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PRESENTATION

Operator

Good morning. My name is Kim and I will be your conference operator today. At this time, I would like to welcome everyone to the FelCor second-quarter earnings conference call. (Operator Instructions) Thank you. Mr. Stephen Schafer, you may begin your conference.

Stephen Schafer - *FelCor Lodging Trust Incorporated - VP*

Thank you, and good morning. I want to thank you for joining us for our second-quarter earnings conference call. With me today are members of our management team, including Rick Smith, President and CEO, and Michael Hughes, Chief Financial Officer. Following their remarks today, we will take your questions.

Before I turn the call over to Rick, let me remind you that with the exception of historical information, the matters discussed on this conference call may include forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are expressions of current expectations and are not guarantees of future performance. Numerous risks and uncertainties in the occurrence of future events may cause actual results to differ materially from those currently expected.

These risks and uncertainties are described in our filings with the SEC. Although we believe our current expectations to be based upon reasonable assumptions, we cannot assure you that our expectations will be attained or that actual results will not differ materially.

With that, I will turn the call over to Rick.

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Thanks, Steve, and good morning, everyone. We had another very strong quarter from every perspective, and accomplished or progressed on all of our goals for the year. We exceeded the high end of our expectations for RevPAR and EBITDA growth, and have increased our full-year operational guidance by approximately $2 million at the midpoint.

The improvement is largely driven by the increase in group pace, which is running 7.1% higher in 2014, and is adding known compression for the GMs. Once again, our comparable portfolio outperformed the industry with a 9.2% RevPAR increase.

Our 6 acquired and recently redeveloped hotels again outperformed our expectations with a 23% increase in EBITDA, and the Wyndham Hotels grew RevPAR more than 20%. We made good progress on asset sales, including completing the swap with Hilton.

As we announced last week, we completed the term loan and will pay off the 10% senior notes on August 15, and we are making good progress on the Knickerbocker redevelopment.

Our primary focus for 2014 remains the same, simply to complete the plan, including the following items: Complete the remaining asset sales and use proceeds to repay debt and finalize the balance sheet restructuring; open the Knickerbocker and effectively position it in the market; focus on the continued ramp-up of the acquired and recently redeveloped hotels; continue to aggressively attack ADR index and flow-through; and complete the next phase of our investor relations program.

Now a little more detail on each of these points. First, asset sales and the balance sheet. At January 1, we had 21 non-strategic hotels remaining to sell. We sold 4 hotels during the first half of the year. We completed the swap of interest in 10 hotels with Hilton, retaining 5. That leaves 12 hotels remaining to sell. We have agreed to sell 4 hotels, including 4 with nonrefundable deposits.

We have hired brokers and informally started the marketing process on the 5 hotels retained in our swap with Hilton. Full-scale marketing will begin in early September, and we expect the first call for offers near the end of September.

We will bring the remaining 2 hotels to market later this year or early 2015. Therefore, we expect to have 19 of the 21 hotels sold or marketed for sale by the end of the third quarter. Pricing continues to be within our expectations at 11 times prior-year EBITDA.

I am very pleased with our progress this year. For all intents and purposes, the asset sale program and the balance sheet restructuring will be complete by the end of this year. After redeeming our 10% notes, our weighted average cost of borrowing will be below 6%, and our next significant debt maturity other than the line of credit occurs in 2019. Furthermore, we remain on track to achieve our target leverage in 2015.

Now let's turn to the Knickerbocker. We have made steady progress on the project since the last earnings call. Our net project cost remains $240 million, and we expect the hotel to open this fall. Overall, we feel good about the process, both from a development and operational perspective.

Recent development milestones include: we have increased construction and project management staffing to ensure we stay on schedule; Sheetrock walls are now being completed on the 16th and final floor; Ceilings are complete through the 14th floor, and tile is complete through the 12th floor; with painting and wallcovering in process on the 10th floor; all of the millwork for the guestrooms has either been delivered or is in transit and is tracking on schedule and installation is complete on floors 5 through 8; Rooms on the 5th through 9th floors will be guest ready by the end of August.

The public spaces, that is the lobby, 4th floor and rooftop, continue to progress. The MEP is complete, the majority of lobby sheetrock is complete, and stone flooring and wall installation has started. The majority of the FF&E has been delivered.

We have continued to assert ourselves aggressively in the preopening operations and sales and marketing efforts to ensure a successful opening, and we remain ahead of all critical path items.

Recent operation milestones include additional management team hires in human resources, front office, revenue management, housekeeping, and finance. We are currently finalizing food and beverage programming concepts and menus with a local team and Charlie Palmer. Website front-end design is complete, and the site is ready to be launched in tandem with the booking engine.

The sales team completed a total of 2500 activities throughout the second quarter, both domestically and internationally, and corporate and group interest is high.

As I mentioned earlier, our 6 acquired and recently redeveloped hotels continue to pace of ahead of expectations operationally, with hotel EBITDA increasing 23% during the quarter. The performance of the eight Wyndham hotels continues to improve, growing RevPAR 20.4% during the quarter. As the disruption subsides from the transition and we complete the renovation on the remaining hotel, we expect continued strong RevPAR growth.

Importantly, the guaranty steps up more than 20% this year. So EBITDA at these hotels is expected to be about $43 million in 2014, or about $8 million higher than 2013, and will step up another 20% plus in 2015. Please note that our guidance reflects guaranty level as to mitigate any remaining transition risk.

Starting in late August, we will begin our next phase of investor meetings. The front end of the schedule will take us to the Midwest and Canada and will be focused on new investors. After the Knickerbocker is opened and the asset sales have progressed, the schedule will become more extensive and focused on new and existing investors.

This will also entail an analyst day at the Knickerbocker. The feedback continues to be very positive and as we continue to progress on the asset sales, the Knick and further ramp-up, we will stay out in front of investors to update them throughout next year.

Just a few comments before I turn the call over to Michael, a few additional comments. We remain committed to delivering on our strategic objectives. We are making great progress on the portfolio transformation, which should be virtually complete by year end. We are reducing our leverage and cost of borrowing to strengthen our balance sheet, and we are achieving desired returns collectively on our acquired and recently redeveloped hotels.

This commitment is paying off. We have assembled a high-quality and well-diversified portfolio that continues to outperform the industry. We should continue to deliver sustainable growth as our portfolio is in excellent shape, is well insulated from new supply, and is experiencing lower supply growth than the industry.

We will continue to deliver superior stockholder value as we complete the plan and build a strong balance sheet to provide flexibility throughout the lodging cycle, enabling us to see strategic opportunities while providing a meaningful common dividend.

With that, I will turn the call over to Michael.

Michael Hughes - *FelCor Lodging Trust Incorporated - SVP, CFO & Treasurer*

Thanks, Rick, and good morning. We have made significant progress on the balance sheet to extend maturities and lower our weighted average cost of debt. During the first half of the year, we repaid $63 million of non-cross mortgage loans secured by 5 hotels, otherwise scheduled to mature between June and August, which bore interest at a weighted average rate of 6.7%.

Earlier this month we closed a $140 million term loan. Borrowings under the facility bear interest at LIBOR with no floor, plus 2.5%. The loan is freely pre-payable.

We are also paying off our 10% notes on August 15. Proceeds from the term loan, cash on hand and line of credit borrowings will be used to retire the $234 million of outstanding principal. We anticipate generating $280 million of proceeds from the 12 remaining asset sales, which we will used to repay the term loan, nearly all of the outstanding line of credit, and the mortgages of the sold hotels.

We feel very good about the progress and pace of our asset sales, and as we discussed on prior earnings calls, we expect to have the new term loan outstanding for only a short period of time. As Rick mentioned, we had another good quarter, with RevPAR for our comparable hotels increasing 9.2%. Occupancy increased 2.9%, mostly from an increase in group demand.

ADR increased 6.6%, due to a combination of higher absolute rates and a continued remixing away from lower rated segments such as government into higher rated corporate segments. We also had strong margin improvement of 175 basis points.

So far this year, corporate transient room nights which make up the largest concentration of demand for our hotels, increased 6%, while group increased 8%. Conversely, room nights for lower rated segments declined 5%.

Hotel EBITDA increased 17%, which was ahead of our expectations. We are increasing our annual guidance as a result of the better than expected hotel offering performance during the second quarter and our updated asset sale timing. We forecasted 7.5% to 8% full-year RevPAR growth for our 46 comparable hotels, and 8.75% to 9.25% for our 54 same-store hotels, which is a midpoint increase of 75 basis points.

We expect to sell the majority of our nonstrategic hotels this year. However, for the purposes of EBITDA and FFO guidance, our outlook reflects selling all 12 remaining nonstrategic hotels. The low end of our outlook assumes that 5 hotels are sold in the third quarter and 7 hotels are sold in the fourth quarter. The high end assumes that 4 hotels are sold in the third quarter and 8 hotels are sold during the fourth quarter.

As Rick said earlier, our full-year outlook continues to assume NOI from our Wyndham hotels equals the 2014 guaranteed amount. We have increased the midpoint of our EBITDA guidance by $2 million for operational performance and another $1 million for updated asset sale timing.

We now forecast full-year adjusted FFO per share to be between $0.56 and $0.60, and adjusted EBITDA between $211.5 million and $217.5 million.

With that, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Patrick Scholes, SunTrust.

Patrick Scholes - *SunTrust Robinson Humphrey - Analyst*

Good morning. A question for you on the Morgans and Royalton. And the question is I don't think it has been much of a secret that obviously Morgans Group is having some challenges and the hotels have been underperforming. How long does your management contract with them go? Are you able to get out of that now if you should want to?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Well, there's various answers to that question. From a contractual standpoint, we have a ways to go. There are performance issues at the end of five years, or performance standards at the end of five years, and they are our agent. I hate to be cryptic about that, Patrick, but that is kind of the lay of the land on that right now.

Patrick Scholes - *SunTrust Robinson Humphrey - Analyst*

So not likely up for discussion in the next 12 months. Is that a fair --?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

I wouldn't say that. I wouldn't go that far. We are certainly looking at every alternative available to us with regard to those two hotels. That includes a lot of things. We are in the process of that analysis now. When we are ready to discuss that publicly, we will absolutely do so.

Patrick Scholes - *SunTrust Robinson Humphrey - Analyst*

Got you. When I hear about Hilton having their new conversion brand and you folks being a very large holder of Hilton, just to my mind it initially seems like it would be a good match and I am sure you folks are probably considering that. So I will leave it at that.

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Thank you.

Operator

Nikhil Bhalla, FBR.

Nikhil Bhalla - *FBR - Analyst*

Good morning, Rick and Mike. Just a question on the sale of the 5 hotels that you expect to bring in September. Is there a way to think about what the sales proceeds might be from those sales?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

You are talking about the 5 that we are going to start marketing that we retained in the Hilton swap?

Nikhil Bhalla - *FBR - Analyst*

Yes, correct.

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

The whole thing for the 12 was about 275. I think that number is around 130 to 140, Nikhil.

Nikhil Bhalla - *FBR - Analyst*

Okay, that helps a lot. And then finally, it seems like -- so 2 hotels may carry over into 2015, like 1Q. Is that a fair assessment?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Yes, absolutely. One of them we are in a joint venture with, and we have made a determination based on kind of the current market what the hotel is doing this year and how that will improve things. So it would be better to -- I mean from the JV standpoint, it is better to bring that to market at the beginning of next year.

The final hotel, we are currently reevaluating that based on some work that has been done, based on the year that they are having, etc. There is a chance that would come out in the second half of this year, and I think the latest is going to be first of next year.

Nikhil Bhalla - *FBR - Analyst*

Got it. Just a final question on the ramp across your hotels. I remember last time when you guys did your analyst day presentation, you talked about the ramp-up in sort of the different segments of your hotels, the ones that you had renovated like the Union Square in San Fran and some of the other ones.

Could you just update us on how you think about ramp maybe in 2015 versus 2014, and what is your latest expectation?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Yes, I think everything except for Morgans and Royalton (inaudible) is going to be about where we expected it to by the end of 2015, and closer to stabilization, and certainly increasing as we go into 2015. So we are getting there on those. Obviously, you have the Knick still to open and ramp up as well.

Nikhil Bhalla - *FBR - Analyst*

Okay, that is all for me. Thank you.

Operator

Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank - Analyst*

Good morning, guys. Just a quick question on the guidance. I see in the footnote that it includes the Knick, but are you guys expecting much of a contribution in 2014, or can you tell us what the number is that you are including in that?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

No, Chris. We started out the year thinking when we had $1 million in our guidance, that's actually reduced. So the fact that our guidance continues to go up each quarter is more of a strength of the rest of the portfolio perspective. Just given the pushout and the ramp-up time required, that number is reduced. But we are still working through kind of exactly when it opens what we think that number will be, but it is going to be less than the $1 million.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, that is helpful. Then I guess, Rick, as you guys -- you bring the asset sale program to completion, you open the Knick and you delever; I guess the natural question is what is next for you guys? Do you really look at acquisitions at this point in the cycle with where we think pricing is, or how do you see the cycle evolving for FelCor after this year?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Yes, it's a good question. There has been a lot of work to get through all of the transformation of this Company, and that will kind of signal the end of the transformational period, which will be great. And what it does is open up some real opportunity for us to be more opportunistic, a lot more offensive, etc.

So as we get through the next step, asset sales will occur. There will be a good portion of capacity created, and we have a number of opportunities to take advantage of to look at that. We have a number of redevelopment opportunities as I have expressed in the past, such as Santa Monica which is huge, and some lesser ones, but 6 or 7 really good redevelopment opportunities. We are very good at that. We have proven that in the past.

We have all of the preferred stock sitting out there, which post August 15 will be the highest cost piece of paper in our cap stack outside of common equity, of course, and we have potential for growth. So we will be getting the leverage where we need to. We will have plenty of capacity, and we will have opportunities to look at each one of those and determine based on the underwriting and vetting the assumptions very thoroughly what will drive shareholder value the greatest.

So we are going to have some real good opportunity on a next steps portion of our plan, in addition to the remaining value to be created by finalizing this plan. So the future looks good.

Chris Woronka - *Deutsche Bank - Analyst*

Okay. That is good color. Just finally for me, hypothetically if you sold Morgans and Royalton, is there any change in the management contract on a change in ownership, or would it theoretically kind of carry over as is?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Well, if we sold them currently, it would be encumbered if it was as is. That is all I can really say about that. So like I've said, we are looking at every alternative on those two hotels as to what is the best way to move forward.

One thing I should say, they had another reorganization in March, but we have been working very well with them, and there has been some new systems implemented which are helping, and helping manage mix, etc., a lot better and to be more efficient from a mix management standpoint.

So things are improving a little, and so we will continue to work very directly with them, very closely with the properties, our asset management team, Troy and Michelle. And so things are looking better.

Also, I mean just one last note, the Morgans Hotel is doing much better kind of post opening reserve and so forth. It is really back on track from a market share standpoint. So that is starting to head the right way. There is still some mix opportunity there without question, just like there is at Royalton, and we continue to pursue that.

But again, just to close the book, we will continue to look at every alternative available to us. And when we make a decision on moving forward and are really ready to state that publicly, we will.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, very good. Thanks.

Operator

Steven Kent, Goldman Sachs.

Anto Savarirajan - *Goldman Sachs - Analyst*

Good morning. This is Anto Savarirajan on for Steve.

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Good morning.

Anto Savarirajan - *Goldman Sachs - Analyst*

Good morning. This is Anto on for Steve Kent. When you mentioned that transactions have been at close to your expectations, did I hear it right when you said they were at 11 times prior-year EBITDA? If so, can you give us some perspective on what it would have been on a cap rate basis?

And further if you could give us a range of the overall transactions, that would be helpful as well. Is the fact that FelCor is on the market to sell assets in any way weighing on the pricing you are getting for these assets?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

7%, around 7% cap on average for the first one. But no, I think the answer to the last piece -- there might have been a middle piece in there that I might have to ask you to reiterate or restate. But on the last piece, I don't think the fact that we have assets on the market is forcing pressure down.

We have walked a number of deals where people have tried to re-trade us, thinking that we need to finish selling the assets. We are not going to give them away. We are going to sell them.

When you look at the markets, look at the overall plan, look at the capital, future capital needed for the assets, and what is in the best interest of shareholders from a global perspective going forward, that is where we will sell the assets. Everyone knows that, and it is not affecting that at all.

By the end of the day, we are going to end up selling 85 to 90 hotels from the first phase and the second phase of asset sales, and we haven't had to deal with that really at all. So maybe the fact that we have brought hotels out on a staggered basis and not all at once has helped that. I am not sure. But we are not going to deal with that.

Anto Savarirajan - *Goldman Sachs - Analyst*

Understood. Now when we look at the occupancy across the portfolio, FelCor may be running in the low 70%s. Some of the other REIT peers may be running a few points ahead. Can you talk to us about the occupancy potential for FelCor maybe over the next couple of years? And how do you usually think of how much RevPAR can be driven by rate and how much of a benefit you can get from occupancy?

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Well, I think we still have some room on occupancy. I think we will be able to solidify that as we finish, finalize, all of the mix changes at the hotels that are currently going on. I certainly think we are going to get back to prior peak, 76%, 77% from an occupancy standpoint. So yes, there is some room.

There is certainly some room from a rate standpoint, both from an absolute rate perspective as well as the finalization of the remix. So I feel pretty good about that. And the occupancy gain is likely to come on shoulder periods, as well as kind of building in after we finish the remix.

Anto Savarirajan - *Goldman Sachs - Analyst*

Thank you very much.

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

You're welcome.

Operator

(Operator Instructions) Sue Berliner, JPMorgan.

Wade Suki - *JPMorgan - Analyst*

This is actually Wade calling in for Sue. Just had a question on unencumbered hotels, just understanding with this 10% bonds being taken out and then also future asset sale proceeds; is it correct that there is still going to be 6 unencumbered hotels?

Michael Hughes - *FelCor Lodging Trust Incorporated - SVP, CFO & Treasurer*

Well, there are 7 today, and post pay off the bonds, there's going to be 14 that will be unencumbered.

Wade Suki - *JPMorgan - Analyst*

Got it. The pro forma for that is going to be 14. And then pro forma in the future, this $140 million loan being paid off?

Michael Hughes - *FelCor Lodging Trust Incorporated - SVP, CFO & Treasurer*

Yes, when you go into the future, paying off a $140 million term loan and selling the remaining assets, you are around 10 hotels.

Wade Suki - *JPMorgan - Analyst*

Around 10, okay. And then just a second question, just any kind of update on a New York market. Overall, it sounds like it is doing okay despite all of the new supply. So I just was wondering if you guys had any color on your properties generally.

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Well, the second quarter is certainly a lot better than the first quarter. The market is improving. There is a number of things going on. It really depends on where you are. Third quarter is looking very strong. It depends on where you are.

There has been a lot of new supply in New York. It has been well documented and lamented. But my feeling is the market, the submarket that we are in in the Midtown area, Times Square area, is always the best at absorbing that. So a lot of the supply has been south on the island or has been in the outer boroughs, as far as this year is concerned.

So we think that the market is in very good shape. We love New York long-term, and there has actually been a lot of talk recently about contraction. The housing market is extraordinarily strong. There has been a number of discussions going on. I don't think any deals announced yet, but a lot of conversation going on about conversion from hotel to residential.

So I mean from a long-term perspective, we love it. April, May, we are very strong, and June is actually pretty strong. But we had BI last year in June at our properties, so it made for kind of a bad comp, but April and May were very strong. Third quarter looks strong.

Wade Suki - *JPMorgan - Analyst*

All right, awesome. That is very helpful. Thanks.

Rick Smith - *FelCor Lodging Trust Incorporated - President & CEO*

Thanks. Okay, apparently we are done for the day. So thank you all for joining and we will talk to you next time.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.