Ashford Inc.
Form 10-Q
August 08, 2017

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 June 30, 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	
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,” “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 þ
	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	2,021,754
(Class)	Outstanding at August 4, 2017

ASHFORD INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2017

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)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$36,972	$ 84,091
Restricted cash	14,000	9,752
Investments in securities	—	91
Prepaid expenses and other	835	1,305
Receivables	245	16
Due from Ashford Trust OP	10,864	12,179
Due from Ashford Prime OP	3,252	3,817
Other assets	66	—
Total current assets	66,234	111,251
Investments in unconsolidated entities	500	500
Furniture, fixtures and equipment, net	11,752	12,044
Deferred tax assets	—	6,002
Goodwill	813	—
Intangible assets, net	166	—
Total assets	$79,465	$ 129,797
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$7,834	$ 11,314
Due to affiliates	2,293	933
Due to Ashford Prime OP from AQUA U.S. Fund	—	2,289
Deferred compensation plan	161	144
Notes payable	337	—
Other liabilities	13,311	9,752
Total current liabilities	23,936	24,432
Accrued expenses	57	287
Deferred income	10,462	4,515
Deferred compensation plan	10,472	8,934
Notes payable, net	76	—
Total liabilities	45,003	38,168
Commitments and contingencies (note 8)		
Redeemable noncontrolling interests	211	179
Redeemable noncontrolling interest in subsidiary common stock	1,555	1,301
Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized:		
Series A cumulative preferred stock, no shares issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock, $0.01 par value, 100,000,000 shares authorized, 2,021,754 and 2,015,589 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	20	20
Additional paid-in capital	241,102	237,796

Accumulated deficit	(209,029)	(200,439)
Total stockholders' equity of the Company	32,093	37,377
Noncontrolling interests in consolidated entities	603	52,772
Total equity	32,696	90,149
Total liabilities and equity	$79,465	$ 129,797

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUE				
Advisory services	$18,172	$18,068	$30,603	$31,393
Other	1,467	84	2,049	168
Total revenue	19,639	18,152	32,652	31,561
EXPENSES				
Salaries and benefits	11,364	15,984	22,396	25,192
Depreciation and amortization	587	272	1,055	544
General and administrative	4,947	4,088	8,596	8,529
Impairment	1,072	—	1,072	—
Other	251	—	251	—
Total expenses	18,221	20,344	33,370	34,265
OPERATING INCOME (LOSS)	1,418	(2,192)	(718)	(2,704)
Realized gain (loss) on investment in unconsolidated entity	—	—	—	(3,601)
Unrealized gain (loss) on investment in unconsolidated entity	—	—	—	2,141
Interest expense and amortization of loan costs	(15)	—	(15)	—
Interest income	38	10	71	23
Dividend income	—	33	93	46
Unrealized gain (loss) on investments	78	(234)	203	895
Realized gain (loss) on investments	(94)	470	(294)	(6,343)
Other income (expense)	(13)	(21)	(21)	(149)
INCOME (LOSS) BEFORE INCOME TAXES	1,412	(1,934)	(681)	(9,692)
Income tax (expense) benefit	(8,643)	655	(9,273)	15
NET INCOME (LOSS)	(7,231)	(1,279)	(9,954)	(9,677)
(Income) loss from consolidated entities attributable to noncontrolling interests	190	(182)	165	6,366
Net (income) loss attributable to redeemable noncontrolling interests	(4)	4	—	7
Net (income) loss attributable to redeemable noncontrolling interest in subsidiary common stock	336	351	695	466
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$(6,709)	$(1,106)	$(9,094)	$(2,838)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$(6,709)	$(1,106)	$(9,094)	$(2,838)
INCOME (LOSS) PER SHARE - BASIC AND DILUTED				
Basic:				
Net income (loss) attributable to common stockholders	$(3.32)	$(0.55)	$(4.51)	$(1.41)
Weighted average common shares outstanding - basic	2,019	2,011	2,017	2,010
Diluted:				
Net income (loss) attributable to common stockholders	$(3.85)	$(0.71)	$(4.77)	$(1.85)
Weighted average common shares outstanding - diluted	2,265	2,048	2,051	2,152

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interests in Consolidated Entities	Total	Redeemable Noncontrolling Interests	Redeemable Noncontrolling Interest in Subsidiary Common Stock
	Shares	Amount						
Balance at January 1, 2017	2,016	$ 20	$ 237,796	$ (200,439)	$ 52,772	$ 90,149	$ 179	$ 1,301
Purchases of common stock	—	—	(24)	—	—	(24)	—	—
Equity-based compensation	5	—	3,771	684	16	4,471	—	—
OpenKey warrant issuance	—	—	—	—	28	28	—	—
Deferred compensation plan distribution	1	—	112	—	—	112	—	—
Employee advances	—	—	(93)	—	—	(93)	—	—
Contributions from noncontrolling interests	—	—	—	—	650	650	—	—
Acquisition of Pure Rooms	—	—	—	—	425	425	—	—
Reallocation of carrying value	—	—	(460)	—	(341)	(801)	—	801
Redemption of noncontrolling interest holder in AQUA U.S. Fund	—	—	—	—	(52,782)	(52,782)	—	—
Redemption value adjustment	—	—	—	(180)	—	(180)	32	148
Net income (loss)	—	—	—	(9,094)	(165)	(9,259)	—	(695)
Balance at June 30, 2017	2,022	$ 20	$ 241,102	$ (209,029)	$ 603	$ 32,696	$ 211	$ 1,555

See Notes to Condensed Consolidated Financial Statements.

4

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

	Six Months Ended June 30, 2017	2016
Cash Flows from Operating Activities		
Net income (loss)	$(9,954)	$(9,677)
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	1,061	544
Change in fair value of deferred compensation plan	1,667	(684)
Realized and unrealized (gain) loss on investment in unconsolidated entity, net	—	1,460
Equity-based compensation	4,471	6,017
Excess tax (benefit) deficiency on equity-based compensation	—	314
Deferred tax expense (benefit)	6,002	485
Impairment	1,072	—
(Gain) loss on sale of furniture, fixtures and equipment	8	—
Amortization of loan costs	9	—
Realized and unrealized (gain) loss on investments, net	91	5,448
Purchases of investments in securities	—	(78,760)
Sales of investments in securities	—	153,273
Changes in operating assets and liabilities, exclusive of the effect of acquisitions:		
Prepaid expenses and other	493	532
Receivables	62	82
Due from Ashford Trust OP	1,180	2,520
Due from Ashford Prime OP	565	(2,273)
Other assets	(6)	—
Accounts payable and accrued expenses	(3,862)	(4,218)
Due to affiliates	149	499
Other liabilities	3,559	5,664
Deferred income	5,496	1,752
Net cash provided by (used in) operating activities	12,063	82,978
Cash Flows from Investing Activities		
Additions to furniture, fixtures and equipment	(474)	(335)
Proceeds from disposal of furniture, fixtures and equipment, net	15	—
Cash acquired in acquisition of Pure Rooms	129	—
Redemption of investment in unconsolidated entity	—	1,375
Net cash provided by (used in) investing activities	(330)	1,040
Cash Flows from Financing Activities		
Payments on note payable	(38)	—
Payments of loan costs	(28)	—
Excess tax benefit (deficiency) on equity-based compensation	—	(314)
Purchases of common stock	(24)	(20)
Employee advances	(93)	198
Contributions from minority interest	650	2,051
Distributions to noncontrolling interests in consolidated entities	(55,071)	(44,109)
Net cash provided by (used in) financing activities	(54,604)	(42,194)
Net change in cash, cash equivalents and restricted cash	(42,871)	41,824
Cash, cash equivalents and restricted cash at beginning of period	93,843	55,956

Cash, cash equivalents and restricted cash at end of period	$50,972	$97,780

	Six Months Ended June 30,	
	2017	2016
Supplemental Cash Flow Information		
Interest paid	$4	$133
Income taxes paid	2,981	848
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Distribution from deferred compensation plan	112	—
Capital expenditures accrued but not paid	1,831	2,607
Accrued but unpaid redemption of AQUA offshore fund	—	7
Accrued but unpaid redemption of AQUA U.S. Fund	—	2,311
Subsidiary equity consideration for Pure Rooms acquisition	425	—
Assumption of debt associated with Pure Rooms acquisition	475	—
Issuance of OpenKey warrant	28	—
Supplemental Disclosure of Cash, Cash Equivalents and Restricted Cash		
Cash and cash equivalents at beginning of period	$84,091	$50,272
Restricted cash at beginning of period	9,752	5,684
Cash, cash equivalents and restricted cash at beginning of period	$93,843	$55,956
Cash and cash equivalents at end of period	$36,972	$86,432
Restricted cash at end of period	14,000	11,348
Cash, cash equivalents and restricted cash at end of period	$50,972	$97,780

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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 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 holds approximately 598,000 shares of Ashford Inc. common stock for the benefit of its common stockholders, which represents an approximate 30% ownership interest in Ashford Inc. Ashford Prime holds approximately 195,000 shares, which represents an approximate 9.6% ownership interest in Ashford Inc.

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 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 the acquisition by the Company of certain ancillary service businesses.

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

During the first quarter of 2017, AIM served as investment adviser to Ashford Quantitative Alternative Master Fund, L.P. (the "AQUA Master Fund"), an investment partnership formed under the laws of the Cayman Islands and commenced operations on January 15, 2015. The Master Fund was organized for the purpose of purchasing, selling (including short sales), investing and trading in investments and engaging in financial transactions, including borrowing, financing, pledging, hedging and other derivative transactions. The Master Fund had one limited partner: Ashford Quantitative Alternatives (U.S.), LP (the "AQUA U.S. Fund"), a U.S. investment limited partnership. The AQUA U.S. Fund invested substantially all of its assets in the Master Fund. The Master Fund was managed by AIM GP and AIM. The AQUA Master Fund and the AQUA U.S. Fund are collectively known as the "AQUA Fund."

AIM was entitled to receive an investment management fee equal to 1.5% to 2.0% of the beginning quarterly capital account balance of certain limited partners. AIM GP serves as the general partner to the AQUA U.S. Fund and the

AQUA Master Fund. As such, it was entitled to receive a performance allocation, which was earned annually and equaled 15% to 20% of positive changes in the capital account balance of certain of its limited partners. Ashford Trust and other limited partners were not obligated to pay any portion of the management fee or the performance allocation to AIM or AIM GP, as applicable, but do share pro rata in all other applicable expenses.

On March 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 was 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%, was distributed to limited partners in cash on the Dissolution Date, and thereafter limited partners ceased to be a limited partner of the AQUA U.S. Fund. The remaining hold-back amounts were paid during the second quarter of 2017. As of June 30, 2017, AQUA U.S. Fund has been fully dissolved.

The accompanying condensed consolidated financial statements reflect the operations of our asset and investment management business including the AQUA Fund (through March 31, 2017, the date of its dissolution) and entities that we consolidate. Our asset and investment management business provides asset and investment management, accounting and legal services to Ashford Trust, Ashford Prime and the AQUA Fund. In this report, the terms the "Company," "we," "us" or "our" refers to Ashford Inc. and all entities included in its condensed consolidated financial statements.

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation 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 inter-company accounts and transactions between these entities have been eliminated in these historical condensed consolidated financial statements. The AQUA Funds are investment companies and follow the accounting and reporting guidance in Financial Accounting Standards Boards ("FASB") Accounting Standards Codification ("ASC") Topic 946. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP in the accompanying unaudited 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 2016 Annual Report on Form 10-K filed with the SEC on March 16, 2017.

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.

As of June 30, 2017, we held a variable interest in OpenKey, Inc. ("OpenKey"), a consolidated VIE in which the redeemable noncontrolling interest holder held a 41.63% interest and the noncontrolling interest holders held a 15.64% interest. As we meet the conditions discussed above, we are considered the primary beneficiary of OpenKey and therefore we consolidate it. As of June 30, 2017, OpenKey held approximately $1.3 million of total assets that primarily consisted of cash and cash equivalents and other assets that can only be used to settle its obligations. Additionally, as of June 30, 2017, OpenKey had accounts payable and accrued expenses of $260,000 for which creditors do not have recourse to Ashford Inc., and also had not drawn on its available line of credit.

As of December 31, 2016, we held a variable interest in OpenKey, in which the redeemable noncontrolling interest holder held a 46.31% interest and the noncontrolling interest holders held a 13.63% interest. As of December 31, 2016, OpenKey held approximately $960,000 of total assets that primarily consisted of cash and cash equivalents and other assets that could only be used to settle its obligations. Additionally, as of December 31, 2016, OpenKey had accounts payable and accrued expenses of $256,000 for which creditors did not have recourse to Ashford Inc.

As of June 30, 2017, we held a variable interest in PRE Opco, LLC ("Pure Rooms"), a consolidated VIE in which the noncontrolling interest holders held a 30% interest. As we meet the conditions discussed above, we are considered the

primary beneficiary of Pure Rooms and therefore we consolidate it. As of June 30, 2017, Pure Rooms held approximately $1.4 million of total assets that primarily consisted of cash and cash equivalents, receivables and other assets that can only be used to settle its obligations. As of June 30, 2017, Pure Rooms had accounts payable, notes payable and accrued expenses of $1.0 million for which creditors do not have recourse to Ashford Inc. Additionally, as of June 30, 2017, Pure Rooms had a $337,000 term loan and a $100,000 outstanding balance on a line of credit, for which creditors do not have recourse to Ashford Inc.
Use of Estimates—The preparation of these condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial

statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Restricted Cash—Restricted cash represents reserves for casualty insurance claims and the associated ancillary costs. At the beginning of each year, Ashford Inc.'s Risk Management department collects funds, from the Ashford Trust/Prime properties and their respective management companies, of an amount equal to the actuarial forecast of that year's expected casualty claims and associated fees. These funds are deposited into restricted cash and used to pay casualty claims throughout the year as they are incurred. The offset to restricted cash amounts is included in other liabilities. We early adopted Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash effective January 1, 2017. See discussion in "Recently Adopted Accounting Standards" below.

Impairment of Furniture, Fixtures and Equipment, net-Furniture, fixtures and equipment, net, which includes capitalized software implementation costs, 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 $1.1 million and $1.1 million for the three and six months ended June 30, 2017, respectively, offset by recognition of deferred income from reimbursable expenses related to capitalized software implementation costs. The impairment was recognized upon determination that a portion of the implemented software will not be placed into service. See note 13 to our condensed consolidated financial statements. No impairment charge was recorded for furniture, fixtures and equipment, net for the three and six months ended June 30, 2016.

Noncontrolling Interests—Redeemable noncontrolling interests represent the members' proportionate share of equity in earnings/losses of Ashford Holdings, which is an allocation of net income/loss attributable to the common unit holders based on the weighted average ownership percentage of these members' interest. The redeemable noncontrolling interests is classified in the mezzanine section of the condensed consolidated balance sheets as these redeemable operating units do not meet the requirements for equity classification prescribed by the authoritative accounting guidance because each common unit of membership interest may be redeemed by the holder for cash or registered shares in certain cases outside 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.

The redeemable noncontrolling interests in subsidiary common stock as of June 30, 2017 represented the 41.63% ownership interest in a consolidated VIE, OpenKey. The redeemable noncontrolling interest in subsidiary common stock is included in the "mezzanine" section of our condensed consolidated balance sheet as it is redeemable outside of the Company's control. The carrying value of the redeemable noncontrolling interests in subsidiary common stock is based on the accumulated historical cost adjusted to reflect the excess of redemption value over the accumulated historical cost.

As of June 30, 2017, noncontrolling interests in consolidated entities represented noncontrolling ownership interests of 40% in Performance Holdco, 15.64% in OpenKey and 30% in Pure Rooms. As of December 31, 2016, noncontrolling interests in consolidated entities represented noncontrolling ownership interests of 40% in Performance Holdco, 100% in the AQUA Fund and 100% in OpenKey.

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

Certain of our consolidated entities enter into multiple element arrangements with customers. For such arrangements, we determine whether each of the individual deliverables in the arrangement qualify as a separate unit of accounting, which requires that the deliverable have standalone value upon delivery. We allocate arrangement consideration to the separate units of accounting using the relative selling price method, in which allocation of consideration is based on vendor-specific objective evidence (“VSOE”) if available, third-party evidence (“TPE”), or if VSOE and TPE are not available, management’s best estimate of a standalone selling price for the units of accounting. We limit the amount of arrangement consideration to amounts that are fixed or determinable. The arrangement consideration is recognized as revenue as the deliverables are provided to the customer, which is either up front for deliverables that have standalone value upon delivery, or ratably over the period of delivery.

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

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

Investments in Unconsolidated Entities—We hold an investment in an unconsolidated entity with a carrying value of $500,000 at both June 30, 2017 and December 31, 2016, which we account for under the cost method of accounting as we do not exercise significant influence over the entity. We review the investments in unconsolidated entities for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. An investment is impaired when its estimated fair value is less than the carrying amount of our investment. Any impairment is recorded in equity in earnings/loss in unconsolidated entities. No such impairment was recorded during the three and six months ended June 30, 2017 or June 30, 2016.

Income Taxes—The Company is subject to federal and state corporate income taxes. In accordance with authoritative accounting guidance, we account for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. The AQUA Fund does not record a provision for U.S. federal, state, or local income taxes as it is a partnership, and the AQUA Fund partners report their share of the AQUA Fund’s income or loss on their income tax returns. However, certain U.S. dividend income and interest income may be subject to a maximum 30% withholding tax for those limited partners that are foreign entities or foreign individuals.

Our effective tax rates on income (loss) before income taxes for the three and six months ended June 30, 2017 and June 30, 2016 were 676% and 1,138.0%, and 33.9% and 0%, respectively. The rates reflect the effects of permanent differences, changes in the valuation allowance on our deferred tax assets, and losses attributable to noncontrolling interests in partnerships and LLC's taxed as partnerships for which taxes are not the responsibility of the Company. For the three and six months ended June 30, 2017, the rates also reflect the effect of a 0% effective tax rate on the net losses of certain consolidated VIEs due to it being more likely than not that the related deferred tax assets will not be realized primarily because of each entity's history of losses. The portion of equity-based compensation expense related to LTIP units granted to Ashford Trust employees prior to the spin-off is not deductible for income tax purposes and is accounted for as a permanent difference.

We evaluate the recoverability of our deferred tax assets quarterly to determine if valuation allowances are required or should be adjusted. We assess whether valuation allowances should be established against deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. The analysis utilized in determining the valuation allowance involves considerable judgment and assumptions. At June 30, 2017, we recorded gross deferred tax assets of $30.1 million and a full valuation allowance of $30.1 million. After consideration of all evidence, we concluded that it is not more likely than not that we will utilize our deferred tax assets. This conclusion was primarily due to our historical pretax losses and the inability to carry back our deferred tax assets to historical taxable income after the organizational structure of our tax paying entities changed from the Merger described in note 1. If our operating performance improves on a sustained basis, our conclusion regarding the need for a valuation allowance could change, resulting in the reversal of some or all of the valuation allowance in the future. The analysis utilized in determining the valuation allowance involves considerable judgment and assumptions.

The "Income Taxes" Topic of the FASB ASC addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The guidance requires us to determine whether tax positions we have taken or expect to take in a tax return are more likely than not to be sustained upon examination by the appropriate taxing authority based on the technical merits of the positions. Tax positions that do not meet the more likely than not threshold would be recorded as additional tax expense in the current period. We analyze all open tax years, as defined by the statute of limitations for each jurisdiction, which includes the federal jurisdiction and various states. We classify interest and penalties related to underpayment of income taxes as income tax expense. We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and cities. Tax years 2013 through 2016 remain subject to potential examination by certain federal and state taxing authorities.

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

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") as part of the FASB simplification initiative. The new standard requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit on the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. ASU 2016-09 also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, ASU 2016-09 increases the tax withholding requirements threshold to qualify for equity classification. ASU 2016-09 also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. ASU 2016-09 provides an optional accounting policy election to be applied on an entity-wide basis to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We have adopted this standard effective January 1, 2017, and the adoption of this standard did not have a material impact on our financial position, results of operations or cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which clarifies the presentation of restricted cash and restricted cash equivalents in the statements of cash flows. Under ASU 2016-18 restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We adopted this standard effective January 1, 2017 on a retrospective basis. The adoption of this standard resulted in the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows for all periods presented. As a result net cash provided by operating activities increased $5.4 million in the six months ended June 30, 2016. Our beginning-of-period cash, cash equivalents and restricted cash increased $9.8 million and $5.7 million in 2017 and 2016, respectively.

Recently Issued Accounting Standards—In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model, which requires a company to recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. 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. ASU 2014-09 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. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU 2015-14, Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date, which defers the effective date to fiscal periods beginning after December 15, 2017, including interim periods within that reporting period. The FASB has also issued additional updates that further clarify the requirements of Topic 606 and provide implementation guidance. The standard permits the use of either the retrospective or cumulative effect transition method.

Upon adoption of ASU 2014-09, the guidance currently applied by the Company in which it recognizes incentive fee income on an assumed liquidation basis at each reporting date will no longer be permitted. The Company expects the recognition of incentive fees, which are a form of variable consideration, to be deferred until such fees are probable of not being subject to significant reversal. We are currently in process of quantifying the impact on our financial statements.

The Company is currently in the process of implementing the standard and is continuing to evaluate the effect this guidance will have on other revenue streams, including principal versus agent considerations for reporting reimbursable revenue items gross versus net. In addition, the Company is evaluating the disclosure requirements under these standards while also identifying and preparing to implement changes to its accounting policies, practices and controls to support the new standards. The Company will adopt the new standard effective January 1, 2018.

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. We do not expect that ASU 2016-01 will have a material impact on our condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases as well as for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the 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 balance sheets resulting in the recording of right of use 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 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. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact that ASU 2016-15 will have on our 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. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact that ASU 2017-01 will have on our 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. Acquisitions

Pure Rooms

On April 6, 2017, 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 of Pure Rooms. 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 the net assets and liabilities of the predecessor operating company, Pure Rooms NA, LLC, with a fair value of $563,000 (see purchase price allocation below) 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. 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, then Series A. There is no coupon or other preference associated with the Series B-1 and B-2 unit classes.

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. 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 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.

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, goodwill, intangibles and notes payable. This valuation is considered a Level 3 valuation technique. 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 working capital balances, furniture, fixtures and equipment, goodwill, intangibles and notes payable will also impact depreciation, amortization and interest expense.

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

Equity consideration	$425
Debt assumed - note payable	375
Debt assumed - line of credit	100
Purchase price	$900

	Fair Value	Estimated Useful Life
Cash	$129	
Furniture, fixtures and equipment	170	3 years
Customer relationships	175	5 years
Goodwill	813	
Line of credit	(100)	
Note payable	(375)	
Other assumed liabilities, net of assets acquired	(387)	
Fair value of noncontrolling interest in subsidiary	$425	

Results of Pure Rooms

The results of operations of Pure Rooms have been included in our results of operations since the acquisition date. For both the three and six months ended June 30, 2017, we have included total revenue of $631,000 and a net loss of $171,000 on our condensed consolidated statements of operations. The unaudited pro forma results of operations as if the acquisition had occurred on January 1, 2016 are included below under “Pro Forma Financial Results.”

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

Goodwill and Other Intangible Assets

Approximately $813,000 of the purchase price was allocated to goodwill. We expect substantially all of the goodwill 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 Ashford Prime

The net carrying amounts of intangible assets other than goodwill are as follows (in thousands):

	June 30, 2017
Customer relationships	$ 175
Accumulated amortization	(9)
Customer relationships, net	$ 166

Amortization expense of these intangible assets over the remaining 2017 period and the next five years is expected to be the following (in thousands):

Year	Aggregate Amortization Expense
July 1, 2017 through December 31, 2017	$ 17
2018	35
2019	35
2020	35
2021	35
2022	9
	$ 166

Impairment Testing

The Company conducts impairment tests on goodwill annually or more frequently if circumstances indicate that the carrying amount of an asset may not be recoverable. We did not identify any circumstances that indicated that the carrying amount of goodwill may not be recoverable as of June 30, 2017.

Pro Forma Financial Results

The following table reflects the unaudited pro forma results of operations as if the acquisitions had occurred and the applicable indebtedness was incurred on January 1, 2016, and the removal of $87,000 and $202,000 of non-recurring transaction costs directly attributable to the acquisition for the three and six months ended June 30, 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total revenue	$19,639	$18,712	$33,358	$32,596
Net income (loss)	(7,144)	(1,215)	(9,782)	(9,937)
Net income (loss) attributable to common stockholders	(6,622)	(1,061)	(8,926)	(3,018)
Pro forma income per share:				
Basic	$(3.28)	$(0.53)	$(4.43)	$(1.50)
Diluted	$(3.81)	$(0.69)	$(4.69)	$(1.94)
Weighted average common shares outstanding (in thousands):				
Basic	2,019	2,011	2,017	2,010
Diluted	2,265	2,048	2,051	2,152

15

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

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

Indebtedness	Subsidiary	Collateral	Maturity	Interest Rate	June 30, 2017	December 31, 2016
Revolving credit facility	OpenKey	None	October 2018	Prime Rate [1] + 2.75%	$ —	$ —
Revolving credit facility	Pure Rooms	None	On demand	Prime Rate [1] + 1.00%	100	—
Term loan	Pure Rooms	None	October 2018	5.00%	336	—
Total					436	—
Less: current portion					337	—
Notes payable, gross - non-current					99	—
Deferred loan costs, net					(23)	—
Notes payable, net non-current					$ 76	$ —

[1] Prime rate was 4.25% at June 30, 2017.

On April 6, 2017, in connection with the acquired controlling interest, Pure Rooms entered into a term loan of $375,000 and a line of credit of $100,000. The term loan has a fixed interest rate of 5.0% per annum with a stated maturity date of October 2018. The line of credit has a variable interest rate of the Prime Rate plus 1.0%. 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 current.

On April 13, 2017, OpenKey entered into a Loan and Security Agreement ("Loan Agreement") for a line of credit in the amount of $1.5 million with Comerica Bank. 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%. At June 30, 2017, there were no borrowings outstanding under the Loan Agreement. In connection with the line of credit, OpenKey granted Comerica 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 was estimated to be $28,000, included in “noncontrolling interests in consolidated entities,” was recorded as debt issuance costs and will be amortized over the term of the line of credit.

5. Derivative Contracts
As of December 31, 2016, the volume of the AQUA U.S. Fund’s option derivative activities based on their notional amounts, which are the fair values of the underlying shares as if the options were exercised at December 31, 2016, was 8,000 long exposure contracts with a notional amount of $0 and no short exposure contracts. As of June 30, 2017, the AQUA U.S. Fund has been dissolved.

Options on Futures Contracts—During the six months ended June 30, 2017, we purchased no options on Eurodollar futures. During the six months ended June 30, 2016, we purchased options on Eurodollar futures for total costs of $94,000 and a maturity date of June 2017. These options were not designated as cash flow hedges. The carrying value of these options on futures contract is included in “investments in securities” in the condensed consolidated balance sheets.

6. 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.

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

•Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Total
June 30, 2017			
Liabilities			
Non-derivative liabilities:			
Deferred compensation plan	$(10,633)	$ —	$(10,633)
Total	$(10,633)	$ —	$(10,633)

	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Total	
December 31, 2016				
Assets				
Derivative assets:				
Options on futures contracts	$91	$ —	$91	
Total	91	—	91	(1)
Liabilities				
Non-derivative liabilities:				
Deferred compensation plan	(9,078)	—	(9,078)	
Total	(9,078)	—	(9,078)	
Net	$(8,987)	$ —	$(8,987)	

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

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 and Comprehensive Income (Loss)

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

	Gain (Loss) Recognized			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Assets				
Derivative assets:				
Equity put options	$ —	$ (184)	$ —	$ (470)
Equity call options	—	2,116	—	1,881
Options on futures contracts	(16)	(106)	(91)	(47)
Non-derivative assets:				
Equity securities	—	(35)	—	(6,065)
U.S. treasury securities	—	—	—	677
Total	(16)	1,791	(91)	(4,024)
Liabilities				
Derivative liabilities:				
Short equity put options	—	571	—	174
Short equity call options	—	(2,009)	—	(1,438)
Non-derivative liabilities:				