

Risk Factors Comparison 2025-02-26 to 2024-02-27 Form: 10-K

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Set forth below are the risks that we believe are material to our shareholders. You should carefully consider the following risks in evaluating our company and our business. The occurrence of any of the following risks could materially and adversely impact our financial condition, results of operations, cash flows, the market price of our common shares, and our ability to, among other things, satisfy our debt service obligations and to make distributions to our shareholders, which in turn could cause our shareholders to lose all or a part of their investment. Some statements in this report including statements in the following risk factors constitute forward- looking statements. Please refer to the section entitled "Special Note About Forward- Looking Statements" at the beginning of our Annual Report on Form 10- K. Risks Related to Our Business and Hotel Properties

Economic volatility and high rates of inflation could significantly impact and disrupt our business, financial performance and condition, operating results and cash flows. Our business strategy depends on achieving revenue and net income growth from demand for hotel rooms as part of a strong U. S. and global economy. Any economic slowdown or recession or weaker- than- anticipated growth could negatively impact demand for our hotel rooms, which in turn could materially and adversely affect our business, financial performance and condition, operating results and cash flows. Even if the U. S. ~~economy~~ and the global ~~economy~~ **economies** remain stable or grow in **2024-2025**, we cannot provide any assurances that demand for hotel rooms will increase from current levels. If demand does not increase in the near future, or if demand weakens, our future results of operations and ~~our~~ growth prospects could be materially and adversely affected. ~~Recent price~~ **Price** volatility, dislocations and liquidity disruptions in the U. S. ~~financial markets have caused stock market prices to fluctuate substantially and the spreads on prospective debt financings to widen considerably.~~ Ongoing volatility and uncertainty in the financial markets may negatively impact our ability to access additional financing for our capital needs, including growth, acquisition activities and other business initiatives, on **Table of Contents** favorable terms or at all, which may negatively affect ~~Table of Contents~~ our business. A prolonged downturn in the financial markets may cause us to seek alternative capital sources of potentially less attractive financing and may require us to further adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of new equity or the incurrence of additional secured or unsecured debt, which could materially and adversely affect us. In addition to market volatility, **any future increases in** the United States and the rest of the world have recently experienced significant inflation **would**. Inflation poses ~~pose~~ a risk to us due to **the possibility of** increases in interest rates, ~~as well as the possibility of future increases in interest rates,~~ which ~~have~~ **would** adversely ~~impacted~~ **impact** our outstanding variable rate debt and may result in higher interest rates on any new fixed rate debt we may incur. We have entered into interest rate swaps to limit our exposure to interest rate fluctuations related to a portion of our variable rate debt. However, in a high interest rate environment, the fixed rates we can obtain with such replacement fixed rate swap agreements, and the fixed rate on any new debt we may incur, will also continue to be high. Inflation may also have an adverse effect on our operating expenses, including, but not limited to, labor, supplies, repairs and maintenance, as these costs could increase at a rate higher than our revenues. Inflation could also have an adverse effect on consumer spending, which could impact Occupancy levels at our hotel properties and, in turn, our own results of operations. We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate cash depends on many factors beyond our control, and we may not be able to generate cash required to service our debt. Our ability to meet our debt service obligations or refinance our debt depends on our future operating and financial performance and capacity to generate cash. Our performance and capacity to generate cash will be affected by our ability to implement our business strategy successfully, but also certain general economic, financial, competitive, regulatory and other factors beyond our control. If we cannot generate sufficient cash to meet our debt service obligations or fund our other business needs, we may, among other things, need to refinance all or a portion of our debt, obtain additional financing, or delay planned capital expenditures. We cannot assure you that we will be able to generate sufficient cash through any of the foregoing. If we are unable to refinance any of our debt or obtain additional financing on reasonable terms or at all, we may not be able to satisfy our debt obligations. We will continue to be significantly influenced by the economies and other conditions in the specific markets in which we operate, particularly in the metropolitan areas where we have high concentrations of hotels. Our hotels located in the Northern California, Southern California, South Florida, Chicago, Illinois, and Houston, Texas metropolitan areas accounted for approximately 13. 2 %, 11. 0 %, 9. 0 %, 6. ~~8-6~~ % and 5. 8 %, respectively, of our total number of rooms available for the fiscal year ended December 31, ~~2023-2024~~. As a result, we are particularly susceptible to adverse market conditions in these areas, including industry downturns, relocation of businesses, constrained municipal budgets, any oversupply of hotel rooms, criminal activity, political and societal unrest, supply- chain issues and inflationary pressures, or a reduction in lodging demand. Additionally, our hotels located in the Austin, Texas metropolitan area, which accounted for 3. 0 % of our total number of rooms available for the fiscal year ended December 31, ~~2023-2024~~, face the risk of the ~~potential~~ **anticipated** closure of the Austin Convention Center in 2025, which could result in a decrease in lodging demand in this market. Adverse economic developments in the markets in which we have a concentration of hotels, or in any of the other markets in which we operate, or any increase in hotel supply or decrease in lodging demand resulting from the local, regional or national business or political climate, could materially and adversely affect us. We are dependent on the performance of the **independent managers** ~~third- party management companies~~ that manage the operations of each of our hotels and we could be materially and adversely affected if such third- party hotel managers do not manage our hotels in our best interests **or are financially unable or unwilling to perform**. Because U. S. federal income tax laws restrict REITs and their **obligations** subsidiaries from operating or managing hotel properties, we do not operate or manage our hotel

properties. ~~We~~ Instead, we retain independent third-party hotel managers to operate our hotel properties pursuant to management agreements. As of December 31, 2023-2024, all of our hotel properties had individual management agreements, 31-30 of which were with Aimbridge Hospitality ("Aimbridge") and 21 of which were with Hilton. The success of our hotel properties depends largely on our ability to establish and maintain good relationships with the hotel managers. From time to time, disputes may arise between us and our third-party managers regarding their performance or compliance with the terms of the management agreements, which in turn could adversely affect our results of operations. We generally will attempt to resolve any such disputes through discussions and negotiations; however, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to terminate our management agreement, litigate the dispute or submit the matter to third-party dispute resolution, the outcome of which may be unfavorable to us. In the event that any of our management agreements are terminated, we can provide no assurances that we could find a replacement manager or that our franchisors will consent to a replacement manager in a timely manner, or at all, or that any replacement manager will be successful in operating our hotels. Furthermore, if Aimbridge and / or Hilton, as our largest providers of management services, are financially unable or unwilling to perform their obligations pursuant to our management agreements, our ability to find a replacement manager or managers for our Aimbridge- and / or Hilton- managed hotels could be challenging, costly and time consuming. **Any adverse developments in Aimbridge's or Hilton's business, financial strength or ability to operate our hotel properties efficiently and effectively could have a material adverse effect on our results of operations.** Costs associated with, or failure to maintain, franchisor operating standards may materially and adversely affect us. Under the terms of our franchise license agreements, we are required to meet specified operating standards and other terms and conditions. We expect that our franchisors will periodically inspect our hotel properties to ensure that we and the hotel management companies follow brand standards. Failure by us, or any management company that we engage, to maintain these standards or other terms and conditions could result in a franchise license being canceled or the franchisor requiring us to undertake a costly property improvement program. If a franchise license is terminated due to our failure to make required improvements or to otherwise comply with its terms, we also may be liable to the franchisor for a termination payment, which will vary by franchisor and by hotel. If the funds required to maintain franchisor operating standards are significant, we could be materially and adversely affected. In addition, if we were to lose a franchise license, the underlying value of a particular hotel property could decline significantly from the loss of the associated name recognition, marketing support, participation in guest loyalty programs and the centralized reservation system provided by the franchisor, which could require us to recognize an impairment charge on the hotel property. Furthermore, the loss of a franchise license at a particular hotel property could harm our relationship with the franchisor, which could impede our ability to operate other hotels under the same brand, limit our ability to obtain new franchise licenses from the franchisor in the future on favorable terms, or at all, and cause us to incur significant costs to obtain a new franchise license for the particular hotel. ~~We are subject to bear the costs and the other risks of associated with the employment of the independent managers' hotel personnel, particularly pursuant to our hotel management agreements. The independent managers that we engage to operate our hotels employ all employees (and contract with other independent contractors and service providers) who work at our hotels that. Although we do not employ, supervise, or unionized labor. Our third-party management--- manage companies the independent managers' employees, we are responsible for hiring and maintaining the costs labor force at each of the independent our hotels. Although we do not directly employ or manage managers the employees at our hotels, as well as we still are subject to many of the other costs and risks generally associated with the having and maintaining a hotel labor force, particularly those which may be more pronounced at a hotels- hotel with where the independent manager's employees are unionized labor.~~ From time to time, hotel operations may be disrupted as a result of strikes, lockouts, public demonstrations or other negative actions and publicity. The resolution of labor disputes or re-negotiated labor contracts could lead to higher labor costs, either by increases in wages or benefits or by changes in work rules that raise hotel operating costs. ~~We do not have the ability to affect the outcome of these negotiations. Hotels where our managers have collective bargaining agreements with their employees are more highly affected by labor force activities than others. Furthermore, labor agreements may limit the ability of our hotel managers to reduce the size of the hotel workforce during an economic downturn because collective bargaining agreements are negotiated between the hotel managers and labor unions. Our ability, if any, to have any material impact on the outcome of these negotiations is restricted by and dependent on the individual management agreement covering a specific property, and we may have limited ability (or in some cases, no ability) to control the outcome of these negotiations cost increases related to our independent managers' employees.~~ Labor shortages could slow our growth or harm our business. Our success depends in part upon our independent managers third-party management companies' ability to attract, motivate and retain a sufficient number of qualified employees. Qualified individuals needed to fill these positions are in short supply in some areas. The inability to recruit and retain these individuals may adversely impact hotel operations and guest satisfaction, which could harm our business. Additionally, competition for qualified employees has required us to pay meaningfully higher wages to attract enough employees than has historically been the case, and continued tightness in labor markets could result in continued escalation of labor costs. In addition, we could face some challenges meeting workforce requirements resulting from changes in workforce dynamics, such as higher standards and working remotely or more flexibility, which could result in increased labor costs in the future. Restrictive covenants in certain of our management and franchise agreements contain provisions limiting or restricting the sale or financing of our hotels, which could have a material and adverse effect on us. Our management and franchise agreements may contain restrictive covenants that limit or restrict our ability to sell or refinance a hotel without the consent of the management company or franchisor. Some of our franchise agreements provide the franchisor with a right of first offer in the event of certain sales or transfers of a hotel and provide that the franchisor has the right to approve any change in the management company engaged to manage the hotel. Generally, we may not agree to sell, lease or otherwise transfer particular hotels unless the transferee is not a competitor of the management company or franchisor and the transferee assumes the related management and / or franchise agreements. If the

management company or franchisor does not consent to the sale or financing of our hotels, we may still sell the hotels, but there could be adverse consequences. Our ownership of hotel properties with ground leases exposes us to the risks that we may be forced to sell such hotel properties for a lower price, we may have difficulties financing such hotel properties, we may be unable to renew a ground lease or we may lose such hotel properties upon breach of a ground lease. As of December 31, ~~2023~~ **2024**, ~~13~~ **12** of our consolidated hotel properties, as well as one unconsolidated hotel property, were on land subject to ground leases. Accordingly, we only owned ~~a leasehold or similar interest in 14 hotel properties. In January 2024, we acquired a fee simple interest in the Wyndham Boston Beacon Hill for approximately \$ 125.0 million. We now own~~ a leasehold or similar interest in 13 hotel properties. Our ground lease at Wyndham San Diego Bayside expires in 2029, and if this lease is not extended, this hotel property would be turned over to the ground lessor. Our ground lease agreements require the consent of the lessor or sub-lessor prior to transferring our interest in the ground lease. These provisions may impact our ability to sell our hotel properties which, in turn, could adversely impact the price realized from any such sale. In addition, at any given time, investors may be disinterested in buying hotel properties subject to a ground lease and may pay a lower price for such hotel properties than for a comparable hotel property with a fee simple interest or they may not purchase such hotel properties at any price. Secured lenders may be unwilling to lend, or otherwise charge higher interest rates, for loans secured by a leasehold mortgage as compared to loans secured by a fee simple mortgage. If we are found to be in breach of a ground lease, we could lose the right to use the hotel property. In addition, unless we can purchase a fee simple interest in the underlying land or extend the terms of these leases before their expiration, as to which no assurance can be given, we will lose our right to own these hotel properties and our interest in the improvements upon expiration of the leases. If we were to lose the right to use a hotel property due to a breach or non-renewal of the ground lease, we would be unable to derive income from such hotel property and we would be required to purchase an interest in another hotel property in an attempt to replace that income, which could materially and adversely affect us. Most of our hotel properties operate under either Marriott, Hilton or Hyatt brands; therefore, we are subject to the risks associated with concentrating our portfolio in just three brand families. ~~87-86~~ **87-86** of the ~~97-96~~ **97-96** hotel properties that we owned as of December 31, ~~2023~~ **2024** utilize brands owned by Marriott, Hilton or Hyatt. As a result, our success is dependent in part on the continued success of Marriott, Hilton and Hyatt and their respective brands. We believe that building brand value is critical to increasing demand and building customer loyalty. Consequently, if market recognition or the positive perception of Marriott, Hilton or Hyatt is reduced or compromised, the brand value associated with the Marriott-, Hilton-, or Hyatt- branded hotels in our portfolio may be adversely affected. Furthermore, if our relationship with Marriott, Hilton or Hyatt were to deteriorate or terminate as a result of disputes regarding the management of our hotels or for other reasons, Marriott, Hilton or Hyatt could, under certain circumstances, terminate our current franchise licenses with them or decline to provide franchise licenses for hotels that we may acquire in the future. If any of the foregoing were to occur, it could have a material adverse effect on us. The failure to make and integrate acquisitions of additional hotels could materially and adversely impede our growth. We can provide no assurances that we will be successful in identifying attractive hotel properties or portfolios of hotel properties or that, once identified, we will be successful in consummating an acquisition or integrating the acquired property or portfolio into our business. We face significant competition for attractive investment opportunities from other investors, some of which have greater financial resources, a lower cost of capital and greater access to debt and equity capital than we do. As a result, we may be unable to acquire certain hotel properties or portfolios of hotel properties that we deem attractive or the purchase price may be significantly elevated or other terms may be substantially more onerous. In addition, we expect to finance future acquisitions through a combination of borrowings under our unsecured revolving credit facility or other secured or unsecured borrowings, the use of retained cash flows, and offerings of equity and debt securities, which may not be available on advantageous terms, or at all. Any delay or failure on our part to identify, negotiate, finance on favorable terms, consummate and integrate such acquisitions could materially and adversely impede our growth. Following an acquisition or expansion, we may incur acquisition-related costs and assume potential unknown liabilities and unforeseen increased costs or expenses. The integration of such acquisitions, especially acquisitions of portfolios of hotel properties, may cause disruptions to our business, strain management time and resources and materially and adversely affect our operating results and financial condition. Any difficulties in obtaining the capital necessary to make required periodic capital expenditures and to renovate our hotel properties could materially and adversely affect our financial condition and results of operations. Our hotel properties have an ongoing need for renovations and other capital improvements, including the replacement of furniture, fixtures and equipment ("FF & E"), franchisor-required improvements, and renovation or redevelopment of acquisitions. Our lenders also generally require that we set aside annual amounts for capital improvements to our hotel properties. The costs of these capital improvements may increase due to ongoing supply-chain disruptions and increased construction costs, and could materially and adversely affect us. In addition, due to ~~the current~~ supply-chain constraints and disruptions, we could face difficulties sourcing the goods and services in a timely manner, which could adversely affect us. We may not be able to fund the capital improvements to our hotel properties or acquisitions solely from the cash provided from our operating activities because we must distribute annually at least 90 % of our REIT taxable income to shareholders in order to maintain our qualification as a REIT. Consequently, we expect to rely upon the availability of debt or equity capital to fund capital improvements and acquisitions. **If Particularly in light of current market volatility and the high interest rate environment, if** we are unable to obtain the capital necessary to make the required periodic capital expenditures and to renovate our hotel properties on favorable terms, or at all, our financial condition, liquidity and results of operations could be materially and adversely affected. Competition from other lodging industry participants in the markets in which we operate could adversely affect Occupancy levels and / or ADRs, which could have a material and adverse effect on us. We face significant competition from owners and operators of other hotels and other lodging industry participants. In addition, we face competition from non-traditional accommodations for travelers, such as online services that market homes, apartments and condominiums as an alternative to hotel rooms. Our competitors may have an operating model that enables them to offer accommodations at lower rates than we can, which could result in our competitors

increasing their Occupancy at our expense and adversely affecting our ADRs. Given the importance of Occupancy and ADR at focused- service and compact full- service hotels, this competition could adversely affect our ability to attract prospective guests, which could materially and adversely affect our business, financial condition and results of operations. At December 31, ~~2023~~ **2024**, we had approximately \$ 2. 2 billion of debt outstanding, which could materially and adversely affect our operating performance and put us at a competitive disadvantage. Required repayments of debt and related interest may materially and adversely affect our operating performance. At December 31, ~~2023~~ **2024**, we had approximately \$ 2. 2 billion of outstanding debt. In addition, we may incur substantial additional debt, including secured debt, in the future. After taking into consideration the effect of interest rate swaps, ~~88~~ **69**. 5 % of our payments are fixed or effectively fixed. Interest rates could increase, and this would increase our interest expense on any future fixed and variable rate debt, as well as existing variable rate debt, which could adversely affect our cash flows and our ability to pay distributions to shareholders. We have entered into interest rate swaps to limit our exposure to interest rate fluctuations related to a portion of our variable rate debt. However, if our interest rate swaps expire in a high interest rate environment, the fixed rates we can obtain with new interest rate swap agreements would be higher than the interest rates of the expired swaps. Because we anticipate that our operating cash flow will be adequate to repay only a portion of our debt at maturity, we expect that we will be required to repay debt through debt refinancings and / or offerings of our securities. The amount of our outstanding debt may adversely affect our ability to refinance our debt. If we are unable to refinance our debt on acceptable terms, or at all, we may be forced to dispose of one or more of our hotels on disadvantageous terms, which may result in losses to us and may adversely affect the cash available for distributions to our shareholders. In addition, if the prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, our interest expense would increase, which would adversely affect our future operating results and liquidity. Our outstanding debt, and any additional debt borrowed in the future, may subject us to many risks, including the risk that: • our cash flows from operations may be insufficient to make required payments of principal and interest; • we may be required to use a substantial portion of our cash flows to pay principal and interest, which would reduce the cash available for distributions to our shareholders; • we may be at a competitive disadvantage compared to our competitors that have less debt; • we may be vulnerable to economic volatility, particularly if growth were to slow or stall and reduce our flexibility to respond to difficult market, industry, or economic conditions; • the terms of any refinancing may not be in the same amount or on terms as favorable as the terms of the debt being refinanced; and • the use of leverage could adversely affect our ability to borrow more money for operations and capital improvements, to finance future acquisitions of hotel properties, to make distributions to our shareholders, and to repurchase common shares, and it could adversely affect the market price of our common shares. Our existing indebtedness contains covenants and our failure to comply with all covenants in our debt agreements could materially and adversely affect us. Our existing indebtedness contains customary and financial covenants that may limit our ability to capitalize on business opportunities. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, incur liens on certain assets, engage in certain mergers, liquidations or consolidations, sell certain assets, make restricted payments (including the payment of dividends and other distributions), engage in certain transactions with affiliates, enter into sale and leaseback transactions, make investments and capital expenditures, and acquire real estate assets. In addition, our ability to borrow under our unsecured revolving credit facility is subject to compliance with our financial and other covenants, including covenants relating to debt service coverage ratios and leverage ratios. Our failure to comply with covenants in our existing or future indebtedness, as well as our inability to make required principal and interest payments, could cause a default under the applicable debt agreement, which could result in the acceleration of the debt and require us to repay such debt with capital obtained from other sources, which may not be available to us or may be available only on unattractive terms. Furthermore, if we default on secured debt, lenders can take possession of the hotel (s) securing such debt. In addition, debt agreements may contain specific cross- default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default on their debt and to enforce remedies, including accelerating the maturity of such debt upon the occurrence of a default under such other indebtedness. If we default on several of our debt agreements or any significant debt agreement, we could be materially and adversely affected. U. S. federal income tax provisions applicable to REITs may restrict our business decisions regarding the potential sale of a hotel property. The provisions of the Internal Revenue Code of 1986, as amended (the " Code"), applicable to REITs require that we hold our hotel properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of hotel properties that otherwise would be in our best interests. Therefore, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may materially and adversely affect our cash flows, our ability to make distributions to shareholders and the market price of our common shares. The U. S. federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a " prohibited transaction" that is subject to a 100 % excise tax. We intend to hold our hotel properties for investment with a view of long- term appreciation, to engage in the business of acquiring and owning hotel properties, and to make occasional sales of hotel properties consistent with our investment objectives. There can be no assurance, however, that the Internal Revenue Service (the " IRS") might not contend that the income from one or more of these sales is subject to the 100 % excise tax. Moreover, the potential to incur this penalty tax could deter us from selling one or more hotel properties even though it would be in the best interests of us and our shareholders for us to do so. There is a statutory safe harbor available for a limited number of sales in a single taxable year of properties that have been owned by a REIT for at least two years, but that safe harbor likely would not apply to all sale transactions that we might otherwise consider. Joint venture investments could be adversely affected by our lack of sole decision- making authority, our reliance on joint venture partners' financial condition and liquidity and disputes between us and our joint venture partners. We own certain hotel properties through joint ventures. In the future, we may enter into additional joint ventures to acquire, develop, improve or partially dispose of hotel properties, thereby reducing the amount of capital required by us to make investments and diversifying

our capital sources for growth. Such joint venture investments involve risks not otherwise present in a wholly- owned hotel property or a redevelopment project, including the following:

- we may not have exclusive control over the hotel property or the joint venture, which may prevent us from taking actions that are in our best interest but opposed by our partners;
- joint venture agreements often restrict the transfer of a partner' s interest or may otherwise restrict our ability to sell the interest when we desire, or on advantageous terms;
- joint venture agreements may contain provisions pursuant to which one partner may initiate procedures requiring the other partner to choose between buying the other partner' s interest or selling its interest to that partner;
- a partner may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;
- a partner may fail to fund its share of required capital contributions or may become bankrupt, which would mean that we and any other remaining partners generally would remain liable for the joint venture' s liabilities; or
- we may, in certain circumstances, be liable for the actions of a partner, and the activities of a partner could adversely affect our ability to qualify as a REIT, even though we do not control the joint venture.

Any of the above might subject a hotel property to liabilities in excess of those contemplated and adversely affect the value of our current and future joint venture investments. The future outbreak of highly infectious or contagious diseases could significantly impact and disrupt our business, financial performance and condition, operating results and cash flows. If we experience a pandemic or epidemic in the future, any increases in unemployment, decreased capital spending, declines in consumer confidence, increases in inflation, supply- chain issues, or economic slowdowns or recessions that may result therefrom could cause sustained negative consumer or business sentiment and reduced demand for travel and lodging, which would materially and adversely affect our business, financial performance and condition, operating results and cash flows.

Risks Related to the Lodging Industry

Our ability to make distributions to our shareholders may be adversely affected by various operating risks common to the lodging industry, including competition, over- building and dependence on business travel and tourism. Our hotel properties have different economic characteristics than many other real estate assets. Unlike other real estate assets, hotels generate revenue from guests that typically stay at the hotel property for only a few nights, which causes the room rate and Occupancy levels at each of our hotels to change every day, and results in earnings that can be highly volatile. In addition, our hotel properties are subject to various operating risks common to the lodging industry, many of which are beyond our control, including, among others, the following:

- seasonality of the lodging industry may cause quarterly fluctuations in our operating results;
- over- building of hotels in the markets in which we operate, which results in an increased supply of hotels that will adversely affect Occupancy and revenues at our hotel properties;
- consolidation among companies in the lodging industry may increase the resulting companies' negotiating power relative to ours, and decrease competition among those companies for management and franchise agreements, which could result in higher management or franchise fees;
- increases in the number of brands owned by Marriott, Hilton and Hyatt, which could result in increased competition for our hotels;
- competition from non- traditional accommodations for travelers, such as online services that market homes, apartments and condominiums as an alternative to hotel rooms;
- dependence on business and leisure travelers;
- increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and leisure travelers;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- adverse effects of international, national, regional and local economic and market conditions;
- adverse effects of worsening conditions in the lodging industry; and
- risks generally associated with the ownership of hotels and real estate, as we discuss in detail below.

The occurrence of any of the foregoing could materially and adversely affect us. The cyclical nature of the lodging industry may cause fluctuations in our operating performance, which could have a material and adverse effect on us. The lodging industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the lodging industry' s performance, and over- building has the potential to further exacerbate the negative impact of an economic recession. Room rates and Occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will rebound or whether any such rebound will be sustained. An adverse change in lodging fundamentals could result in returns that are substantially below our expectations or result in losses, which could have a material and adverse effect on us. Technology is used in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm the business. We, and our hotel managers and franchisors, rely on information technology networks and systems to process, transmit and store electronic information, and to manage or support a variety of business processes. These information technology networks and systems can be vulnerable to threats such as system, network or internet failures; computer hacking or business disruption; cyber- terrorism; viruses, worms or other malicious software programs; and employee error, negligence or fraud. Although we believe we and our hotel managers and franchisors have taken commercially reasonable steps to protect the security of our systems, there can be no assurance that such security measures will prevent failures, inadequacies or interruptions in system services, or that system security will not be breached. Any failure to maintain proper function, security and availability of information technology networks and systems could interrupt our operations, our financial reporting and compliance, damage our reputation, and subject us to liability claims or regulatory penalties, which could have a material and adverse effect on our business, financial condition and results of operations. Future terrorist attacks or changes in terror alert levels could materially and adversely affect us. Historically, terrorist attacks and subsequent terrorist alerts have adversely affected the U. S. travel and hospitality industries, often disproportionately to the effect on the overall economy. The extent of the impact that actual or threatened terrorist attacks in the U. S. or elsewhere could have on domestic and international travel and our business in particular cannot be determined, but any such attacks or the threat of such attacks could have a material and adverse effect on travel and hotel demand and our ability to insure our hotel properties, which could materially and adversely affect us. We face possible risks associated with natural disasters, weather events,

wildfires, and the physical effects of climate change. We are subject to the risks associated with natural disasters, weather events, **wildfires**, and the physical effects of climate change, any of which could have a material adverse effect on our properties, operations and business. Over time, our hotel properties located in coastal markets and other areas that may be impacted by climate change are expected to experience increases in storm intensity and rising sea- levels, causing damage to our hotel properties. As a result, we could become subject to significant losses and / or repair costs that may or may not be fully covered by insurance. Other markets may experience prolonged variations in temperature or precipitation that may limit access to the water needed to operate our hotel properties or significantly increase energy costs, which may subject those properties to additional regulatory burdens, such as limitations on water usage or stricter energy efficiency standards. **Natural disasters**, ~~Weather~~ **weather** events and climate change may also affect our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable in areas most vulnerable to such events, increasing operating costs at our hotel properties, such as the cost of water or energy, and requiring us to expend funds as we seek to repair and protect our hotel properties against such risks. There can be no assurance that natural disasters, weather events, or climate change will not have a material adverse effect on our hotel properties, operations or business.

Risks Related to Our Organization and Structure

The share ownership limits imposed by the Code for REITs and our declaration of trust may restrict share transfers and / or business combination opportunities. In order for us to maintain our qualification as a REIT under the Code, not more than 50 % in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year following our first year of taxation as a REIT. Our declaration of trust, with certain exceptions, authorizes our board of trustees to take the necessary actions to preserve our qualification as a REIT. Unless exempted by our board of trustees, no person or entity (other than a person or entity who has been granted an exception) may directly or indirectly, beneficially or constructively, own more than 9.8 % of the aggregate of our outstanding common shares, by value or by number of shares, whichever is more restrictive, or 9.8 % of the aggregate of the outstanding preferred shares of any class or series, by value or by number of shares, whichever is more restrictive. Our board of trustees may, in its sole discretion, grant an exemption to the share ownership limits, subject to certain conditions and the receipt by our board of trustees of certain representations and undertakings. During the time that such waiver is effective, the excepted holders will be subject to an increased ownership limit. As a condition to granting such limited exemptions, the excepted holders are required to make representations and warranties to us, which are intended to ensure that we will continue to meet the REIT ownership requirements. The excepted holders must inform us if any of these representations becomes untrue or is violated, in which case such excepted holder will lose its limited exemption from the share ownership limits. It may be difficult or impractical to effect a change in control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then- prevailing market price of our common shares. Certain advance notice provisions of our bylaws may inhibit a change in control. These advance notice provisions may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium to the market price of our common **stock shares** or otherwise be in our shareholders' best interests. Termination of the employment agreements with our executive officers could be costly and prevent a change in control. The employment agreements that we entered into with each of our executive officers provide that, if their employment with us terminates under certain circumstances (including upon a change in control), we are required to pay them severance compensation, including accelerating the vesting of their respective equity awards, thereby making it costly to terminate their employment without cause. Furthermore, these provisions could delay or prevent a transaction or a change in control that might involve a premium paid for our common shares or otherwise be in the best interests of our shareholders. Our declaration of trust contains provisions that make the removal of our trustees difficult, which could make it difficult for our shareholders to effect changes to our management. Our declaration of trust provides that, subject to the rights of the holders of one or more classes or series of preferred shares to elect or remove one or more trustees, a trustee may be removed only for cause and only by the affirmative vote of the holders of at least two-thirds of the votes entitled to be cast in the election of trustees and that our board of trustees has the exclusive power to fill vacant trusteeships, even if the remaining trustees do not constitute a quorum. These provisions make it more difficult to change our management by removing and replacing trustees and it may delay or prevent a change in control that is in the best interests of our shareholders. Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit our shareholders' recourse in the event of actions not in our shareholders' best interests. Under Maryland law, generally, a trustee is required to perform his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Under Maryland law, trustees are presumed to have acted with this standard of care. In addition, our declaration of trust limits the liability of our trustees and officers to us and our shareholders for monetary damages, except for liability resulting from the: • actual receipt of an improper benefit or profit in money, property or services; or • active and deliberate dishonesty by the trustee or officer that was established by a final judgment as being material to the cause of action adjudicated. Our declaration of trust and bylaws obligate us, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of the final disposition of a proceeding to any present or former trustee or officer who is made or threatened to be made a party to the proceeding by reason of his or her service to us in that capacity. In addition, we may be obligated to advance the defense costs incurred by our trustees and officers. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist absent the current provisions in our declaration of trust and bylaws or that might exist with other companies. If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. To monitor the accuracy and reliability of our financial reporting, we have established an internal audit function that oversees our internal controls. In addition, we have developed policies and procedures with respect to company- wide business processes and cycles in order to implement an effective system of internal control over financial reporting. We have established, or caused our **independent**

~~managers third-party management companies~~ to establish, controls and procedures designed to ensure that hotel revenues and expenses are properly recorded at our hotels. We cannot be certain that we will be successful in maintaining effective internal control over financial reporting and we may determine in the future that our existing internal controls need improvement. If we fail to maintain an effective system of internal control, we could be materially harmed or we could fail to meet our reporting obligations. In addition, the existence of a material weakness in our internal controls could result in errors to our financial statements that could require a restatement, cause us to fail to meet our reporting obligations, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits and cause investors to lose confidence in our reported financial information, any of which could lead to a substantial decline in the market price of our common shares.

Risks Related to the Real Estate Industry The illiquid nature of real estate investments could significantly impede our ability to respond to changing economic, financial, and investment conditions or changes in the operating performance of our hotel properties, which could materially and adversely affect our cash flows and results of operations. Real estate investments, including the ~~focused-service and compact full-service~~ hotels in our portfolio, are relatively illiquid. As a result, we may not be able to sell a hotel or hotels quickly or on favorable terms in response to changing economic, financial and investment conditions or changes in the hotel's operating performance when it otherwise may be prudent to do so. We cannot predict whether we will be able to sell any hotel property we desire to sell for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We may be required to expend funds to correct defects or to make improvements before a hotel can be sold, and we cannot provide any assurances that we will have the funds available to correct such defects or to make such improvements. Our inability to dispose of assets at opportune times or on favorable terms could materially and adversely affect our cash flows and results of operations. ~~In some cases, we may be restricted from disposing of properties contributed to us in the future in exchange for our OP units under tax protection agreements with contributors unless we incur additional costs related to indemnifying those contributors.~~ Uninsured and underinsured losses at our hotel properties could materially and adversely affect us. We maintain comprehensive property insurance on all of our hotel properties and we intend to maintain comprehensive property insurance on any hotels that we acquire in the future, including fire, terrorism, and extended coverage. Our comprehensive property insurance program has a \$ 250, 000 deductible per claim. In addition to the comprehensive property insurance, we maintain general liability insurance at all of our hotel properties. Our general liability insurance program has no deductible. Certain types of catastrophic losses, such as windstorms, earthquakes, floods, and losses from foreign and domestic terrorist activities may not be insurable or may not be economically insurable. Even when insurable, these policies may have high deductibles and / or high premiums. **26 Certain** of our coastal hotel properties each have a deductible of 5 % of total insured value for a named storm, and our hotels located in areas susceptible to earthquakes have deductibles of up to 5 % of total insured value. Our lenders may require such insurance and our failure to obtain such insurance could constitute a default under the loan agreements, which could have a material and adverse effect on us. In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment, which could have a material and adverse effect on us. Should an uninsured loss or a loss in excess of insured limits occur, or should we be unsuccessful in obtaining coverage from an insurance carrier, we could lose all or a portion of the capital we have invested in a hotel property, as well as the anticipated future revenue from the hotel property. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the hotel property. We could incur significant costs related to government regulation and litigation with respect to environmental matters, which could have a material and adverse effect on us. Our hotel properties are subject to various U. S. federal, state and local environmental, health and safety laws and regulations that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current owner of a hotel property, to perform or pay for the cleanup of contamination at, on, under or emanating from the hotel and to pay for natural resource damages arising from such contamination. Because these laws also impose liability on persons who owned or operated a property at the time it became contaminated, it is possible we could incur cleanup costs or other environmental liabilities even after we sell or no longer operate the hotel properties. The liabilities and the costs associated with environmental contamination at our hotel properties, defending against the claims related to alleged or actual environmental issues, or complying with environmental, health and safety laws could be material and could materially and adversely affect us. The discovery of material environmental liabilities at our hotel properties could subject us to unanticipated costs, which could significantly reduce or eliminate our profitability and the cash available for distribution to our shareholders. We may from time to time be subject to litigation that could expose us to uncertain or uninsured costs. As owners of hotel properties, we may from time to time face potential claims, litigation and threatened litigation from guests, visitors to our hotel properties, contractors, sub- contractors and others. These claims and proceedings are inherently uncertain and their costs and outcomes cannot be predicted with certainty. Some of these claims may result in defense costs, settlements, fines or judgments against us, and some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have a material and adverse impact on our financial position and results of operations. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could materially and adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured, and / or adversely impact our ability to attract officers and trustees.

Risks Related to Our Status as a REIT If we do not qualify as a REIT, or if we fail to remain qualified as a REIT, we will be subject to U. S. federal income tax and potentially state and local taxes, which would reduce our earnings and the amount of cash available for distribution to our shareholders. If we were to fail to qualify as a REIT in any taxable year and any available relief provisions do not apply, we would be subject to U. S. federal and state corporate income tax, and dividends paid to our shareholders would not be deductible by us in computing our taxable income. Unless we were entitled to statutory relief under certain Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT. Any determination that we do not qualify as a REIT would have a material adverse effect on our results of operations and could materially reduce the

value of our common shares. Our additional tax liability could be substantial and would reduce our net earnings available for investment, debt service and / or distributions to shareholders. REIT distribution requirements could adversely affect our ability to execute our business plan or require us to make distributions of our shares or other securities. We generally must distribute to our shareholders annually at least 90 % of our " REIT taxable income," subject to certain adjustments and excluding any net capital gain. From time to time, we may generate taxable income greater than our cash flow. In addition, we may be subject to limitations on the ability to use our net operating loss carryovers to offset taxable income that we do not distribute. If we do not have other funds available in these situations, we could be required to (i) borrow funds on unfavorable terms, (ii) sell investments at disadvantageous prices, (iii) distribute amounts that would otherwise be invested in future acquisitions, or (iv) make a taxable distribution of our common shares as part of a distribution in which shareholders may elect to receive our common shares or (subject to a limit measured as a percentage of the total distribution) cash to make distributions sufficient to enable us to pay out enough of our REIT taxable income to satisfy the REIT distribution requirements. These alternatives could increase our costs or reduce our shareholders' equity. Thus, compliance with the REIT distribution requirements may hinder our ability to grow, which could adversely affect the value of our shares. If our leases are not respected as true leases for U. S. federal income tax purposes, we would likely fail to qualify as a REIT. To qualify as a REIT, we must satisfy two gross income tests, pursuant to which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with our TRSs, which we currently expect will continue to constitute substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for U. S. federal income tax purposes and must not be treated as service contracts, joint ventures or some other type of arrangement. We believe that the leases will be respected as true leases for U. S. federal income tax purposes. There can be no assurance, however, that the IRS will agree with this characterization. If the leases were not respected as true leases for U. S. federal income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs and would likely lose our REIT status. Additionally, we could be subject to a 100 % excise tax for any adjustment to our leases. To comply with the restrictions imposed on REITs, we may have to conduct certain activities and own certain assets through TRSs, which will be subject to normal corporate income tax, and we could be subject to a 100 % penalty tax on certain income if those transactions are not conducted on arm's-length terms. A TRS is an entity (i) in which a REIT directly or indirectly holds stock, (ii) which has elected, with the REIT, to be treated as a taxable REIT subsidiary of such REIT, and (iii) which is taxable as a regular corporation, at regular corporate income tax rates. As a REIT, we cannot own certain assets or conduct certain activities directly, without risking failing the income or asset tests that apply to REITs. We can, however, hold these assets or undertake these activities through a TRS. As noted, the income earned through our TRSs will be subject to corporate income taxes. In addition, a 100 % excise tax will be imposed on certain transactions between us and our TRSs that are not conducted on an arm's length basis. If our TRSs fail to qualify as " taxable REIT subsidiaries" under the Code, we would likely fail to qualify as a REIT. Rent paid by a lessee that is a " related party tenant" will not be qualifying income for purposes of the gross income tests applicable to REITs. We currently lease and expect to continue to lease substantially all of our hotels to our TRSs, which will not be treated as " related party tenants" so long as they qualify as " taxable REIT subsidiaries" under the Code. To qualify as such, most significantly, a TRS cannot engage in the **direct or indirect** operation or management of hotels. We believe that our TRSs qualify to be treated as " taxable REIT subsidiaries" for U. S. federal income tax purposes. **However, given recent scrutiny regarding the operational structure of lodging REITs like us and their third-party management agreements,** ~~There~~ **there** can be no assurance, ~~however,~~ that the IRS will not challenge the status of a TRS for U. S. federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in disqualifying any of our TRSs from treatment as a " taxable REIT subsidiary," it is likely that we would fail to meet the asset tests applicable to REITs and substantially all of our income would fail to qualify for the gross income tests. If we failed to meet either the asset tests or the gross income tests, we would likely lose our REIT status. If any management companies that we engage do not qualify as " eligible independent contractors," or if our hotel properties are not " qualified lodging facilities," we would likely fail to qualify as a REIT. Rent paid by a lessee that is a " related party tenant" of ours generally will not be qualifying income for purposes of the gross income tests applicable to REITs. An exception is provided, however, for leases of " qualified lodging facilities" to a TRS so long as the hotels are managed by an " eligible independent contractor" and certain other requirements are satisfied. We currently lease and expect to continue to lease all or substantially all of our hotels to TRS lessees and we currently engage and expect to continue to engage management companies that are intended to qualify as " eligible independent contractors." In addition, for a management company to qualify as an eligible independent contractor, (i) the management company must not own, directly or through its shareholders, more than 35 % of our outstanding shares, and no person or group of persons can own more than 35 % of our outstanding shares and the shares (or ownership interest) of the management company and (ii) such company or a related person must be actively engaged in the trade or business of operating " qualified lodging facilities" (as defined below) for one or more persons not related to the REIT or its TRSs at each time that such company enters into a management contract with a TRS or its TRS lessee. Finally, each hotel with respect to which our TRS lessees pay rent must be a " qualified lodging facility." A " qualified lodging facility" is a hotel, motel, or other establishment in which more than one-half of the dwelling units are used on a transient basis, including customary amenities and facilities, provided that no wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. As of the date hereof, we believe the management companies operate qualified lodging facilities for certain persons who are not related to us or our TRSs. As of the date hereof, we believe that all of the hotels leased to our TRS lessees will be qualified lodging facilities. Although we intend to monitor future acquisitions and improvements of hotels, the REIT provisions of the Code provide only limited guidance for making determinations under the requirements for qualified lodging facilities, and there can be no assurance that these requirements will be satisfied in all cases. Complying with REIT requirements may force us to forgo and / or liquidate

otherwise attractive investment opportunities. To qualify as a REIT, we must ensure that we meet the gross income tests annually and that at the end of each calendar quarter, at least 75 % of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10 % of the outstanding voting securities of any one issuer or more than 10 % of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5 % of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, no more than 20 % of the value of our total assets can be represented by securities of one or more TRSs, and no more than 25 % of the value of our total assets may be represented by debt instruments issued by publicly offered REITs that are "nonqualified" (i. e., not secured by real property or interests in real property). If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio, or contribute to a TRS, otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would otherwise be advantageous to us. Thus, compliance with the REIT requirements may hinder our ability to make, and, in certain cases, maintain ownership of, certain attractive investments.

In the event that we recognize we would incur adverse tax consequences if FelCor Lodging Trust Incorporated (" FelCor") failed to qualify as a REIT for significant gain from cash settlement of a forward sale agreement under our at- the- market equity offering program, the U. S. federal income tax purposes prior to treatment of the cash that we receive in such instance is unclear and could impact our merger with FelCor ability to meet the REIT qualification requirements. In- We enter into forward sale agreements from time to time in connection with our at- the- market equity offering program and, subject to certain conditions, we have the right to elect physical, cash or net share settlement under the these closing of agreements at any time and from time to time, in part or in full. In the merger with FelCor event that we elect to settle a forward sale agreement for cash and the settlement price is below the forward sale price, we would be entitled to receive a cash payment from the applicable forward purchaser (s). Under Section 1032 of the Code, generally, no gains and losses are recognized by a corporation in dealing in its on- own shares the acquisition date, FelCor- including pursuant to a " securities futures contract, " as defined in the Code by reference to the Exchange Act. Although we believe that any amount received an opinion of counsel to- by us in exchange for our common shares would qualify for the effect that exemption under Section 1032 of the Code, because it is not entirely clear whether a forward sale agreement qualified- qualifies as a REIT for- " securities futures contract, " the U. S. federal income tax purposes- treatment of any cash settlement payment we receive is uncertain. In the event that we recognize a significant gain from the cash settlement of a forward sale agreement, we might not be able to satisfy the gross income requirements applicable to REITs under the Code through. If we were to fail to satisfy one or both of the gross income tests for any taxable year, we may nevertheless qualify as a REIT for such year if we were entitled to relief under certain provisions of the Code. If the- these acquisition date- FelCor- relief provisions were inapplicable , we would however, did- not request qualify to be taxed as a ruling from- REIT. There is a risk of changes in the tax laws which may adversely affect our taxation as a REIT and taxation of our shareholders. The IRS that it qualified as a REIT. If, notwithstanding this opinion, FelCor' s REIT status prior to the United States Treasury Department acquisition date were successfully challenged, we would face serious tax consequences that would substantially reduce our core funds from operations, and Congress frequently review cash available for distribution, including cash available to pay dividends to our shareholders, because: • FelCor, would be subject to U. S. federal , state and local income tax legislation, regulations and on its net income at regular corporate rates for the- other guidance. In addition years that it did not qualify as a REIT (and , for such years- according to publicly released statements , would not be allowed a deduction for dividends paid to top shareholders legislative priority of the current administration and Congress may be significant reform of the Code, including significant changes to taxation of business entities. We cannot predict whether, when or to what extent new U. S. federal tax laws, regulations, interpretations or rulings will be adopted. Further, from time to time, changes in computing its taxable income- state and local tax laws or regulations are enacted, which may result in and- an increase in our tax we would succeed to the liability . Any legislative action may prospectively for- or retroactively modify our such taxes; • the deemed sale of assets by FelCor on the acquisition date would be subject to U. S. federal, state and local income- tax treatment at regular corporate rates (and FelCor would not be allowed a deduction for dividends paid for the deemed liquidating distribution paid to its shareholders) and we would succeed to the liability for such taxes; and • we would succeed to any earnings and profits accumulated by FelCor , therefore as applicable , may for the tax periods that FelCor did not qualify as a REIT and we would have to pay a special dividend and / or employ applicable deficiency dividend procedures (including interest payments to the IRS) to eliminate such earnings and profits to maintain our REIT qualification. As a result of these factors, FelCor' s failure to qualify as a REIT prior to the acquisition date could impair our ability to expand our business and raise capital and could materially adversely affect the value of our stock. In addition, even if FelCor qualified as a REIT for the duration of its existence, if there is an adjustment to FelCor' s taxable income or our taxation or taxation of dividends- paid deductions, we could be required to elect to use the deficiency dividend procedure to maintain FelCor' s REIT status. That deficiency dividend procedure could require us to make significant distributions to our shareholders and pay significant interest to the IRS.

Risks Related to Our Common Shares Our cash available for distribution to shareholders may not be sufficient to pay distributions at expected or required levels, and we may need to borrow funds or rely on other external sources in order to make such distributions, or we may not be able to make such distributions at all, which could cause the market price of our common shares to decline significantly. We intend to continue to pay regular quarterly distributions to holders of our common shares. All distributions will be made at the discretion

of our board of trustees and will depend on our historical and projected results of operations, EBITDA, funds from operations ("FFO"), liquidity and financial condition, REIT qualification, debt service requirements, capital expenditures and operating expenses, prohibitions and other restrictions under financing arrangements and applicable law and other factors as our board of trustees may deem relevant from time to time. No assurance can be given that our projections will prove to be accurate or that any level of distributions or particular yield will be made or sustained. We may not be able to make distributions in the future or we may need to fund such distributions through borrowings or other external financing sources, which may be available only at unattractive terms, if at all. Any of the foregoing could cause the market price of our common shares to decline significantly. Future issuances of debt securities, which would rank senior to our common shares upon our liquidation, and future issuances of equity securities (including OP units), which would dilute the holdings of our existing common shareholders and may be senior to our common shares for the purposes of making distributions, periodically or upon liquidation, may negatively affect the market price of our common shares. In the future, we may issue debt or equity securities or incur additional borrowings. Upon our liquidation, holders of our debt securities and other loans and preferred shares will receive a distribution of our available assets before common shareholders. If we incur debt in the future, our future interest costs could increase, and adversely affect our liquidity, FFO and results of operations. We are not required to offer any additional equity securities to existing common shareholders on a preemptive basis. Therefore, additional common share issuances, directly or through convertible or exchangeable securities (including OP units), warrants or options, will dilute the holdings of our existing common shareholders, and such issuances or the perception of such issuances may reduce the market price of our common shares. Our preferred shares, if issued, would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common shareholders. Because our decision to issue debt or equity securities or incur additional borrowings in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of any future capital raising efforts. Thus, the common shareholders bear the risk that our future issuances of debt or equity securities or our incurrence of additional borrowings will negatively affect the market price of our common shares. We cannot guarantee that we will repurchase our common shares pursuant to our share repurchase program or that our share repurchase program will enhance long-term shareholder value. Share repurchases could also increase the volatility of the price of our common shares and could diminish our cash reserves. Our board of trustees authorized a share repurchase program to repurchase up to an aggregate of \$ 250. 0 million of common and preferred shares. Although our board of trustees authorized our share repurchase program, our share repurchase program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. Our share repurchase program may be limited, suspended, or discontinued at any time without prior notice. In addition, repurchases of our common shares pursuant to our share repurchase program could affect our share price and increase its volatility. The existence of our share repurchase program could cause our share price to be higher than it would be in the absence of such a program. Additionally, our share repurchase program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. There can be no assurance that any share repurchases will enhance shareholder value because the market price of our common shares may decline below the levels at which we repurchased the common shares.