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

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**FORM 10-Q**

(Mark One)



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

For the quarterly period ended March 31, 2012

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: **001-14236**            *(FelCor Lodging Trust Incorporated)*  
Commission file number: **333-39595-01**            *(FelCor Lodging Limited Partnership)*

**FelCor Lodging Trust Incorporated**  
**FelCor Lodging Limited Partnership**  
(Exact Name of Registrant as Specified in Its Charter)

**Maryland**  
**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

*(FelCor Lodging Trust Incorporated)*  
*(FelCor Lodging Limited Partnership)*

**75-2541756**  
**75-2544994**  
(I.R.S. Employer  
Identification No.)

**545 E. John Carpenter Freeway, Suite 1300, Irving, Texas**  
(Address of Principal Executive Offices)

**75062**  
(Zip Code)

**(972) 444-4900**  
(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.

FelCor Lodging Trust Incorporated  
FelCor Lodging Limited Partnership

☒ Yes    ☐ No  
☐ Yes    ☒ No

Note: As a voluntary filer not subject to the filing requirements of Section 13 or 15(d) of the Exchange Act, the registrant has filed all reports pursuant to Section 13 or 15(d) as if the registrant was subject to such filing requirements.

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).

FelCor Lodging Trust Incorporated

☒ Yes ☐ No

FelCor Lodging Limited Partnership

☒ Yes ☐ No

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

FelCor Lodging Trust Incorporated:

Large accelerated filer ☐

Accelerated filer ☒

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

Smaller reporting company ☐

FelCor Lodging Limited Partnership:

Large accelerated filer ☐

Accelerated filer ☐

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

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

FelCor Lodging Trust Incorporated

☐ Yes ☒ No

FelCor Lodging Limited Partnership

☐ Yes ☒ No

At April 27, 2012, FelCor Lodging Trust Incorporated had issued and outstanding 124,226,805 shares of common stock.

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## **EXPLANATORY NOTE**

This quarterly report on Form 10-Q for the quarter ended March 31, 2012, combines the filings for FelCor Lodging Trust Incorporated, or FelCor, and FelCor Lodging Limited Partnership, or FelCor LP. Where it is important to distinguish between the two, we either refer specifically to FelCor or FelCor LP. Otherwise we use the terms "we" or "our" to refer to FelCor and FelCor LP, collectively (including their consolidated subsidiaries), unless the context indicates otherwise.

FelCor is a Maryland corporation operating as a real estate investment trust, or REIT, and is the sole general partner of, and the owner of a greater than 99% partnership interest in, FelCor LP. Through FelCor LP, FelCor owns hotels and conducts business. As the sole general partner of FelCor LP, FelCor has exclusive and complete control of FelCor LP's day-to-day management.

We believe combining periodic reports for FelCor and FelCor LP into single combined reports results in the following benefits:

- presents our business as a whole (the same way management views and operates the business);
- eliminates duplicative disclosure and provides a more streamlined presentation (a substantial portion of our disclosure applies to both FelCor and FelCor LP); and
- saves time and cost by preparing combined reports instead of separate reports.

We operate the company as one enterprise. The employees of FelCor direct the management and operation of FelCor LP. With sole control of FelCor LP, FelCor consolidates FelCor LP for financial reporting purposes. FelCor has no assets other than its investment in FelCor LP and no liabilities separate from FelCor LP. Therefore, the reported assets and liabilities for FelCor and FelCor LP are substantially identical.

The substantive difference between the two entities is that FelCor is a REIT with publicly-traded equity, while FelCor LP is a partnership with no publicly-traded equity. This difference is reflected in the financial statements on the equity (or partners' capital) section of the consolidated balance sheets and in the consolidated statements of equity (or partners' capital). Apart from the different equity treatment, the consolidated financial statements for FelCor and FelCor LP are nearly identical, except the net income (loss) attributable to redeemable noncontrolling interests in FelCor LP is deducted from FelCor's net income (loss) in order to arrive at net income (loss) attributable to FelCor common stockholders. The noncontrolling interest is included in net income (loss) attributable to FelCor LP common unitholders. The holders of noncontrolling interests in FelCor LP are unaffiliated with FelCor, and in aggregate, hold less than 1% of the operating partnership units.

We present the sections in this report combined or separated as follows:

### Part I

- Item 1 - Consolidated Financial Statements. Although we present the financial statements for FelCor and FelCor LP separately, the notes to the financial statements are generally combined, except as follows:
  - We separately disclose FelCor's earnings (loss) per common share and FelCor LP's earnings (loss) per common unit; and
  - FelCor LP's subsidiary guarantor information.

- Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations are combined;
- Item 3 - Quantitative and Qualitative Disclosures about Market Risk are combined;
- Item 4 - Controls and Procedures and certifications under Sections 302 and 906 of the Sarbanes-Oxley Act are presented separately to establish that the Chief Executive and the Chief Financial Officers of FelCor (on its behalf and as the general partner of FelCor LP) have made the requisite certifications and that both entities are compliant with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

## Part II

- Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds for FelCor and FelCor LP are presented separately.

**FELCOR LODGING TRUST INCORPORATED and  
FELCOR LODGING LIMITED PARTNERSHIP**

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# **PART I -- FINANCIAL INFORMATION**

## **Item 1. Financial Statements.**

### **FELCOR LODGING TRUST INCORPORATED**

#### **CONSOLIDATED BALANCE SHEETS**

(unaudited, in thousands)

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
<b>Assets</b>		
Investment in hotels, net of accumulated depreciation of \$929,432 and \$987,895 at March 31, 2012 and December 31, 2011, respectively	\$ 1,880,472	\$ 1,953,795
Hotel development	124,862	120,163
Investment in unconsolidated entities	68,900	70,002
Hotels held for sale	82,643	—
Cash and cash equivalents	98,175	93,758
Restricted cash	83,354	84,240
Accounts receivable, net of allowance for doubtful accounts of \$396 and \$333 at March 31, 2012 and December 31, 2011, respectively	36,737	27,135
Deferred expenses, net of accumulated amortization of \$13,004 and \$13,119 at March 31, 2012 and December 31, 2011, respectively	28,784	29,772
Other assets	23,248	24,363
Total assets	<u>\$ 2,427,175</u>	<u>\$ 2,403,228</u>
<b>Liabilities and Equity</b>		
Debt, net of discount of \$29,559 and \$32,069 at March 31, 2012 and December 31, 2011, respectively	\$ 1,625,605	\$ 1,596,466
Distributions payable	76,293	76,293
Accrued expenses and other liabilities	173,530	140,548
Total liabilities	<u>1,875,428</u>	<u>1,813,307</u>
Commitments and contingencies		
Redeemable noncontrolling interests in FelCor LP, 636 units issued and outstanding at March 31, 2012 and December 31, 2011	3,061	3,026
Equity:		
Preferred stock, \$0.01 par value, 20,000 shares authorized:		
Series A Cumulative Convertible Preferred Stock, 12,880 shares, liquidation value of \$322,011, issued and outstanding at March 31, 2012 and December 31, 2011	309,362	309,362
Series C Cumulative Redeemable Preferred Stock, 68 shares, liquidation value of \$169,950, issued and outstanding at March 31, 2012 and December 31, 2011	169,412	169,412
Common stock, \$0.01 par value, 200,000 shares authorized and 124,218 shares issued and outstanding at March 31, 2012, and 124,281 shares issued and outstanding at December 31, 2011	1,242	1,243
Additional paid-in capital	2,353,447	2,353,251
Accumulated other comprehensive income	26,044	25,738
Accumulated deficit	(2,335,812)	(2,297,468)
Total FelCor stockholders' equity	523,695	561,538
Noncontrolling interests in other partnerships	24,991	25,357
Total equity	548,686	586,895
Total liabilities and equity	<u>\$ 2,427,175</u>	<u>\$ 2,403,228</u>

The accompanying notes are an integral part of these consolidated financial statements.

**FELCOR LODGING TRUST INCORPORATED**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Three Months Ended March 31, 2012 and 2011**

**(unaudited, in thousands, except for per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Revenues:		
Hotel operating revenue	\$ 221,167	\$ 207,024
Other revenue	275	225
Total revenues	221,442	207,249
Expenses:		
Hotel departmental expenses	83,216	76,390
Other property-related costs	64,435	60,532
Management and franchise fees	10,366	9,655
Taxes, insurance and lease expense	22,313	19,778
Corporate expenses	8,212	9,537
Depreciation and amortization	31,573	30,787
Other expenses	963	631
Total operating expenses	221,078	207,310
Operating income (loss)	364	(61)
Interest expense, net	(31,041)	(32,769)
Debt extinguishment	(7)	(245)
Gain on involuntary conversion, net	—	150
Loss before equity in loss from unconsolidated entities	(30,684)	(32,925)
Equity in loss from unconsolidated entities	(224)	(1,583)
Loss from continuing operations	(30,908)	(34,508)
Income from discontinued operations	2,047	2,782
Net loss	(28,861)	(31,726)
Net loss (income) attributable to noncontrolling interests in other partnerships	202	(58)
Net loss attributable to redeemable noncontrolling interests in FelCor LP	196	120
Net loss attributable to FelCor	(28,463)	(31,664)
Preferred dividends	(9,678)	(9,678)
Net loss attributable to FelCor common stockholders	\$ (38,141)	\$ (41,342)
Basic and diluted per common share data:		
Loss from continuing operations	\$ (0.32)	\$ (0.46)
Net loss	\$ (0.31)	\$ (0.43)
Basic and diluted weighted average common shares outstanding	123,665	95,350

The accompanying notes are an integral part of these consolidated financial statements.

**FELCOR LODGING TRUST INCORPORATED**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**For the Three Months Ended March 31, 2012 and 2011**  
**(unaudited, in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net loss	\$ (28,861)	\$ (31,726)
Foreign currency translation adjustment	308	1,292
Comprehensive loss	(28,553)	(30,434)
Comprehensive loss (income) attributable to noncontrolling interests in other partnerships	202	(58)
Comprehensive loss attributable to redeemable noncontrolling interests in FelCor LP	194	116
Comprehensive loss attributable to FelCor	<u>\$ (28,157)</u>	<u>\$ (30,376)</u>

The accompanying notes are an integral part of these consolidated financial statements.



**FELCOR LODGING TRUST INCORPORATED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the Three Months Ended March 31, 2012 and 2011**  
**(unaudited, in thousands)**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock	Noncontrolling Interests in Other Partnerships	Comprehensive Loss	Total Equity
	Number of Shares	Amount	Number of Shares	Amount							
<b>Balance at December 31, 2010</b>	12,948	\$ 478,774	101,038	\$ 1,010	\$ 2,190,308	\$ 26,457	\$ (2,054,625)	\$ (73,341)	\$ 19,795		\$ 588,378
Retirement of treasury stock	—	—	(4,156)	(41)	—	—	(73,300)	73,341	—		—
Amortization of stock awards	—	—	—	—	827	—	—	—	—		827
Forfeiture of stock awards	—	—	(10)	—	—	—	(75)	—	—		(75)
Allocation to redeemable noncontrolling interests	—	—	—	—	143	—	—	—	—		143
Contribution from noncontrolling interests	—	—	—	—	—	—	—	—	64		64
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	(445)		(445)
Other	—	—	—	—	—	—	(2)	—	—		(2)
Preferred dividends:											
\$0.4875 per Series A preferred share	—	—	—	—	—	—	(6,279)	—	—		(6,279)
\$0.50 per Series C depositary preferred share	—	—	—	—	—	—	(3,399)	—	—		(3,399)
Comprehensive loss:											
Foreign exchange translation	—	—	—	—	—	1,288	—	—	—	\$ 1,288	
Net loss	—	—	—	—	—	—	(31,664)	—	58	(31,606)	
Comprehensive loss										\$ (30,318)	(30,318)
<b>Balance at March 31, 2011</b>	12,948	\$ 478,774	96,872	\$ 969	\$ 2,191,278	\$ 27,745	\$ (2,169,344)	\$ —	\$ 19,472		\$ 548,894
<b>Balance at December 31, 2011</b>	12,948	\$ 478,774	124,281	\$ 1,243	\$ 2,353,251	\$ 25,738	\$ (2,297,468)	\$ —	\$ 25,357		\$ 586,895
Amortization of stock awards	—	—	—	—	232	—	—	—	—		232
Forfeiture of stock awards	—	—	(63)	(1)	193	—	(199)	—	—		(7)
Conversion of operating partnership units into common shares	—	—	—	—	1	—	—	—	—		1
Allocation to redeemable noncontrolling interests	—	—	—	—	(230)	—	—	—	—		(230)
Contribution from noncontrolling interests	—	—	—	—	—	—	—	—	291		291
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	(455)		(455)
Other	—	—	—	—	—	—	(4)	—	—		(4)
Preferred dividends:											
\$0.4875 per Series A preferred share	—	—	—	—	—	—	(6,279)	—	—		(6,279)
\$0.50 per Series C depositary preferred share	—	—	—	—	—	—	(3,399)	—	—		(3,399)
Comprehensive loss:											
Foreign exchange translation	—	—	—	—	—	306	—	—	—	\$ 306	
Net loss	—	—	—	—	—	—	(28,463)	—	(202)	(28,665)	
Comprehensive loss										\$ (28,359)	(28,359)
<b>Balance at March 31, 2012</b>	12,948	\$ 478,774	124,218	\$ 1,242	\$ 2,353,447	\$ 26,044	\$ (2,335,812)	\$ —	\$ 24,991		\$ 548,686

The accompanying notes are an integral part of these consolidated financial statements.

# FELCOR LODGING TRUST INCORPORATED

## CONSOLIDATED STATEMENTS OF CASH FLOWS For the Three Months Ended March 31, 2012 and 2011 (unaudited, in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Net loss	\$ (28,861)	\$ (31,726)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	32,992	35,671
Amortization of deferred financing fees and debt discount	4,487	4,715
Amortization of unearned officers' and directors' compensation	1,296	1,803
Equity in loss from unconsolidated entities	224	1,583
Distributions of income from unconsolidated entities	475	165
Debt extinguishment	7	252
Changes in assets and liabilities:		
Accounts receivable	(9,572)	(9,316)
Restricted cash - operations	—	(458)
Other assets	960	(3,090)
Accrued expenses and other liabilities	31,638	6,206
Net cash flow provided by operating activities	<u>33,646</u>	<u>5,805</u>
Cash flows from investing activities:		
Improvements and additions to hotels	(41,385)	(15,038)
Hotel development	(4,560)	—
Payment of accrued selling costs	(413)	—
Additions to condominium project	—	(65)
Change in restricted cash – investing	885	(2,094)
Insurance proceeds	—	11
Distributions from unconsolidated entities	403	200
Net cash flow used in investing activities	<u>(45,070)</u>	<u>(16,986)</u>
Cash flows from financing activities:		
Proceeds from borrowings	36,000	185,040
Repayment of borrowings	(9,372)	(269,318)
Payment of deferred financing fees	(996)	(4,491)
Distributions paid to noncontrolling interests	(455)	(445)
Contributions from noncontrolling interests	291	64
Distributions paid to preferred stockholders	(9,678)	(9,678)
Net cash flow provided by (used in) financing activities	<u>15,790</u>	<u>(98,828)</u>
Effect of exchange rate changes on cash	51	77
Net change in cash and cash equivalents	<u>4,417</u>	<u>(109,932)</u>
Cash and cash equivalents at beginning of periods	93,758	200,972
Cash and cash equivalents at end of periods	<u>\$ 98,175</u>	<u>\$ 91,040</u>
Supplemental cash flow information – interest paid, net of capitalized interest	<u>\$ 5,665</u>	<u>\$ 12,095</u>

The accompanying notes are an integral part of these consolidated financial statements.

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONSOLIDATED BALANCE SHEETS**  
(unaudited, in thousands)

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
<b>Assets</b>		
Investment in hotels, net of accumulated depreciation of \$929,432 and \$987,895 at March 31, 2012 and December 31, 2011, respectively	\$ 1,880,472	\$ 1,953,795
Hotel development	124,862	120,163
Investment in unconsolidated entities	68,900	70,002
Hotels held for sale	82,643	—
Cash and cash equivalents	98,175	93,758
Restricted cash	83,354	84,240
Accounts receivable, net of allowance for doubtful accounts of \$396 and \$333 at March 31, 2012 and December 31, 2011, respectively	36,737	27,135
Deferred expenses, net of accumulated amortization of \$13,004 and \$13,119 at March 31, 2012 and December 31, 2011, respectively	28,784	29,772
Other assets	23,248	24,363
Total assets	<u>\$ 2,427,175</u>	<u>\$ 2,403,228</u>
<b>Liabilities and Partners' Capital</b>		
Debt, net of discount of \$29,559 and \$32,069 at March 31, 2012 and December 31, 2011, respectively	\$ 1,625,605	\$ 1,596,466
Distributions payable	76,293	76,293
Accrued expenses and other liabilities	173,530	140,548
Total liabilities	<u>1,875,428</u>	<u>1,813,307</u>
Commitments and contingencies		
Redeemable units, 636 units issued and outstanding at March 31, 2012 and December 31, 2011	<u>3,061</u>	<u>3,026</u>
Capital:		
Preferred units:		
Series A Cumulative Convertible Preferred Units, 12,880 units issued and outstanding at March 31, 2012 and December 31, 2011	309,362	309,362
Series C Cumulative Redeemable Preferred Units, 68 units issued and outstanding at March 31, 2012 and December 31, 2011	169,412	169,412
Common units, 124,218 and 124,281 units issued and outstanding at March 31, 2012 and December 31, 2011, respectively	18,765	56,916
Accumulated other comprehensive income	26,156	25,848
Total FelCor LP partners' capital	<u>523,695</u>	<u>561,538</u>
Noncontrolling interests	24,991	25,357
Total partners' capital	<u>548,686</u>	<u>586,895</u>
Total liabilities and partners' capital	<u>\$ 2,427,175</u>	<u>\$ 2,403,228</u>

The accompanying notes are an integral part of these consolidated financial statements.

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Three Months Ended March 31, 2012 and 2011**

**(unaudited, in thousands, except for per unit data)**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Revenues:		
Hotel operating revenue	\$ 221,167	\$ 207,024
Other revenue	275	225
Total revenues	<u>221,442</u>	<u>207,249</u>
Expenses:		
Hotel departmental expenses	83,216	76,390
Other property-related costs	64,435	60,532
Management and franchise fees	10,366	9,655
Taxes, insurance and lease expense	22,313	19,778
Corporate expenses	8,212	9,537
Depreciation and amortization	31,573	30,787
Other expenses	963	631
Total operating expenses	<u>221,078</u>	<u>207,310</u>
Operating income (loss)	364	(61)
Interest expense, net	(31,041)	(32,769)
Debt extinguishment	(7)	(245)
Gain on involuntary conversion, net	—	150
Loss before equity in loss from unconsolidated entities	<u>(30,684)</u>	<u>(32,925)</u>
Equity in loss from unconsolidated entities	(224)	(1,583)
Loss from continuing operations	<u>(30,908)</u>	<u>(34,508)</u>
Income from discontinued operations	2,047	2,782
Net loss	<u>(28,861)</u>	<u>(31,726)</u>
Net loss (income) attributable to noncontrolling interests	202	(58)
Net loss attributable to FelCor LP	<u>(28,659)</u>	<u>(31,784)</u>
Preferred distributions	(9,678)	(9,678)
Net loss attributable to FelCor LP common unitholders	<u>\$ (38,337)</u>	<u>\$ (41,462)</u>
Basic and diluted per common unit data:		
Loss from continuing operations	\$ (0.32)	\$ (0.46)
Net loss	<u>\$ (0.31)</u>	<u>\$ (0.43)</u>
Basic and diluted weighted average common units outstanding	<u>124,301</u>	<u>95,635</u>

The accompanying notes are an integral part of these consolidated financial statements.

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**For the Three Months Ended March 31, 2012 and 2011**

**(unaudited, in thousands)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net loss	\$ (28,861)	\$ (31,726)
Foreign currency translation adjustment	308	1,292
Comprehensive loss	(28,553)	(30,434)
Comprehensive loss (income) attributable to noncontrolling interests	202	(58)
Comprehensive loss attributable to FelCor LP	<u>\$ (28,351)</u>	<u>\$ (30,492)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**FELCOR LODGING LIMITED PARTNERSHIP**  
**CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL**  
**For the Three Months Ended March 31, 2012 and 2011**  
**(unaudited, in thousands)**

	Preferred Units	Common Units	Accumulated Other Comprehensive Income	Noncontrolling Interests	Comprehensive Loss	Total Partners' Capital
<b>Balance at December 31, 2010</b>	\$478,774	\$ 63,235	\$ 26,574	\$ 19,795		\$ 588,378
FelCor restricted stock compensation	—	752	—	—		752
Contributions	—	—	—	64		64
Distributions	—	(9,678)	—	(445)		(10,123)
Allocation to redeemable units	—	259	—	—		259
Other	—	(2)	—	—		(2)
Comprehensive loss:						
Foreign exchange translation			1,292		\$ 1,292	
Net loss		(31,784)		58	(31,726)	
Comprehensive loss					<u>\$ (30,434)</u>	<u>(30,434)</u>
<b>Balance at March 31, 2011</b>	<u>\$478,774</u>	<u>\$ 22,782</u>	<u>\$ 27,866</u>	<u>\$ 19,472</u>		<u>\$ 548,894</u>
<b>Balance at December 31, 2011</b>	\$478,774	\$ 56,916	\$ 25,848	\$ 25,357		\$ 586,895
FelCor restricted stock compensation	—	225	—	—		225
Contributions	—	—	—	291		291
Distributions	—	(9,678)	—	(455)		(10,133)
Allocation to redeemable units	—	(35)	—	—		(35)
Other	—	(4)	—	—		(4)
Comprehensive loss:						
Foreign exchange translation			308		\$ 308	
Net loss		(28,659)		(202)	(28,861)	
Comprehensive loss					<u>\$ (28,553)</u>	<u>(28,553)</u>
<b>Balance at March 31, 2012</b>	<u>\$478,774</u>	<u>\$ 18,765</u>	<u>\$ 26,156</u>	<u>\$ 24,991</u>		<u>\$ 548,686</u>

The accompanying notes are an integral part of these consolidated financial statements.

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Three Months Ended March 31, 2012 and 2011**  
**(unaudited, in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Net loss	\$ (28,861)	\$ (31,726)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	32,992	35,671
Amortization of deferred financing fees and debt discount	4,487	4,715
Amortization of unearned officers' and directors' compensation	1,296	1,803
Equity in loss from unconsolidated entities	224	1,583
Distributions of income from unconsolidated entities	475	165
Debt extinguishment	7	252
Changes in assets and liabilities:		
Accounts receivable	(9,572)	(9,316)
Restricted cash - operations	—	(458)
Other assets	960	(3,090)
Accrued expenses and other liabilities	31,638	6,206
Net cash flow provided by operating activities	<u>33,646</u>	<u>5,805</u>
Cash flows from investing activities:		
Improvements and additions to hotels	(41,385)	(15,038)
Hotel development	(4,560)	—
Payment of accrued selling costs	(413)	—
Additions to condominium project	—	(65)
Change in restricted cash – investing	885	(2,094)
Insurance proceeds	—	11
Distributions from unconsolidated entities	403	200
Net cash flow used in investing activities	<u>(45,070)</u>	<u>(16,986)</u>
Cash flows from financing activities:		
Proceeds from borrowings	36,000	185,040
Repayment of borrowings	(9,372)	(269,318)
Payment of deferred financing fees	(996)	(4,491)
Distributions paid to noncontrolling interests	(455)	(445)
Contributions from noncontrolling interests	291	64
Distributions paid to preferred unitholders	(9,678)	(9,678)
Net cash flow provided by (used in) financing activities	<u>15,790</u>	<u>(98,828)</u>
Effect of exchange rate changes on cash	51	77
Net change in cash and cash equivalents	4,417	(109,932)
Cash and cash equivalents at beginning of periods	93,758	200,972
Cash and cash equivalents at end of periods	<u>\$ 98,175</u>	<u>\$ 91,040</u>
Supplemental cash flow information – interest paid, net of capitalized interest	<u>\$ 5,665</u>	<u>\$ 12,095</u>

The accompanying notes are an integral part of these consolidated financial statements.

# FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization

FelCor Lodging Trust Incorporated (NYSE:FCH), or FelCor, is a Maryland corporation, operating as a real estate investment trust, or REIT. FelCor is the sole general partner of, and the owner of a greater than 99% partnership interest in, FelCor Lodging Limited Partnership, or FelCor LP, through which we held ownership interests in (i) 70 hotels in continuing operations with approximately 20,000 rooms and (ii) six hotels designated as held for sale at March 31, 2012. At March 31, 2012, we had an aggregate of 124,854,248 shares and units outstanding, consisting of 124,218,010 shares of FelCor common stock and 636,238 FelCor LP units not owned by FelCor.

Of the 70 hotels included in continuing operations, we owned a 100% interest in 52 hotels, a 90% interest in entities owning three hotels, an 82% interest in an entity owning one hotel, a 60% interest in an entity owning one hotel and a 50% interest in entities owning 13 hotels. We consolidate our real estate interests in the 57 hotels in which we held majority interests, and we record the real estate interests of the 13 hotels in which we held 50% interests using the equity method. We leased 69 of the 70 hotels in continuing operations to our taxable REIT subsidiaries, of which we own a controlling interest. One 50% owned hotel was operated without a lease. Because we owned controlling interests in these lessees, we consolidated our interests in these 69 hotels (which we refer to as our Consolidated Hotels) and reflect those hotels' operating revenues and expenses in our statement of operations. Of our Consolidated Hotels, we owned 50% of the real estate interests in each of 12 hotels (we accounted for the ownership in our real estate interests of these hotels by the equity method) and majority real estate interests in each of the remaining 57 hotels (we consolidate our real estate interest in these hotels).

The following table illustrates the distribution of our 69 Consolidated Hotels at March 31, 2012:

<b>Brand</b>	<b>Hotels</b>	<b>Rooms</b>
Embassy Suites Hotels®	38	10,003
Holiday Inn®	13	4,387
Sheraton® and Westin®	6	2,224
Doubletree® and Hilton®	6	1,450
Marriott® and Renaissance®	3	1,321
Fairmont®	1	383
Independent (Morgans/Royalton)	2	282
Total	<u>69</u>	<u>20,050</u>

At March 31, 2012, our Consolidated Hotels were located in the United States (68 hotels in 22 states) and Canada (one hotel in Ontario), with concentrations in California (15 hotels), Florida (8 hotels) and Texas (7 hotels). Approximately 52% of our hotel room revenues were generated from hotels in these three states during the first three months of 2012.



# FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization — (continued)

At March 31, 2012, of our 69 Consolidated Hotels: (i) subsidiaries of Hilton Hotels Corporation, or Hilton, managed 43 hotels, (ii) subsidiaries of InterContinental Hotels Group, or IHG, managed 13 hotels, (iii) subsidiaries of Starwood Hotels & Resorts Worldwide Inc., or Starwood, managed six hotels, (iv) subsidiaries of Marriott International Inc., or Marriott, managed three hotels, (v) a subsidiary of Fairmont Hotels and Resorts, or Fairmont, managed one hotel, (vi) a subsidiary of Morgans Hotel Group Corp. managed two hotels, and (vii) an independent management company managed one hotel.

In addition to the above hotels, we own the Knickerbocker Building that is being developed as a hotel in midtown Manhattan.

Our hotels managed by Marriott are accounted for on a fiscal year comprised of 52 or 53 weeks ending on the Friday closest to December 31. Our three-month period ending March 31, 2012 and 2011 includes the results of operations for our Marriott-managed hotels for the 12 week period ending March 23, 2012 and March 25, 2011, respectively.

The information in our consolidated financial statements for the three months ended March 31, 2012 and 2011 is unaudited. Preparing financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements for the three months ended March 31, 2012 and 2011, include adjustments based on management's estimates (consisting of normal and recurring accruals), which we consider necessary for a fair presentation of the results for the periods. The financial information should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011, included in our Annual Report on Form 10-K. Operating results for the three months ended March 31, 2012 are not necessarily indicative of actual operating results for the entire year.

### 2. Investment in Unconsolidated Entities

We owned 50% interests in joint ventures that owned 13 hotels at March 31, 2012 and December 31, 2011. We also own a 50% interest in entities that own real estate in Myrtle Beach, South Carolina and provide condominium management services. We account for our investments in these unconsolidated entities under the equity method. We do not have any majority-owned subsidiaries that are not consolidated in our financial statements. We make adjustments to our equity in income from unconsolidated entities related to the difference between our basis in investment in unconsolidated entities compared to the historical basis of the assets recorded by the joint ventures.

# FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Investment in Unconsolidated Entities — (continued)

The following table summarizes combined balance sheet information for our unconsolidated entities (in thousands):

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Investment in hotels, net of accumulated depreciation	\$ 168,613	\$ 173,310
Total assets	\$ 194,583	\$ 199,063
Debt	\$ 149,892	\$ 150,388
Total liabilities	\$ 153,401	\$ 156,607
Equity	\$ 41,182	\$ 42,456

Our unconsolidated entities' debt at March 31, 2012 and December 31, 2011 consisted entirely of non-recourse mortgage debt. In January 2012, one of our unconsolidated joint ventures refinanced \$130 million of debt and extended the maturity until 2014.

The following table sets forth summarized combined statement of operations information for our unconsolidated entities (in thousands):

	<b>Three Months Ended March 31, 2012</b>	<b>2011</b>
Total revenues	\$ 10,989	\$ 11,688
Net income (loss)	\$ 481	\$ (2,235)
Net income (loss) attributable to FelCor	\$ 241	\$ (1,118)
Depreciation of cost in excess of book value	(465)	(465)
Equity in loss from unconsolidated entities	<u>\$ (224)</u>	<u>\$ (1,583)</u>

The following table summarizes the components of our investment in unconsolidated entities (in thousands):

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Hotel-related investments	\$ 12,392	\$ 12,400
Cost in excess of book value of hotel investments	48,309	48,774
Land and condominium investments	8,199	8,828
	<u>\$ 68,900</u>	<u>\$ 70,002</u>

The following table summarizes the components of our equity in loss from unconsolidated entities (in thousands):

	<b>Three Months Ended March 31, 2012</b>	<b>2011</b>
Hotel investments	\$ 405	\$ (962)
Other investments	(629)	(621)
Equity in loss from unconsolidated entities	<u>\$ (224)</u>	<u>\$ (1,583)</u>

**FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. Debt**

Consolidated debt consisted of the following (dollars in thousands):

	<b>Encumbered Hotels</b>	<b>Interest Rate (%)</b>	<b>Maturity Date</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
<b>Line of credit<sup>(a)</sup></b>	11	L + 4.50	August 2014 <sup>(b)</sup>	\$ 36,000	\$ —
<b>Hotel mortgage debt</b>					
Mortgage debt	8	L + 5.10 <sup>(c)</sup>	April 2015	202,767	202,982
Mortgage debt	9	L + 2.20	May 2013 <sup>(d)</sup>	148,504	156,398
Mortgage debt	7	9.02	April 2014	108,473	109,044
Mortgage debt	5 <sup>(e)</sup>	6.66	June - August 2014	66,895	67,375
Mortgage debt	1	5.81	July 2016	10,760	10,876
<b>Senior notes</b>					
Senior secured notes	6	6.75	June 2019	525,000	525,000
Senior secured notes <sup>(f)</sup>	11	10.00	October 2014	462,346	459,931
<b>Other<sup>(g)</sup></b>	—	L + 1.50	December 2012	64,860	64,860
<b>Total</b>	<u>58</u>			<u>\$ 1,625,605</u>	<u>\$ 1,596,466</u>

- (a) We currently have \$189 million available under our \$225 million line of credit.
- (b) The line of credit can be extended for one year (to 2015), subject to satisfying certain conditions.
- (c) LIBOR (for this loan) is subject to a 3% floor. We purchased an interest rate cap (\$212 million notional amount) that caps LIBOR at 5% and expires May 2012.
- (d) This loan can be extended for six months, subject to satisfying certain conditions.
- (e) The hotels securing this debt are subject to separate loan agreements and are not cross-collateralized.
- (f) These notes have \$492 million in aggregate principal outstanding (\$144 million and \$96,000 in aggregate principal amount was redeemed in June 2011 and January 2012, respectively) and were initially sold at a discount that provided an effective yield of 12.875% before transaction costs.
- (g) This loan is related to our Knickerbocker development project and is fully secured by restricted cash and a mortgage. Because we were able to assume an existing loan when we purchased this hotel, we were not required to pay any local mortgage recording tax. When that loan is transferred to a new lender and made part of our construction loan, we expect to only pay such tax to the extent of the incremental principal amount of the construction loan.

# FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. Debt — (continued)

In March 2011, we established a \$225 million secured line of credit with a group of seven banks. At the same time, we repaid a \$198.3 million secured loan and a \$28.8 million secured loan with a combination of \$52.1 million of cash on hand and funds drawn under our line of credit (which was subsequently repaid). The repaid loans would have matured in 2013 and 2012 (including extensions), respectively, and were secured by mortgages on 11 hotels. Those same hotels secure repayment of amounts outstanding under the line of credit. The credit facility bears interest at LIBOR, plus 4.5%, with no LIBOR floor. At March 31, 2012, we have an outstanding balance of \$36.0 million drawn on the line of credit.

We reported \$31.0 million and \$32.8 million of interest expense for the three months ended March 31, 2012 and 2011, respectively, which is net of: (i) interest income of \$48,000 and \$41,000 and (ii) capitalized interest of \$3.3 million and \$198,000, respectively.

### 4. Hotel Operating Revenue, Departmental Expenses, and Other Property-Related Costs

Hotel operating revenue from continuing operations was comprised of the following (in thousands):

	Three Months Ended March 31,	
	2012	2011
Room revenue	\$ 173,016	\$ 160,337
Food and beverage revenue	36,524	34,817
Other operating departments	11,627	11,870
Total hotel operating revenue	<u>\$ 221,167</u>	<u>\$ 207,024</u>

Nearly all of our revenue is comprised of hotel operating revenue, which includes room revenue, food and beverage revenue, and revenue from other hotel operating departments (such as telephones, parking and business centers). These revenues are recorded net of any sales or occupancy taxes collected from our guests. All rebates or discounts are recorded, when allowed, as a reduction in revenue, and there are no material contingent obligations with respect to rebates or discounts offered by us. All revenues are recorded on an accrual basis, as earned. Appropriate allowances are made for doubtful accounts, which are recorded as a bad debt expense. The remainder of our revenue was derived from other sources.

**FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**4. Hotel Operating Revenue, Departmental Expenses, and Other Property-Related Costs — (continued)**

Hotel departmental expenses from continuing operations were comprised of the following (in thousands):

	Three Months Ended March 31,			
	2012		2011	
	Amount	% of Total Hotel Operating Revenue	Amount	% of Total Hotel Operating Revenue
Room	\$ 47,733	21.6%	\$ 43,352	20.9%
Food and beverage	29,749	13.5	27,380	13.2
Other operating departments	5,734	2.5	5,658	2.8
Total hotel departmental expenses	<u>\$ 83,216</u>	<u>37.6%</u>	<u>\$ 76,390</u>	<u>36.9%</u>

Other property-related costs from continuing operations were comprised of the following (in thousands):

	Three Months Ended March 31,			
	2012		2011	
	Amount	% of Total Hotel Operating Revenue	Amount	% of Total Hotel Operating Revenue
Hotel general and administrative expense	\$ 21,361	9.7%	\$ 20,142	9.7%
Marketing	20,627	9.3	18,482	8.9
Repair and maintenance	12,463	5.6	11,461	5.5
Utilities	9,984	4.5	10,447	5.1
Total other property-related costs	<u>\$ 64,435</u>	<u>29.1%</u>	<u>\$ 60,532</u>	<u>29.2%</u>

# FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. Taxes, Insurance and Lease Expense

Taxes, insurance and lease expense from continuing operations were comprised of the following (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Hotel lease expense <sup>(a)</sup>	\$ 9,194	\$ 8,304
Land lease expense <sup>(b)</sup>	2,386	2,199
Real estate and other taxes	8,288	6,918
Property insurance, general liability insurance and other	2,445	2,357
Total taxes, insurance and lease expense	<u>\$ 22,313</u>	<u>\$ 19,778</u>

- (a) Hotel lease expense is recorded by the consolidated operating lessees of 12 hotels owned by unconsolidated entities, and is partially (generally 49%) offset through noncontrolling interests in other partnerships. Our 50% share of the corresponding lease income is recorded through equity in income from unconsolidated entities. Hotel lease expense includes percentage rent of \$3.8 million and \$2.9 million for the three months ended March 31, 2012 and 2011, respectively.
- (b) Land lease expense includes percentage rent of \$915,000 and \$739,000 for the three months ended March 31, 2012 and 2011, respectively.

### 6. Impairment

Our hotels comprise operations and cash flows that can clearly be distinguished, operationally and for financial reporting purposes, from the remainder of our operations. Accordingly, we consider our hotels to be components for purposes of determining impairment charges and reporting discontinued operations.

We may record impairment charges if operating results of individual hotels are materially different from our forecasts, if the economy and/or lodging industry weakens, or if we shorten our contemplated holding period for additional hotels. We had no impairments during the three months ended March 31, 2012 and 2011.

# FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. Discontinued Operations

We had six hotels held for sale at March 31, 2012. We consider a sale to be probable within the next twelve months (for purposes of determining whether a hotel is held for sale) when a buyer completes its due diligence review, we have an executed contract for sale, and we have received a substantial non-refundable deposit.

Discontinued operations include results of operations for six hotels designated as held for sale at March 31, 2012 and eight hotels sold in 2011. The following table summarizes the condensed financial information for those hotels (in thousands):

	Three Months Ended March 31,	
	2012	2011
Hotel operating revenue	\$ 14,362	\$ 30,322
Operating expenses	(11,593)	(26,456)
Operating income from discontinued operations	2,769	3,866
Interest expense, net	(722)	(1,077)
Debt extinguishment	—	(7)
Income from discontinued operations	<u>\$ 2,047</u>	<u>\$ 2,782</u>

# FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 8. Loss Per Share/Unit

The following tables set forth the computation of basic and diluted loss per share/unit (in thousands, except per share/unit data):

#### *FelCor Loss Per Share*

	Three Months Ended March 31,	
	2012	2011
Numerator:		
Net loss attributable to FelCor	\$ (28,463)	\$ (31,664)
Discontinued operations attributable to FelCor	(2,037)	(2,774)
Loss from continuing operations attributable to FelCor	(30,500)	(34,438)
Less: Preferred dividends	(9,678)	(9,678)
Numerator for continuing operations attributable to FelCor common stockholders	(40,178)	(44,116)
Discontinued operations attributable to FelCor	2,037	2,774
Numerator for basic and diluted loss attributable to FelCor common stockholders	\$ (38,141)	\$ (41,342)
Denominator:		
Denominator for basic and diluted loss per share	123,665	95,350
Basic and diluted loss per share data:		
Loss from continuing operations	\$ (0.32)	\$ (0.46)
Discontinued operations	\$ 0.02	\$ 0.03
Net loss	\$ (0.31)	\$ (0.43)



**FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Loss Per Share/Unit — (continued)**

*FelCor LP Loss Per Unit*

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Numerator:		
Net loss attributable to FelCor LP	\$ (28,659)	\$ (31,784)
Discontinued operations attributable to FelCor LP	(2,047)	(2,782)
Loss from continuing operations attributable to FelCor LP	(30,706)	(34,566)
Less: Preferred distributions	(9,678)	(9,678)
Numerator for continuing operations attributable to FelCor LP common unitholders	(40,384)	(44,244)
Discontinued operations attributable to FelCor LP	2,047	2,782
Numerator for basic and diluted loss attributable to FelCor LP common unitholders	\$ (38,337)	\$ (41,462)
Denominator:		
Denominator for basic and diluted loss per unit	124,301	95,635
Basic and diluted loss per unit data:		
Loss from continuing operations	\$ (0.32)	\$ (0.46)
Discontinued operations	\$ 0.02	\$ 0.03
Net loss	\$ (0.31)	\$ (0.43)

Securities that could potentially dilute earnings per share/unit in the future that were not included in the computation of diluted loss per share/unit, because they would have been antidilutive for the periods presented, are as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Series A convertible preferred shares/units	9,985	9,985

Series A preferred dividends (distributions) that would be excluded from net loss attributable to FelCor common stockholders (or FelCor LP common unitholders), if these Series A preferred shares/units were dilutive, were \$6.3 million for the three months ended March 31, 2012 and 2011.

# FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 9. Dividends/Distributions

In January 2011, FelCor reinstated its current quarterly preferred dividend and has paid current quarterly preferred dividends each quarter since January 2011. Funds used by FelCor to pay common or preferred dividends are provided through distributions from FelCor LP. We are restricted from paying any common dividends unless and until all accrued and current preferred dividends are paid. FelCor's Board of Directors will determine whether and when to declare future dividends (including the accrued but unpaid preferred dividends) based upon various factors, including operating results, economic conditions, other operation trends, our financial condition and capital requirements, as well as minimum REIT distribution requirements. We had \$76.3 million of aggregate accrued dividends (of which \$67.8 million relate to dividends in arrears) payable to holders of our Series A and Series C preferred stock at March 31, 2012 and December 31, 2011.

### 10. Fair Value of Financial Instruments

Disclosures about fair value of our financial instruments are based on pertinent information available to management as of March 31, 2012. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value amounts.

Our estimates of the fair value of (i) cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses approximate carrying value due to the relatively short maturity of these instruments; (ii) our publicly-traded debt is based on observable market data (a Level 1 input) and has an estimated fair value of \$1.1 billion at March 31, 2012 and December 31, 2011; and (iii) our debt that is not traded publicly is based on a discounted cash flow model using effective borrowing rates for debt with similar terms, loan to estimated fair value of collateral and remaining maturities (a Level 3 input) and has an estimated fair value of \$664.9 million and \$640.9 million at March 31, 2012 and December 31, 2011, respectively. The estimated fair value of all our debt was \$1.8 billion at March 31, 2012 and \$1.7 billion at December 31, 2011.

### 11. Redeemable Noncontrolling Interests in FelCor LP / Redeemable Units

We record redeemable noncontrolling interests in FelCor LP, in the case of FelCor, and redeemable units, in the case of FelCor LP, in the mezzanine section (between liabilities and equity or partners' capital) of our consolidated balance sheets because of the redemption feature of these units. Additionally, FelCor's consolidated statements of operations separately present earnings attributable to redeemable noncontrolling interests. We adjust redeemable noncontrolling interests in FelCor LP (or redeemable units) each period to reflect the greater of its carrying value based on the accumulation of historical cost or its redemption value. The historical cost is based on the proportionate relationship between the carrying value of equity associated with FelCor's common stockholders relative to that of FelCor LP's unitholders. Redemption value is based on the closing price of FelCor's common stock at period end. FelCor allocates net income (loss) to FelCor LP's noncontrolling partners based on their weighted average ownership percentage during the period.

# FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. Redeemable Noncontrolling Interests in FelCor LP / Redeemable Units – (continued)

At March 31, 2012, we had 636,238 limited partnership units outstanding. We carried 367,647 outstanding limited partner units at \$2.1 million, which is the issue price less the holders' share of allocated losses for the period the units were outstanding. We carried the remaining 268,591 outstanding units of limited partner interest at \$967,000, based on the closing price of FelCor's common stock at March 31, 2012 (\$3.60/share).

Changes in redeemable noncontrolling interests (or redeemable units) for the three months ended March 31, 2012 and 2011 are shown below (in thousands):

	Three Months Ended March 31,	
	2012	2011
Balance at beginning of period	\$ 3,026	\$ 2,004
Issuance of units	—	—
Conversion of units	(1)	—
Redemption value allocation	230	(143)
Comprehensive income (loss):		
Foreign exchange translation	2	4
Net loss	(196)	(120)
Balance at end of period	<u>\$ 3,061</u>	<u>\$ 1,745</u>

### 12. FelCor LP's Consolidating Financial Information

Certain of FelCor LP's 100% subsidiaries (FelCor/CSS Holdings, L.P.; FelCor Lodging Holding Company, L.L.C.; FelCor TRS Borrower 1, L.P.; FelCor TRS Borrower 4, L.L.C.; FelCor TRS Holdings, L.L.C.; FelCor Canada Co.; FelCor/St. Paul Holdings, L.P.; FelCor Hotel Asset Company, L.L.C.; FelCor Copley Plaza, L.L.C.; FelCor St. Pete (SPE), L.L.C.; FelCor Esmeralda (SPE), L.L.C.; Los Angeles International Airport Hotel Associates, a Texas L.P.; Madison 237 Hotel, L.L.C.; and Royalton 44 Hotel, L.L.C., collectively, "Subsidiary Guarantors"), together with FelCor, guarantee, fully and unconditionally, and jointly and severally, our senior debt. The following tables present consolidating information for the Subsidiary Guarantors.

**FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. FelCor LP's Consolidating Financial Information – (continued)**

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONDENSED CONSOLIDATING BALANCE SHEET**

**March 31, 2012**

**(in thousands)**

	<b>FelCor LP</b>	<b>Subsidiary Guarantors</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Total Consolidated</b>
Net investment in hotels	\$ 72,277	\$ 797,571	\$ 1,010,624	\$ —	\$ 1,880,472
Hotel development	—	—	124,862	—	124,862
Equity investment in consolidated entities	1,452,057	—	—	(1,452,057)	—
Investment in unconsolidated entities	55,772	11,692	1,436	—	68,900
Hotels held for sale	—	14,205	68,438	—	82,643
Cash and cash equivalents	37,278	57,751	3,146	—	98,175
Restricted cash	—	9,464	73,890	—	83,354
Accounts receivable, net	456	36,237	44	—	36,737
Deferred expenses, net	18,523	—	10,261	—	28,784
Other assets	6,510	10,146	6,592	—	23,248
<b>Total assets</b>	<b>\$ 1,642,873</b>	<b>\$ 937,066</b>	<b>\$ 1,299,293</b>	<b>\$ (1,452,057)</b>	<b>\$ 2,427,175</b>
Debt, net	\$ 987,345	\$ —	\$ 638,260	\$ —	\$ 1,625,605
Distributions payable	76,293	—	—	—	76,293
Accrued expenses and other liabilities	52,479	112,198	8,853	—	173,530
<b>Total liabilities</b>	<b>1,116,117</b>	<b>112,198</b>	<b>647,113</b>	<b>—</b>	<b>1,875,428</b>
Redeemable units	3,061	—	—	—	3,061
Preferred units	478,774	—	—	—	478,774
Common units	44,921	800,579	625,322	(1,452,057)	18,765
Accumulated other comprehensive income	—	26,156	—	—	26,156
<b>Total FelCor LP partners' capital</b>	<b>523,695</b>	<b>826,735</b>	<b>625,322</b>	<b>(1,452,057)</b>	<b>523,695</b>
Noncontrolling interests	—	(1,867)	26,858	—	24,991
<b>Total partners' capital</b>	<b>523,695</b>	<b>824,868</b>	<b>652,180</b>	<b>(1,452,057)</b>	<b>548,686</b>
<b>Total liabilities and partners' capital</b>	<b>\$ 1,642,873</b>	<b>\$ 937,066</b>	<b>\$ 1,299,293</b>	<b>\$ (1,452,057)</b>	<b>\$ 2,427,175</b>

**FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. FelCor LP's Consolidating Financial Information – (continued)**

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONDENSED CONSOLIDATING BALANCE SHEET**

**December 31, 2011**

**(in thousands)**

	<b>FelCor LP</b>	<b>Subsidiary Guarantors</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Total Consolidated</b>
Net investment in hotel properties	\$ 67,828	\$ 805,280	\$ 1,080,687	\$ —	\$ 1,953,795
Hotel development	—	—	120,163	—	120,163
Equity investment in consolidated entities	1,478,347	—	—	(1,478,347)	—
Investment in unconsolidated entities	56,492	12,063	1,447	—	70,002
Cash and cash equivalents	23,503	67,001	3,254	—	93,758
Restricted cash	—	11,514	72,726	—	84,240
Accounts receivable, net	540	26,357	238	—	27,135
Deferred expenses, net	24,101	—	5,671	—	29,772
Other assets	8,507	10,817	5,039	—	24,363
<b>Total assets</b>	<b>\$1,659,318</b>	<b>\$ 933,032</b>	<b>\$ 1,289,225</b>	<b>\$ (1,478,347)</b>	<b>\$ 2,403,228</b>
Debt, net	\$ 984,931	\$ —	\$ 611,535	\$ —	\$ 1,596,466
Distributions payable	76,293	—	—	—	76,293
Accrued expenses and other liabilities	33,530	98,127	8,891	—	140,548
<b>Total liabilities</b>	<b>1,094,754</b>	<b>98,127</b>	<b>620,426</b>	<b>—</b>	<b>1,813,307</b>
Redeemable units	3,026	—	—	—	3,026
Preferred units	478,774	—	—	—	478,774
Common units	82,764	810,554	641,945	(1,478,347)	56,916
Accumulated other comprehensive income	—	25,848	—	—	25,848
Total FelCor LP partners' capital	561,538	836,402	641,945	(1,478,347)	561,538
Noncontrolling interests	—	(1,497)	26,854	—	25,357
Total partners' capital	561,538	834,905	668,799	(1,478,347)	586,895
<b>Total liabilities and partners' capital</b>	<b>\$1,659,318</b>	<b>\$ 933,032</b>	<b>\$ 1,289,225</b>	<b>\$ (1,478,347)</b>	<b>\$ 2,403,228</b>

**FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. FelCor LP's Consolidating Financial Information – (continued)**

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

**For the Three Months Ended March 31, 2012**

**(in thousands)**

	<b>FelCor LP</b>	<b>Subsidiary Guarantors</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Total Consolidated</b>
Revenues:					
Hotel operating revenue	\$ —	\$ 221,167	\$ —	\$ —	\$ 221,167
Percentage lease revenue	1,248	—	43,271	(44,519)	—
Other revenue	1	220	54	—	275
Total revenues	1,249	221,387	43,325	(44,519)	221,442
Expenses:					
Hotel operating expenses	—	158,017	—	—	158,017
Taxes, insurance and lease expense	303	60,967	5,562	(44,519)	22,313
Corporate expenses	1,844	3,410	2,958	—	8,212
Depreciation and amortization	1,131	11,753	18,689	—	31,573
Other expenses	418	508	37	—	963
Total operating expenses	3,696	234,655	27,246	(44,519)	221,078
Operating income	(2,447)	(13,268)	16,079	—	364
Interest expense, net	(21,099)	(345)	(9,597)	—	(31,041)
Debt extinguishment	(7)	—	—	—	(7)
Loss before equity in loss from unconsolidated entities	(23,553)	(13,613)	6,482	—	(30,684)
Equity in loss from consolidated entities	(5,138)	—	—	5,138	—
Equity in loss from unconsolidated entities	32	(245)	(11)	—	(224)
Loss from continuing operations	(28,659)	(13,858)	6,471	5,138	(30,908)
Income from discontinued operations	—	23	2,024	—	2,047
Net loss	(28,659)	(13,835)	8,495	5,138	(28,861)
Loss attributable to noncontrolling interests	—	265	(63)	—	202
Net loss attributable to FelCor LP	(28,659)	(13,570)	8,432	5,138	(28,659)
Preferred distributions	(9,678)	—	—	—	(9,678)
Net loss attributable to FelCor LP common unitholders	\$ (38,337)	\$ (13,570)	\$ 8,432	\$ 5,138	\$ (38,337)

**FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. FelCor LP's Consolidating Financial Information – (continued)**

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

**For the Three Months Ended March 31, 2011**

**(in thousands)**

	<b>FelCor LP</b>	<b>Subsidiary Guarantors</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Total Consolidated</b>
Revenues:					
Hotel operating revenue	\$ —	\$ 207,024	\$ —	\$ —	\$ 207,024
Percentage lease revenue	1,247	—	40,476	(41,723)	—
Other revenue	7	188	30	—	225
Total revenues	1,254	207,212	40,506	(41,723)	207,249
Expenses:					
Hotel operating expenses	—	146,577	—	—	146,577
Taxes, insurance and lease expense	279	55,845	5,377	(41,723)	19,778
Corporate expenses	169	5,159	4,209	—	9,537
Depreciation and amortization	1,165	11,061	18,561	—	30,787
Other expenses	115	483	33	—	631
Total operating expenses	1,728	219,125	28,180	(41,723)	207,310
Operating loss	(474)	(11,913)	12,326	—	(61)
Interest expense, net	(19,843)	(685)	(12,241)	—	(32,769)
Debt extinguishment	—	—	(245)	—	(245)
Gain on involuntary conversion, net	—	150	—	—	150
Loss before equity in loss from unconsolidated entities	(20,317)	(12,448)	(160)	—	(32,925)
Equity in income from consolidated entities	(10,530)	—	—	10,530	—
Equity in loss from unconsolidated entities	(1,153)	(419)	(11)	—	(1,583)
Loss from continuing operations	(32,000)	(12,867)	(171)	10,530	(34,508)
Income from discontinued operations	216	147	2,419	—	2,782
Net loss	(31,784)	(12,720)	2,248	10,530	(31,726)
Income attributable to noncontrolling interests	—	228	(286)	—	(58)
Net loss attributable to FelCor LP	(31,784)	(12,492)	1,962	10,530	(31,784)
Preferred distributions	(9,678)	—	—	—	(9,678)
Net loss attributable to FelCor LP common unitholders	<u>\$ (41,462)</u>	<u>\$ (12,492)</u>	<u>\$ 1,962</u>	<u>\$ 10,530</u>	<u>\$ (41,462)</u>

**FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. FelCor LP's Consolidating Financial Information – (continued)**

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS**

**For the Three Months Ended March 31, 2012**

**(in thousands)**

	<b>FelCor LP</b>	<b>Subsidiary Guarantors</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Total Consolidated</b>
Net loss	\$ (28,659)	\$ (13,835)	\$ 8,495	\$ 5,138	\$ (28,861)
Foreign currency translation adjustment	—	308	—	—	308
Comprehensive loss	(28,659)	(13,527)	8,495	5,138	(28,553)
Comprehensive loss attributable to noncontrolling interests	—	265	(63)	—	202
Comprehensive loss attributable to FelCor LP	<u>\$ (28,659)</u>	<u>\$ (13,262)</u>	<u>\$ 8,432</u>	<u>\$ 5,138</u>	<u>\$ (28,351)</u>

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS**

**For the Three Months Ended March 31, 2011**

**(in thousands)**

	<b>FelCor LP</b>	<b>Subsidiary Guarantors</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Total Consolidated</b>
Net loss	\$ (31,784)	\$ (12,720)	\$ 2,248	\$ 10,530	\$ (31,726)
Foreign currency translation adjustment	—	1,292	—	—	1,292
Comprehensive loss	(31,784)	(11,428)	2,248	10,530	(30,434)
Comprehensive income attributable to noncontrolling interests	—	228	(286)	—	(58)
Comprehensive loss attributable to FelCor LP	<u>\$ (31,784)</u>	<u>\$ (11,200)</u>	<u>\$ 1,962</u>	<u>\$ 10,530</u>	<u>\$ (30,492)</u>



**FELCOR LODGING TRUST INCORPORATED AND FELCOR LODGING LIMITED PARTNERSHIP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. FelCor LP's Consolidating Financial Information – (continued)**

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

**For the Three Months Ended March 31, 2012**

**(in thousands)**

	<b>FelCor LP</b>	<b>Subsidiary Guarantors</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Total Consolidated</b>
Cash flows from operating activities	\$ 828	\$ 3,810	\$ 29,008	\$ 33,646
Cash flows used in investing activities	(4,669)	(18,538)	(21,863)	(45,070)
Cash flows from financing activities	17,616	5,427	(7,253)	15,790
Effect of exchange rates changes on cash	—	51	—	51
Change in cash and cash equivalents	13,775	(9,250)	(108)	4,417
Cash and cash equivalents at beginning of period	23,503	67,001	3,254	93,758
Cash and equivalents at end of period	<u>\$ 37,278</u>	<u>\$ 57,751</u>	<u>\$ 3,146</u>	<u>\$ 98,175</u>

**FELCOR LODGING LIMITED PARTNERSHIP**

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

**For the Three Months Ended March 31, 2011**

**(in thousands)**

	<b>FelCor LP</b>	<b>Subsidiary Guarantors</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Total Consolidated</b>
Cash flows from operating activities	\$ (8,926)	\$ (8,180)	\$ 22,911	\$ 5,805
Cash flows used in investing activities	214	(5,221)	(11,979)	(16,986)
Cash flows used in financing activities	(100,597)	13,272	(11,503)	(98,828)
Effect of exchange rates changes on cash	—	77	—	77
Change in cash and cash equivalents	(109,309)	(52)	(571)	(109,932)
Cash and cash equivalents at beginning of period	155,350	43,647	1,975	200,972
Cash and equivalents at end of period	<u>\$ 46,041</u>	<u>\$ 43,595</u>	<u>\$ 1,404</u>	<u>\$ 91,040</u>

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **General**

Business and leisure travel began to increase in 2010 following the recent recession, while new hotel construction remained at historic low levels. The lodging industry continues to gain momentum and has rebounded to levels more consistent with long-term trends, with improvements in both occupancy and average daily rate, or ADR.

While our hotels continued to grow occupancy slightly during the first quarter of 2012, ADR increased due to resurging corporate demand, accounting for nearly all of the 3.6% increase in revenue per available room, or RevPAR, in the first quarter of 2012 (occupancy also grew by 10 basis points). RevPAR for the hotels, excluding ten hotels under renovation or redevelopment, increased 7.1%.

We continue to make progress toward achieving the objective of our long-term strategic plan:

- We agreed to sell six non-strategic hotels for \$103 million. The transaction is expected to close late in the second quarter. Proceeds from the sale will be used to repay \$69 million of related debt, with the remaining proceeds, after selling costs, used to pay a portion of our accrued preferred dividends (almost half of the \$68 million in arrears).
- We have 10 hotels on the market (excluding the six we have agreed to sell). We will use the sale proceeds to repay existing debt (approximately \$79 million) and pay remaining accrued preferred dividends.
- We refinanced \$130 million of unconsolidated debt (our *pro rata* share is \$65 million) and extended the maturity until 2014.
- Seven of the ten hotels under renovation or redevelopment have been substantially completed.

### **Results of Operations**

#### *Comparison of the Three Months ended March 31, 2012 and 2011*

For the three months ended March 31, 2012, we recorded a \$28.9 million net loss compared to a \$31.7 million net loss for the same period in 2011.

In the first quarter of 2012:

- *Total revenue* was \$221.4 million, a 6.9% increase compared to the same period in 2011. This increase is primarily attributed to a 3.6% increase in same-store RevPAR (1.8% at our core hotels and 8.1% at our non-strategic hotels), reflecting a 3.5% increase in ADR and a 10 basis point increase in occupancy, as well as \$6.3 million in incremental revenue from our recently-acquired hotels (Royalton and Morgans, acquired in May 2011).

- *Hotel departmental expenses* increased \$6.8 million (including \$4.1 million of incremental hotel departmental expenses from our recently-acquired hotels). As a percentage of total revenue, hotel departmental expenses increased from 36.9% to 37.6% compared to the same period in 2011. This change is primarily due to the mix and nature of the business at our recently acquired hotels, which have a higher percentage of food and beverage revenue than the remainder of our portfolio. Food and beverage operations generally has much higher expenses as a percent of revenue than the rooms department.
- *Other property-related costs* increased \$3.9 million due to a combination of higher costs (such as marketing programs) and \$2.2 million of incremental other property-related costs from our recently-acquired hotels. As a percentage of total revenue, this remained essentially unchanged compared to the same period in 2011.
- *Management and franchise fees* increased \$711,000 compared to the same period in 2011, primarily due to higher revenues (which serve as the basis for determining such fees). As a percent of total revenue, these costs remained essentially unchanged from the same period in 2011.
- *Taxes, insurance and lease expense* increased \$2.5 million compared to the same period in 2011 (including \$641,000 of incremental taxes, insurance, and lease expenses from our recently-acquired hotels), and increased as a percentage of total revenue from 9.5% to 10.1% compared to the same period in 2011. The higher percentage of revenue reflects a combination of increased percentage lease expense in 2012 (computed as a percentage of hotel revenues in excess of base rent therefore, as revenue increases, percentage rent increases at a faster rate), and lower estimated Canadian taxes in 2011.
- *Corporate expenses* decreased \$1.3 million and decreased as a percentage of total revenue from 4.6% to 3.7%. This decrease primarily reflects lower payroll tax withholding with respect to restricted cash awards, which were lower in 2012 than in 2011. Amounts withheld decreased as a result of a decrease in the restricted cash granted compared to the prior year. We recognize payroll tax withholding on these awards as an expense when awarded rather than expensed over the normal three-year vesting periods (as is the case with the remainder of the awards).
- *Depreciation and amortization expense* increased \$786,000 compared to the same period in 2011 primarily reflecting \$761,000 of incremental depreciation expense related to our recently-acquired hotels.
- *Net interest expense* decreased \$1.7 million compared to the same period in 2011, primarily reflecting increased capitalized interest related to redeveloping the Knickerbocker Hotel.
- *Discontinued operations* relates to six hotels held for sale at March 31, 2012 and eight hotels sold in 2011.

## Non-GAAP Financial Measures

We refer in this report to certain “non-GAAP financial measures.” These measures, including FFO, Adjusted FFO, EBITDA, Adjusted EBITDA, Hotel EBITDA, and Hotel EBITDA margin, are measures of our financial performance that are not calculated and presented in accordance with GAAP. The following tables reconcile these non-GAAP measures to the most comparable GAAP financial measure. Immediately following the reconciliations, we include a discussion of why we believe these measures are useful supplemental measures of our performance and the limitations of such measures.

The following table details our computation of FFO and Adjusted FFO (in thousands, except for per share data):

### Reconciliation of Net Loss to FFO and Adjusted FFO (in thousands, except per share data)

	Three Months Ended March 31,					
	2012			2011		
	Dollars	Shares	Per Share Amount	Dollars	Shares	Per Share Amount
<b>Net loss</b>	\$ (28,861)			\$ (31,726)		
Noncontrolling interests	398			62		
Preferred dividends	(9,678)			(9,678)		
<b>Net loss attributable to FelCor common stockholders</b>	(38,141)	123,665	\$ (0.31)	(41,342)	95,350	\$ (0.43)
Depreciation and amortization	31,573	—	0.26	30,787	—	0.32
Depreciation, discontinued operations and unconsolidated entities	4,256	—	0.03	8,111	—	0.09
Gain on involuntary conversion, net	—	—	—	(150)	—	—
Noncontrolling interests in FelCor LP	(196)	636	—	(120)	285	(0.01)
<b>FFO</b>	(2,508)	124,301	(0.02)	(2,714)	95,635	(0.03)
Acquisition costs	38	—	—	119	—	—
Debt extinguishment, including discontinued operations	7	—	—	252	—	0.01
Severance costs	380	—	—	—	—	—
<b>Adjusted FFO</b>	\$ (2,083)	124,301	\$ (0.02)	\$ (2,343)	95,635	\$ (0.02)

The following table details our computation of EBITDA and Adjusted EBITDA (in thousands):

**Reconciliation of Net Loss to EBITDA and Adjusted EBITDA**  
(in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Net loss</b>	<b>\$ (28,861)</b>	<b>\$ (31,726)</b>
Depreciation and amortization	31,573	30,787
Depreciation, discontinued operations and unconsolidated entities	4,256	8,111
Interest expense	31,089	32,810
Interest expense, discontinued operations and unconsolidated entities	1,398	2,205
Amortization of stock compensation	1,296	1,803
Noncontrolling interests in other partnerships	202	(58)
<b>EBITDA</b>	<b>40,953</b>	<b>43,932</b>
Debt extinguishment, including discontinued operations	7	252
Acquisition costs	38	119
Gain on involuntary conversion	—	(150)
Severance costs	380	—
<b>Adjusted EBITDA</b>	<b>\$ 41,378</b>	<b>\$ 44,153</b>

The following tables detail our computation of Hotel EBITDA, Hotel EBITDA margin, hotel operating expenses on our same-store hotels, and includes the reconciliation of hotel operating expenses to total operating expenses at the dates presented.

**Hotel EBITDA and Hotel EBITDA Margin**  
(dollars in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Same-store operating revenue:</b>		
Room	\$ 173,016	\$ 165,329
Food and beverage	36,524	36,042
Other operating departments	11,627	12,224
<b>Same-store operating revenue</b>	<b>221,167</b>	<b>213,595</b>
<b>Same-store operating expense:</b>		
Room	47,733	45,798
Food and beverage	29,749	28,972
Other operating departments	5,734	5,766
Other property related costs	64,435	62,770
Management and franchise fees	10,366	9,852
Taxes, insurance and lease expense	14,950	13,857
<b>Same-store operating expense</b>	<b>172,967</b>	<b>167,015</b>
<b>Hotel EBITDA</b>	<b>\$ 48,200</b>	<b>\$ 46,580</b>
<b>Hotel EBITDA Margin</b>	<b>21.8%</b>	<b>21.8%</b>

**Reconciliation of Same-store Operating Revenue and Same-store Operating Expense to Total Revenue, Total Operating Expense and Operating Income (Loss)**  
(in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Same-store operating revenue <sup>(a)</sup>	\$ 221,167	\$ 213,595
Other revenue	275	225
Revenue from acquired hotels	—	(6,571)
<b>Total revenue</b>	<b>221,442</b>	<b>207,249</b>
Same-store operating expense <sup>(a)</sup>	172,967	167,015
Consolidated hotel lease expense <sup>(b)</sup>	9,194	8,304
Unconsolidated taxes, insurance and lease expense	(1,831)	(1,684)
Corporate expenses	8,212	9,537
Depreciation and amortization	31,573	30,787
Expenses from acquired hotels	—	(7,280)
Other expenses	963	631
<b>Total expense</b>	<b>221,078</b>	<b>207,310</b>
<b>Operating income (loss)</b>	<b>\$ 364</b>	<b>\$ (61)</b>

- (a) For same-store metrics, we have included the two hotels acquired in May 2011 for all periods presented.
- (b) Consolidated hotel lease expense represents the percentage lease expense of our 51% owned operating lessees. The offsetting percentage lease revenue is included in equity in income from unconsolidated entities.

Substantially all of our non-current assets consist of real estate. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most industry investors consider supplemental measures of performance, which are not measures of operating performance under GAAP, to be helpful in evaluating a real estate company's operations. These supplemental measures are not measures of operating performance under GAAP. However, we consider these non-GAAP measures to be supplemental measures of a hotel REIT's performance and should be considered along with, but not as an alternative to, net income (loss) attributable to FelCor as a measure of our operating performance.

*FFO and EBITDA*

The National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as net income or loss attributable to parent (computed in accordance with GAAP), excluding gains or losses from sales of property, plus depreciation, amortization and impairment losses. FFO for unconsolidated partnerships and joint ventures are calculated on the same basis. We compute FFO in accordance with standards established by NAREIT. This may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do.

EBITDA is a commonly used measure of performance in many industries. We define EBITDA as net income or loss attributable to parent (computed in accordance with GAAP) plus interest expenses, income taxes, depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect EBITDA on the same basis.

#### *Adjustments to FFO and EBITDA*

We adjust FFO and EBITDA when evaluating our performance because management believes that the exclusion of certain additional items, including but not limited to those described below, provides useful supplemental information to investors regarding our ongoing operating performance and that the presentation of Adjusted FFO, and Adjusted EBITDA when combined with GAAP net income attributable to FelCor, EBITDA and FFO, is beneficial to an investor's better understanding of our operating performance.

- *Gains and losses related to extinguishment of debt and interest rate swaps* - We exclude gains and losses related to extinguishment of debt and interest rate swaps from FFO and EBITDA because we believe that it is not indicative of ongoing operating performance of our hotel assets. This also represents an acceleration of interest expense or a reduction of interest expense, and interest expense is excluded from EBITDA.
- *Cumulative effect of a change in accounting principle* - Infrequently, the Financial Accounting Standards Board promulgates new accounting standards that require the consolidated statements of operations to reflect the cumulative effect of a change in accounting principle. We exclude these one-time adjustments in computing Adjusted FFO and Adjusted EBITDA because they do not reflect our actual performance for that period.

In addition, to derive Adjusted EBITDA we exclude gains or losses on the sale of depreciable assets and impairment losses because we believe that including them in EBITDA is not consistent with reflecting the ongoing performance of our remaining assets. Additionally, the gain or loss on sale of depreciable assets and impairment losses represents either accelerated depreciation or excess depreciation in previous periods, and depreciation is excluded from EBITDA.

#### *Hotel EBITDA and Hotel EBITDA Margin*

Hotel EBITDA and Hotel EBITDA margin are commonly used measures of performance in the hotel industry and give investors a more complete understanding of the operating results over which our individual hotels and operating managers have direct control. We believe that Hotel EBITDA and Hotel EBITDA margin are useful to investors by providing greater transparency with respect to two significant measures used by us in our financial and operational decision-making. Additionally, using these measures facilitates comparisons with other hotel REITs and hotel owners. We present Hotel EBITDA and Hotel EBITDA margin by eliminating from continuing operations all revenues and expenses not directly associated with hotel operations including but not limited to corporate-level expenses; impairment losses; gains or losses on disposition of assets; and gains and losses related to extinguishment of debt. We eliminate corporate-level costs and expenses because we believe property-level results provide investors with supplemental information into the ongoing operational performance of our hotels and the effectiveness of management on a property-level basis. We exclude the effect of impairment losses, gains or losses on disposition of assets, and gains or losses related to extinguishment of debt because we believe that including these is not consistent with reflecting the ongoing performance of our remaining assets. We also eliminate consolidated percentage rent paid to unconsolidated entities, which is effectively eliminated by noncontrolling interests and equity in income from unconsolidated subsidiaries, and include

the cost of unconsolidated taxes, insurance and lease expense, to reflect the entire operating costs applicable to our hotels. Hotel EBITDA and Hotel EBITDA margins are presented on a same-store basis.

#### *Use and Limitations of Non-GAAP Measures*

Our management and Board of Directors use FFO, Adjusted FFO, EBITDA, Adjusted EBITDA, Same-store Adjusted EBITDA, Hotel EBITDA and Hotel EBITDA margin to evaluate the performance of our hotels and to facilitate comparisons between us and other lodging REITs, hotel owners who are not REITs and other capital intensive companies. We use Hotel EBITDA and Hotel EBITDA margin in evaluating hotel-level performance and the operating efficiency of our hotel managers.

The use of these non-GAAP financial measures has certain limitations. These non-GAAP financial measures as presented by us, may not be comparable to non-GAAP financial measures as calculated by other real estate companies. These measures do not reflect certain expenses or expenditures that we incurred and will incur, such as depreciation, interest and capital expenditures. Management compensates for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions or assessments of our operating performance. Our reconciliations to the most comparable GAAP financial measures, and our consolidated statements of operations and cash flows, include interest expense, capital expenditures, and other excluded items, all of which should be considered when evaluating our performance, as well as the usefulness of our non-GAAP financial measures.

These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. They should not be considered as alternatives to operating profit, cash flow from operations, or any other operating performance measure prescribed by GAAP. These non-GAAP financial measures reflect additional ways of viewing our operations that we believe, when viewed with our GAAP results and the reconciliations to the corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. Management strongly encourages investors to review our financial information in its entirety and not to rely on a single financial measure.

#### **Pro Rata Share of Rooms Owned**

The following table sets forth, at March 31, 2012, our *pro rata* share of hotel rooms, included in continuing operations, after giving consideration to the portion of rooms attributed to our partners in our consolidated and unconsolidated joint ventures:

	<b>Hotels</b>	<b>Room Count at March 31, 2012</b>
Consolidated Hotels	69	20,050
Unconsolidated hotel operations	1	171
<b>Total hotels</b>	<b>70</b>	<b>20,221</b>
50% joint ventures	13	(1,573)
60% joint venture	1	(214)
82% joint venture	1	(40)
90% joint ventures	3	(68)
<b>Pro rata rooms attributed to joint venture partners</b>		<b>(1,895)</b>
<b>Pro rata share of rooms owned</b>		<b>18,326</b>



## Hotel Portfolio Composition

The following table illustrates the distribution of same-store hotels.

<b>Brand</b>	<b>Hotels</b>	<b>Rooms</b>	<b>% of Total Rooms</b>	<b>2011 Hotel EBITDA (in thousands)<sup>(a)</sup></b>
Embassy Suites Hotels	21	5,742	29	79,977
Holiday Inn	9	3,119	16	32,535
Doubletree and Hilton	5	1,206	6	15,347
Sheraton and Westin	4	1,604	8	15,198
Renaissance and Marriott	3	1,321	7	11,354
Fairmont	1	383	1	5,699
Morgans/Royalton	2	282	1	3,845
<b>Core hotels</b>	<b>45</b>	<b>13,657</b>	<b>68</b>	<b>163,955</b>
Non-strategic hotels	24	6,393	32	56,105
Total same-store hotels	69	20,050	100	220,060
<b>Market</b>				
San Francisco area	4	1,637	8	16,808
Boston	3	915	5	14,027
Los Angeles area	3	677	3	13,727
South Florida	3	923	5	13,113
Philadelphia	2	728	4	8,805
Atlanta	3	952	5	8,418
Myrtle Beach	2	640	3	7,860
Dallas	2	784	4	7,151
San Diego	1	600	3	6,142
Orlando	2	473	2	5,809
New York	2	282	1	3,845
Other markets	18	5,046	25	58,250
<b>Core hotels</b>	<b>45</b>	<b>13,657</b>	<b>68</b>	<b>163,955</b>
Non-strategic hotels	24	6,393	32	56,105
Total same-store hotels	69	20,050	100	220,060
<b>Location</b>				
Urban	16	4,930	25	64,841
Airport	10	3,267	16	35,570
Resort	10	2,927	15	35,194
Suburban	9	2,533	12	28,350
<b>Core hotels</b>	<b>45</b>	<b>13,657</b>	<b>68</b>	<b>163,955</b>
Non-strategic hotels	24	6,393	32	56,105
Total same-store hotels	69	20,050	100	220,060

- (a) Hotel EBITDA is a non-GAAP financial measure. A detailed reconciliation and further discussion of Hotel EBITDA is contained in the “Non-GAAP Financial Measures” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of this Quarterly Report on Form 10-Q.

## Hotel Operating Statistics

The following tables set forth occupancy, ADR and RevPAR for the three months ended March 31, 2012 and 2011, and the percentage changes therein for the periods presented, for our same-store Consolidated Hotels included in continuing operations.

### Operating Statistics by Brand

	Occupancy (%)		
	Three Months Ended		% Variance
	March 31,		
	2012	2011	
Embassy Suites Hotels	73.8	73.3	0.7
Holiday Inn	67.3	66.4	1.3
Doubletree and Hilton	62.9	60.7	3.6
Sheraton and Westin	57.6	65.9	(12.6)
Renaissance and Marriott	73.5	71.0	3.6
Fairmont	27.7	53.0	(47.8)
Morgans/Royalton	76.0	79.9	(5.0)
Core hotels (45)	68.1	69.1	(1.4)
Non-strategic hotels (24)	72.6	70.5	3.0
Total same-store hotels (69)	69.6	69.5	—

	ADR (\$)		
	Three Months Ended		% Variance
	March 31,		
	2012	2011	
Embassy Suites Hotels	145.74	140.47	3.8
Holiday Inn	123.36	116.64	5.8
Doubletree and Hilton	133.10	132.80	0.2
Sheraton and Westin	102.24	110.06	(7.1)
Renaissance and Marriott	210.58	196.66	7.1
Fairmont	213.15	199.71	6.7
Morgans/Royalton	249.85	246.10	1.5
Core hotels (45)	144.75	140.24	3.2
Non-strategic hotels (24)	121.64	115.91	4.9
Total same-store hotels (69)	137.02	132.34	3.5

	RevPAR (\$)		
	Three Months Ended		%Variance
	March 31,		
	2012	2011	
Embassy Suites Hotels	107.57	102.98	4.5
Holiday Inn	83.00	77.48	7.1
Doubletree and Hilton	83.72	80.66	3.8
Sheraton and Westin	58.86	72.49	(18.8)
Renaissance and Marriott	154.82	139.54	10.9
Fairmont	58.96	105.82	(44.3)
Morgans/Royalton	189.78	196.69	(3.5)
Core hotels (45)	98.62	96.88	1.8
Non-strategic hotels (24)	88.29	81.71	8.1
Total same-store hotels (69)	95.31	92.02	3.6

## Operating Statistics for Our Top Markets

Occupancy (%)			
Three Months Ended March 31,			
	2012	2011	% Variance
San Francisco area	73.8	69.3	6.5
Boston	49.0	68.6	(28.5)
Los Angeles area	81.0	72.2	12.2
South Florida	86.0	85.3	0.9
Philadelphia	48.7	57.8	(15.8)
Atlanta	72.0	74.9	(3.8)
Myrtle Beach	42.9	40.8	5.0
Dallas	68.5	69.8	(1.8)
San Diego	79.8	73.8	8.1
Orlando	84.8	84.8	—
New York	76.0	79.9	(5.0)
Other markets	66.6	67.1	(0.7)
<b>Core hotels (45)</b>	<b>68.1</b>	<b>69.1</b>	<b>(1.4)</b>
Non-strategic hotels (24)	72.6	70.5	3.0
Total same-store hotels (69)	69.6	69.5	—

  

ADR (\$)			
Three Months Ended March 31,			
	2012	2011	% Variance
San Francisco area	156.02	136.15	14.6
Boston	151.02	146.90	2.8
Los Angeles area	141.27	145.14	(2.7)
South Florida	184.16	174.04	5.8
Philadelphia	120.14	124.14	(3.2)
Atlanta	110.84	106.87	3.7
Myrtle Beach	106.24	98.75	7.6
Dallas	107.44	122.49	(12.3)
San Diego	121.18	122.03	(0.7)
Orlando	143.72	147.43	(2.5)
New York	249.85	246.10	1.5
Other markets	146.61	141.38	3.7
<b>Core hotels (45)</b>	<b>144.75</b>	<b>140.24</b>	<b>3.2</b>
Non-strategic hotels (24)	121.64	115.91	4.9
Total same-store hotels (69)	137.02	132.34	3.5

  

RevPAR (\$)			
Three Months Ended March 31,			
	2012	2011	% Variance
San Francisco area	115.14	94.34	22.0
Boston	74.02	100.72	(26.5)
Los Angeles area	114.41	104.79	9.2
South Florida	158.44	148.41	6.8
Philadelphia	58.49	71.77	(18.5)
Atlanta	79.82	80.02	(0.2)
Myrtle Beach	45.55	40.31	13.0
Dallas	73.58	85.46	(13.9)
San Diego	96.66	90.08	7.3
Orlando	121.83	125.00	(2.5)
New York	189.78	196.69	(3.5)
Other markets	97.66	94.83	3.0
<b>Core hotels (45)</b>	<b>98.62</b>	<b>96.88</b>	<b>1.8</b>
Non-strategic hotels (24)	88.29	81.71	8.1
Total same-store hotels (69)	95.31	92.02	3.6

## Hotel Portfolio

The following table sets forth certain descriptive information regarding the hotels in which we held ownership interest at March 31, 2012.

<u>Core Hotels</u>	<u>Brand</u>	<u>State</u>	<u>Rooms</u>	<u>% Owned</u> <sup>(a)</sup>
Birmingham	Embassy Suites Hotel	AL	242	
Phoenix – Biltmore	Embassy Suites Hotel	AZ	232	
Dana Point – Doheny Beach	Doubletree Guest Suites	CA	196	
Indian Wells – Esmeralda Resort & Spa	Renaissance Resort	CA	560	
Los Angeles – International Airport/South	Embassy Suites Hotel	CA	349	
Napa Valley	Embassy Suites Hotel	CA	205	
Oxnard – Mandalay Beach – Hotel & Resort	Embassy Suites Hotel	CA	248	
San Diego – On the Bay	Holiday Inn	CA	600	
San Francisco – Airport/Waterfront	Embassy Suites Hotel	CA	340	
San Francisco – Airport/South San Francisco	Embassy Suites Hotel	CA	312	
San Francisco – Fisherman’s Wharf	Holiday Inn	CA	585	
San Francisco – Union Square	Marriott	CA	400	
Santa Monica Beach – at the Pier	Holiday Inn	CA	132	
Deerfield Beach – Resort & Spa	Embassy Suites Hotel	FL	244	
Ft. Lauderdale – 17th Street	Embassy Suites Hotel	FL	361	
Miami – International Airport	Embassy Suites Hotel	FL	318	
Orlando – International Drive South/Convention	Embassy Suites Hotel	FL	244	
Orlando – Walt Disney World Resort	Doubletree Guest Suites	FL	229	
St. Petersburg – Vinoy Resort & Golf Club	Renaissance Resort	FL	361	
Atlanta – Buckhead	Embassy Suites Hotel	GA	316	
Atlanta – Gateway – Atlanta Airport	Sheraton	GA	395	
Atlanta – Perimeter Center	Embassy Suites Hotel	GA	241	50%
Chicago – Lombard/Oak Brook	Embassy Suites Hotel	IL	262	50%
Boston – at Beacon Hill	Holiday Inn	MA	303	
Boston – Copley Plaza	Fairmont	MA	383	
Boston – Marlborough	Embassy Suites Hotel	MA	229	
Baltimore – at BWI Airport	Embassy Suites Hotel	MD	251	90%
Minneapolis – Airport	Embassy Suites Hotel	MN	310	
Charlotte – SouthPark	Doubletree Guest Suites	NC	208	
Parsippany	Embassy Suites Hotel	NJ	274	50%
Secaucus – Meadowlands	Embassy Suites Hotel	NJ	261	50%
New York – Midtown Manhattan – Morgans	Independent	NY	114	
New York – Midtown Manhattan – Royalton	Independent	NY	168	
Philadelphia – Historic District	Holiday Inn	PA	364	
Philadelphia – Society Hill	Sheraton	PA	364	
Pittsburgh – at University Center (Oakland)	Holiday Inn	PA	251	
Charleston – The Mills House Hotel	Holiday Inn	SC	214	
Myrtle Beach – Oceanfront Resort	Embassy Suites Hotel	SC	255	
Myrtle Beach Resort	Hilton	SC	385	
Nashville – Opryland – Airport (Briley Parkway)	Holiday Inn	TN	383	
Austin	Doubletree Guest Suites	TX	188	90%

## Hotel Portfolio (continued)

<b><u>Core Hotels</u></b>	<b><u>Brand</u></b>	<b><u>State</u></b>	<b><u>Rooms</u></b>	<b><u>% Owned</u></b> <sup>(a)</sup>
Dallas – Love Field	Embassy Suites Hotel	TX	248	
Dallas – Park Central	Westin	TX	536	60 %
Houston – Medical Center	Holiday Inn	TX	287	
Burlington Hotel & Conference Center	Sheraton	VT	309	
<b><u>Non-strategic Hotels</u></b>				
Phoenix – Crescent	Sheraton	AZ	342	
Santa Barbara – Goleta	Holiday Inn	CA	160	
Anaheim – North	Embassy Suites Hotel	CA	222	
Milpitas – Silicon Valley	Embassy Suites Hotel	CA	266	
San Rafael – Marin County	Embassy Suites Hotel	CA	235	50 %
Wilmington	Doubletree	DE	244	90 %
Jacksonville – Baymeadows	Embassy Suites Hotel	FL	277	
Orlando – International Airport	Holiday Inn	FL	288	
Atlanta – Airport	Embassy Suites Hotel	GA	232	
Atlanta – Galleria	Sheraton Suites	GA	278	
Kansas City – Overland Park	Embassy Suites Hotel	KS	199	50 %
Indianapolis – North	Embassy Suites Hotel	IN	221	82 %
Baton Rouge	Embassy Suites Hotel	LA	223	
New Orleans – Convention Center	Embassy Suites Hotel	LA	370	
New Orleans – French Quarter	Holiday Inn	LA	374	
Bloomington	Embassy Suites Hotel	MN	218	
Kansas City – Plaza	Embassy Suites Hotel	MO	266	50 %
Charlotte	Embassy Suites Hotel	NC	274	50 %
Raleigh – Crabtree	Embassy Suites Hotel	NC	225	50 %
Toronto – Airport	Holiday Inn	Ontario	446	
Nashville – Airport – Opryland Area	Embassy Suites Hotel	TN	296	
Austin – Central	Embassy Suites Hotel	TX	260	50 %
San Antonio – International Airport	Embassy Suites Hotel	TX	261	50 %
San Antonio – NW I-10	Embassy Suites Hotel	TX	216	50 %
<b><u>Held for Sale Hotels (included in discontinued operations)</u></b>				
Boca Raton	Embassy Suites Hotel	FL	263	
Ft. Lauderdale – Cypress Creek	Sheraton Suites	FL	253	
Tampa – Tampa Bay	Doubletree Guest Suites	FL	203	
St. Paul – Downtown	Embassy Suites Hotel	MN	208	
Raleigh/Durham	Doubletree Guest Suites	NC	203	
San Antonio – International Airport	Holiday Inn	TX	397	
<b><u>Unconsolidated Hotel</u></b>				
New Orleans – French Quarter – Chateau LeMoyne	Holiday Inn	LA	171	50 %
<b><u>Hotel under Development</u></b>				
New York – Midtown Manhattan – Knickerbocker Hotel	Independent	NY	330	95 %

(a) We own 100% of the real estate interests unless otherwise noted.

## **Liquidity and Capital Resources**

### *Operating Activities*

During the first three months of 2012, cash provided by operating activities (primarily hotel operations) was \$33.6 million (\$30.2 million from continuing operations), \$27.8 million more than the same period in 2011. This increase primarily reflects a payment of liquidated damages in 2011 in connection with our earlier sale of two hotels (\$8.5 million) and the timing of restricted cash payments (\$7.2 million). At March 31, 2012, we had \$98.2 million of cash and cash equivalents, including \$56.4 million held by our third-party management companies.

The lodging recovery that began in 2010 is continuing, and our ADR improved 3.5% in the first three months of 2012, contributing to substantially all our 3.6% RevPAR increase. We expect our overall RevPAR for 2012 to increase by 5% to 6.5% compared to 2011, which assumes continued occupancy and ADR growth. We expect to generate \$75 million to \$87 million of cash from operating activities in 2012.

### *Investing Activities*

During the first three months of 2012, cash used in investing activities increased \$28.1 million compared to the same period in 2011 due primarily to higher capital expenditures (primarily from renovations and redevelopments at 10 hotels and Knickerbocker hotel development). In the first three months of 2012, we completed approximately \$41.4 million of capital improvements at our hotels. We expect to spend approximately \$85 million for renovation and redevelopment capital in 2012, which expenditures will be funded from operating cash flow, cash on hand and borrowings under our line of credit. We also expect to spend approximately \$35 million on value-enhancing redevelopment projects at three hotels: Morgans (guestrooms, corridors, public areas, meeting space, fitness area, re-concept F&B); Myrtle Beach Oceanfront Resort-Embassy Suites (public space, lobby, re-concept F&B); and the Boston Copley Plaza-Fairmont (guestrooms, corridors, public areas, meeting space, fitness area, re-concept F&B). In addition, we expect to spend approximately \$60 million at the Knickerbocker, which will be funded primarily by restricted cash, as that hotel is redeveloped.

As part of our strategic plan, we intend to sell non-strategic hotels that do not meet our investment criteria, thereby freeing our capital for redeployment (*e.g.*, reduce overall leverage, pay accrued preferred dividends and invest in remaining FelCor properties that generate a higher return on invested capital). We have agreed to sell six hotels for \$103 million and expect the transaction to close late in the second quarter. We continue to market 10 hotels for sale, and we expect to sell most of these hotels during 2012. We have also identified 14 additional non-strategic hotels. We will continue to monitor the transaction environment and will bring these additional hotels to market at the appropriate time.

### *Financing Activities*

During the first three months of 2012, cash provided by financing activities increased by \$114.6 million compared to the same period in 2011. In 2012, we had draws on our line of credit of \$36 million, while in 2011, our \$145 million of net draws on our line of credit were more than offset by our repayment of \$227 million in secured debt. We expect to pay approximately \$22 million in normally occurring principal payments, \$69 million in non-recurring principal payments related to the six non-strategic hotels for sale, and \$39 million in current quarterly preferred dividends in 2012, which payments will be funded from operating cash flow and cash on hand. Additional sales of our non-strategic hotels will result in an increase in non-recurring principal payments.

In 2011, we reinstated our current quarterly preferred dividends and paid current quarterly dividends in January, April, August and October 2011. We are restricted from paying any common dividends unless and until all accrued and current preferred dividends are paid. Our Board of Directors will determine whether and when to declare future dividends (including the accrued but unpaid preferred dividends) based upon various factors, including operating results, economic conditions, other operation trends, our financial condition and capital requirements, as well as minimum REIT distribution requirements. We had \$76.3 million of aggregate accrued dividends payable to holders of our Series A and Series C preferred stock at March 31, 2012 (including \$8.5 million pertaining to the current quarter). We expect to pay all accrued preferred dividends in arrears (\$67.8 million) with proceeds from sales.

Except in the case of our senior notes and line of credit, our mortgage debt is generally recourse solely to the specific hotels securing the debt, except in case of fraud, misapplication of funds and certain other customary limited recourse carve-out provisions, which could extend recourse to us. Much of our secured debt allows us to substitute collateral under certain conditions and is prepayable, subject (in some instances) to various prepayment, yield maintenance or defeasance obligations.

Most of our secured debt (other than our senior notes and line of credit) includes lock-box arrangements under certain circumstances. We are permitted to spend an amount required to cover our budgeted hotel operating expenses, taxes, debt service, insurance and capital expenditure reserves even if revenues are flowing through a lock-box in cases where a specified debt service coverage ratio is not met. With the exception of loans secured by two properties, all of our consolidated loans subject to lock-box provisions currently exceed the applicable minimum debt service coverage ratios.

*Senior Notes.* Our senior notes require that we satisfy total leverage, secured leverage and interest coverage tests in order to: (i) incur additional indebtedness, except to refinance maturing debt with replacement debt, as defined under our indentures; (ii) pay dividends in excess of the minimum distributions required to qualify as a REIT; (iii) repurchase capital stock; or (iv) merge. We currently exceed all minimum thresholds, other than for certain restricted payments. These notes are guaranteed by us, and payment of our 10% notes is secured by a pledge of the limited partner interests in FelCor LP owned by FelCor. In addition, our senior notes are secured by first lien mortgages and related security interests and/or negative pledges on up to 17 hotels (11 for our 10% senior notes and six for our 6.75% senior notes), and pledges of equity interests in certain subsidiaries of FelCor LP.

*Interest Rate Caps.* To fulfill requirements under certain loans, we entered into an interest rate cap agreement with a notional amount of \$212 million at March 31, 2012 and December 31, 2011. This interest rate cap was not designated as hedge and had insignificant fair value at both March 31, 2012 and December 31, 2011, resulting in no significant net earnings impact.

## **Inflation**

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Competition may, however, require us to reduce room rates in the near term and may limit our ability to raise room rates in the future. We are also subject to the risk that inflation will cause increases in hotel operating expenses disproportionately to revenues. If competition requires us to reduce room rates or limits our ability to raise room rates in the future, we may not be able to adjust our room rates to reflect the effects of inflation in full, in which case our operating results and liquidity could be adversely affected.

## **Seasonality**

The lodging business is seasonal in nature. Generally, hotel revenues are greater in the second and third calendar quarters than in the first and fourth calendar quarters, although this may not be true for hotels in major tourist destinations. Revenues for hotels in tourist areas generally are substantially greater during tourist season than other times of the year. Seasonal variations in revenue at our hotels can be expected to cause quarterly fluctuations in our revenues. Quarterly earnings also may be adversely affected by events beyond our control, such as extreme weather conditions, economic factors and other considerations affecting travel. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenues, we may utilize cash on hand or borrowings to satisfy our obligations.

## **Disclosure Regarding Forward-Looking Statements**

This report and the documents incorporated by reference in this report include forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements can be identified by the use of forward-looking terminology, such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” or other variations of these terms (including their use in the negative), or by discussions of strategies, plans or intentions. A number of factors could cause actual results to differ materially from those anticipated by these forward-looking statements. Certain of these risks and uncertainties are described in greater detail under “Risk Factors” in our Annual Report on Form 10-K or in our other filings with the Securities and Exchange Commission, or the SEC.

These forward-looking statements are necessarily dependent upon assumptions and estimates that may prove to be incorrect. Accordingly, while we believe that the plans, intentions and expectations reflected in these forward-looking statements are reasonable, we cannot assure you that deviations from these plans, intentions or expectations will not be material. The forward-looking statements included in this report, and all subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf, are expressly qualified in their entirety by the risk factors and cautionary statements discussed in our filings to the SEC. We undertake no obligation to publicly update any forward-looking statements to reflect future circumstances or changes in our expectations.



### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

At March 31, 2012, approximately 72% of our consolidated debt had fixed interest rates.

The following table provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents scheduled maturities and weighted average interest rates, by maturity dates. The fair value of our fixed rate debt indicates the estimated principal amount of debt having the same debt service requirements that could have been borrowed at the date presented, at then current market interest rates.

#### Expected Maturity Date at March 31, 2012 (dollars in thousands)

	Expected Maturity Date							Fair Value
	2012	2013	2014	2015	2016	Thereafter	Total	
Liabilities								
Fixed-rate:								
Debt	\$ 3,613	\$ 5,177	\$ 659,866	\$ 564	\$ 8,813	\$ 525,000	\$ 1,203,033	\$ 1,298,923
Average interest rate	7.75%	7.76%	9.52%	5.81%	5.81%	6.75%	8.27%	
Floating-rate:								
Debt	81,743	133,107	37,021	200,260	—	—	452,131	\$ 464,708
Average interest rate <sup>(a)</sup>	2.05%	2.74%	5.19%	8.10%	—	—	5.19%	
Total debt	\$ 85,356	\$ 138,284	\$ 696,887	\$ 200,824	\$ 8,813	\$ 525,000	\$ 1,655,164	
Average interest rate	2.29%	2.92%	9.29%	8.09%	5.81%	6.75%	7.43%	
Net discount							(29,559)	
Total debt							\$ 1,625,605	

(a) The average floating interest rate represents the implied forward rates in the yield curve at March 31, 2012.

### Item 4. Controls and Procedures.

(a) *Evaluation of disclosure controls and procedures.*

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934) as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our chief executive officer and chief financial officer concluded, as of the Evaluation Date, that our disclosure controls and procedures were effective, such that the information relating to us required to be disclosed in our reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) *Changes in internal control over financial reporting.*

There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15 (f) promulgated under the Securities Exchange Act of 1934) during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II -- OTHER INFORMATION

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In February 2012, FelCor issued 187 shares of common stock in exchange for like numbers of FelCor LP limited partnership units. Issuing these shares under these circumstances is a private transaction that is exempt from registration under Section 4(2) of the Securities Act of 1933.

### Item 6. Exhibits.

The following exhibits are furnished in accordance with the provisions of Item 601 of Regulation S-K:

Exhibit Number	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for FelCor.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for FelCor.
31.3	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for FelCor LP.
31.4	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for FelCor LP.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for FelCor.
32.2	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for FelCor LP.
101.INS	XBRL Instance Document. <i>Submitted electronically with this report.</i>
101.SCH	XBRL Taxonomy Extension Schema Document. <i>Submitted electronically with this report.</i>
101.CAL	XBRL Taxonomy Calculation Linkbase Document. <i>Submitted electronically with this report.</i>
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. <i>Submitted electronically with this report.</i>
101.LAB	XBRL Taxonomy Label Linkbase Document. <i>Submitted electronically with this report.</i>
101.PRE	XBRL Taxonomy Presentation Linkbase Document. <i>Submitted electronically with this report.</i>

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) FelCor's Consolidated Balance Sheets at March 31, 2012 and December 31, 2011; (ii) FelCor's Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011; (iii) FelCor's Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2012 and 2011; (iv) FelCor's Consolidated Statements of Changes in Equity for the three months ended March 31, 2012 and 2011; (v) FelCor's Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011; (vi) FelCor LP's Consolidated Balance Sheets at March 31, 2012 and December 31, 2011; (vii) FelCor LP's Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011; (viii) FelCor LP's Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2012 and 2011; (ix) FelCor LP's Consolidated Statements of Partners' Capital for the three months ended March 31, 2012 and 2011; (x) FelCor LP's Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011; and (xi) the Notes to Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### **FELCOR LODGING TRUST INCORPORATED**

Date: May 1, 2012

By: /s/ Jeffrey D. Symes

Name: Jeffrey D. Symes

Title: Senior Vice President, Chief Accounting Officer  
and Controller

### **FELCOR LODGING LIMITED PARTNERSHIP**

a Delaware limited partnership

By: FelCor Lodging Trust Incorporated  
Its General Partner

Date: May 1, 2012

By: /s/ Jeffrey D. Symes

Name: Jeffrey D. Symes

Title: Senior Vice President, Chief Accounting Officer  
and Controller

**Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, Richard A. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FelCor Lodging Trust Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2012

/s/Richard A. Smith

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Richard A. Smith  
Chief Executive Officer

**Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, Andrew J. Welch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FelCor Lodging Trust Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2012

/s/Andrew J. Welch

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Andrew J. Welch  
Chief Financial Officer

**Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, Richard A. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FelCor Lodging Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2012

/s/Richard A. Smith

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Richard A. Smith

Chief Executive Officer of FelCor Lodging Trust Incorporated, as  
general partner of FelCor Lodging Limited Partnership

**Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, Andrew J. Welch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FelCor Lodging Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2012

/s/Andrew J. Welch

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Andrew J. Welch

Chief Financial Officer of FelCor Lodging Trust Incorporated, as  
general partner of FelCor Lodging Limited Partnership



**Section 906 Certification**

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to  
18 U.S.C. § 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of FelCor Lodging Trust Incorporated (the “Company”) hereby certify, to such officers' knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2012 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended;

and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 1, 2012

/s/Richard A. Smith

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Richard A. Smith

*Chief Executive Officer*

/s/Andrew J. Welch

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Andrew J. Welch

*Chief Financial Officer*

**Section 906 Certification**

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to  
18 U.S.C. § 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of FelCor Lodging Trust Incorporated as general partner of FelCor Lodging Limited Partnership (the “Company”) hereby certify, to such officers' knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2012 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended;

and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 1, 2012

/s/Richard A. Smith

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Richard A. Smith

*Chief Executive Officer* of FelCor Lodging Trust Incorporated,  
as general partner of FelCor Lodging Limited Partnership

/s/Andrew J. Welch

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Andrew J. Welch

*Chief Financial Officer* of FelCor Lodging Trust Incorporated,  
as general partner of FelCor Lodging Limited Partnership