the Transactions, that for purposes of determining the termination fee under the advisory agreement, our "Net Earnings" and "Adjusted EBITDA" shall not include Adjusted EBITDA arising under the Remington Master Management Agreement attributable to management fees, project management fees and market service fees (all as defined in the Remington Master Management Agreement) earned by Remington Lodging and/or its subsidiaries and consolidated with us. Ashford Prime or Ashford Trust may also terminate the applicable 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 or Ashford Prime, as applicable, would be required to pay the accrued costs and termination fee described above.

Either Ashford Prime or 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 either advisory agreement, we are expected to cooperate with and assist Ashford Prime or Ashford Trust, as applicable, 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 or Ashford Trust, as applicable, 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 either advisory agreement prior to the expiration of each successive then-current term with 180 days' prior written notice. Additionally, we may terminate either advisory agreement if Ashford Prime

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or Ashford Trust, as applicable, 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 Prime or Ashford Trust, as applicable, written notice of the default and provide such entity 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.

#### Fees and Expenses.

**Base Fee.** The total quarterly base fee per annum is based on a declining sliding scale percentage of the total market capitalization of each of Ashford Prime and Ashford Trust plus the Key Money Asset Management Fee (defined in our advisory agreements as the aggregate gross asset value of all key money assets multiplied by 0.7%), subject to a minimum quarterly base fee. The “total market capitalization” for purposes of determining the base fee is calculated on a quarterly basis as follows:

- (i) the average of the volume-weighted average price per share of common stock for Ashford Prime or Ashford Trust, as applicable, 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 the applicable operating partnership which have achieved economic parity with common units in the applicable operating partnership have been redeemed and the applicable company has elected to issue common stock of such company in satisfaction of the redemption price), plus
- (ii) the quarterly average of the aggregate principal amount of the consolidated indebtedness of such company (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
- (iv) agreements 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 Prime, and the minimum base fee for Ashford Trust for each quarter beginning January 1, 2016 or thereafter will be 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 such company.

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 such company, negotiating in good faith. The base fee is payable quarterly in arrears in cash.

**Incentive Fee.** In each year that the Total Stockholder Return (“TSR”) of Ashford Prime or Ashford Trust exceeds the “average TSR of its peer group,” Ashford Prime or Ashford Trust, as applicable is required to pay us an incentive fee. For purposes of this calculation, the TSR of such entity is calculated using a year-end stock price equal to the closing price of its common stock on the last trading day of the year as compared to the closing stock price of its common stock on the last trading day of the prior year (or, with respect to Ashford Trust, for the stub period ending December 31, 2014, the closing stock price of its common stock on November 13, 2014), in each case assuming all dividends on the common stock during such period are reinvested into additional shares of common stock of such entity. The average TSR for each member of such company’s peer group is calculated in the same manner and for the same time period, and the simple average for the entire peer group is the “average TSR for its peer group.” If the TSR of Ashford Prime or Ashford Trust exceeds the average TSR for its peer group, we will be paid an incentive fee, subject to the FCCR Condition, as defined below.

The annual incentive fee is calculated as (i) 5% of the amount (expressed as a percentage but in no event greater than 25%) by which the annual TSR of Ashford Trust or Ashford Prime, as applicable, exceeds the average TSR for its respective peer group, multiplied by (ii) the fully diluted equity value of such company at December 31 of the



applicable year. Further, with respect to Ashford Trust, for the stub period ended December 31, 2014, the product from the incentive fee

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calculation was reduced proportionately based on the number of days in which the advisory agreement with Ashford Trust was in effect for the calendar year 2014 divided by 365 days. To determine the fully diluted equity value, we assume that all units in the operating partnership of Ashford Prime or Ashford Trust, as applicable, including Long-Term Incentive Plan (“LTIP”) units that have achieved economic parity with the common units, if any, are redeemed and the applicable company has elected to issue common stock of such company in satisfaction of the redemption price and that the per share value of each share of common stock of such company is equal to the closing price of its stock on the last trading day of the year. The incentive fee, if any, subject to the FCCR Condition (defined below), is payable in arrears in three equal annual installments with the first installment payable on January 15 following the applicable year for which the incentive fee relates and on January 15 of the next two successive years. Notwithstanding the foregoing, upon any termination of the advisory agreement for any reason, any unpaid incentive fee (including any incentive fee installment for the stub period ending on the termination date) will become fully earned and immediately due and payable without regard to the FCCR Condition defined below. Except in the case when the incentive fee is payable on the date of termination of this Agreement, up to 50% of the incentive fee may be paid by each Ashford Prime or Ashford Trust, at the option of such entity, in shares its common stock of or common units of the applicable operating partnership or such entity, with the balance payable in cash, unless at the time for payment of the incentive fee:

(i) we or our affiliates own common stock or common units in an amount (determined with reference to the closing price of the common stock of each Ashford Prime or Ashford Trust, as applicable, on the last trading day of the year or stub period) greater than or equal to three times the base fee for the preceding four quarters,

(ii) payment in such securities would cause us to be subject to the provisions of the Investment Company Act, or

(iii) payment in such securities would not be legally permissible for any reason;

in which case, the entire Incentive Fee will be paid by Ashford Prime or Ashford Trust in cash.

Upon the determination of the incentive fee, except in the case of any termination of the advisory agreement in which case the incentive fee for the stub period and all unpaid installments of an incentive fee shall be deemed earned by us and fully due and payable by Ashford Prime and Ashford Trust, as applicable, each one-third installment of the incentive fee shall not be deemed earned by us or otherwise payable by Ashford Prime or Ashford Trust, as applicable, unless such entity, as of the December 31 immediately preceding the due date for the payment of the incentive fee installment, has an FCCR of 0.20x or greater (the “FCCR Condition”). For purposes of this calculation, “FCCR” means such entity’s fixed charge coverage ratio, which is the ratio of adjusted EBITDA for the previous four consecutive fiscal quarters to fixed charges, which includes all (i) such entity and its subsidiaries’ interest expense, (ii) such entity and its subsidiaries’ regularly scheduled principal payments, other than balloon or similar principal payments which repay indebtedness in full and payments under cash flow mortgages applied to principal, and (iii) preferred dividends paid by such entity.

Equity Compensation. To incentivize our employees, officers, consultants, non-employee directors, affiliates and representatives to achieve the goals and business objectives of each of Ashford Prime and Ashford Trust, as established by the b