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# EDITED TRANSCRIPT

FCH - FelCor Lodging Trust Incorporated Analyst Day

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## PRESENTATION

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### **Steve Schafer - FelCor Lodging Trust Incorporated - VP - Strategic Planning**

All right. Good morning everybody. Welcome. I think we have a few more people coming from in town, but we will go ahead and get started. So, I am Steve Schafer, Vice President for FelCor. We are very excited to host you today for our first Analyst Day with this management team. Also I want to welcome everyone to the Webcast.

We have been visiting with investors on numerous road shows over the past year, year and a half. You will see much of that same presentation today, but we will take a deeper dive in some of the projects that we are currently working on including some of the newly acquired and redeveloped hotels. You will be hearing from everyone seated on stage here and give you a chance to meet the people behind our company.

At the end of the day, we will give you a USB'd deck with the full deck presentation, and they are out in a ball at the table where you found your nametags. If you prefer, we also have a limited number of printed copies as well.

We expect to wrap up around noon today. If you are interested in taking a tour of the property, then we will be more than happy to do that. I believe, Paul Tormey, he is the General Manager here will be with us on the tour. And then from about 12 to one, after we wrap up, if you want to stay back, these guys will be here and if you want to have any sidebar Q&A questions, these guys will be available for that as well.

And so with the introductions, so Rick Smith, President and CEO; Michael Hughes, our brand new minted Chief Financial Officer; Troy Pentecost, he is our Chief Operating Officer, in charge of Asset Management; and Erik Nylen, he is Head of Development, he will be talking about the Knickerbocker in detail this morning.

So, first Rick is going to talk about the corporate and portfolio overview, and then Mike will touch on the balance sheet and capital structure. At that point, we will take general company questions as well as questions on the balance sheet, and then we will break for about 15 minutes or so. And then we will come back and I will speak a little bit about the industry and the economy. Troy will touch on Asset Management, and then Erik will talk about the Knick, and then we will take Q&A as well with regard to any of those sections or anything else that you have questions on. And then as I said around noon, we will wrap up and we will take that property tour.

And with that, I will turn it over to Rick.

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### **Rick Smith - FelCor Lodging Trust Incorporated - President, CEO**

Thanks, Steve. I really appreciate everyone coming today. We are happy to do this and happy to show up our new property here that we put a lot of work into and a lot of money into. And I am going to start with kind of an overview, some background on kind of what we found when we came in, and a number of things that we have done to transform and turnaround the company.

The biggest reason for the historical commentary is really to give you a sense of what we have executed versus what we have got left to execute. So, when I got to the company, pretty much all things needed to change. The culture was very good, but everything else needed to change.

We found a company that had a number of properties that were secondary and tertiary market properties, older properties, no barriers to entry, that if you own them, and you are opportunistic and you own them in a private equity setting and you can flip them and play the timing game, you could make money on those, but for a remodel, it's really very difficult to sustain. With no barriers to entry, someone comes in and sets a property next to you your value is diminished greatly.



And so there were a number of properties we needed to get off of the company's balance sheet and set a strategy on what we wanted to create from an overall quality of portfolio standpoint as well as the balance sheet. Those were the two things that were kind of overhangs on this company as we came in and what we needed to improve, the overall quality of the portfolio and the balance sheet and getting it where it needed to be. So, that was part of the deal. There were two phases of asset sales. We will talk about asset sales a lot going forward. There were two phases of asset sales that we needed to deal with, and I will get back to that in a second.

The other thing that we found from an operational standpoint, we weren't very effective. We had good people, but we didn't have a very good system. There were guys handling 30 to 40 hotels per person. They were aligned by brand versus by region and so they never really left the office. They spent a good deal of time managing the cost side, which they did a very good job at.

But what they didn't understand, because they weren't in their markets a lot, they didn't understand demand generators, key feeder cities, comparable nature of product, quality and location, so that they could determine a) what business is available in the market and b) how we stack up against our competitors, and therefore c) how we should be mixing the business. And mix management in this business is everything as far as top line management goes.

So, we have changed that dramatically. They now handle 10 to 15 hotels per. They are aligned by region and they are in their markets 80% of the time. They do understand all of those factors that I just ran through and we have made a great deal of progress from remixing standpoint.

The third thing that we found was that the assets were in repair. They were not in very good shape. We were basically four or five out of five from a quality standpoint across the board. So, there are two problems with that. As you spend, use no money, number one, you don't really get any bank for that ever, because you are not improving the asset. And secondly and probably most importantly as it relates to managing the mix, you are not giving the guys in the field the tools they need to actually compete with the people they are competing with.

So, during '06 to '08 we put about \$0.5 billion into our properties and got our hotels where they needed to be from a core standpoint, cleaned up what was going to be the second phase of asset sales, and our hotels today are one or two out of five across the board.

And between the changes operationally and the changes from a capital standpoint, we created dramatic improvement in what we were able to do operationally, and I will talk to that in a little bit. And so where do that leave us? What we are focused on now?

After we finished all of that, all the changes operationally, all the changes from a portfolio and a strategic standpoint, all the changes from a capital standpoint, which was a great deal of work, we are now at a point to what's left to do to sell the remaining 20 hotels, get the Knickerbocker opened, and get the ramp up on the recently acquired and redeveloped hotels. So, from an execution standpoint, what we have done represents about 90% of the total plan with about 10% remaining.

So, let's turn to one other thing on capital before I leave that. The other thing that we did when we finished the capital program in '06 to '08 and got our hotels to where we needed to be, we also embarked on doing a full 20-year plan for each of our hotels. And the reason that it's 20 years and nobody else has a 20-year plan, but our 20-year plan looks at every nut and bolt, every chair, every piece of carpet, every major mechanical piece, roof, etcetera.

The reason it's 20 years is because it takes 20 years to touch everything in a hotel, roof some major mechanical being 20-year items. So, to really look at what you are going to have to do to take care of the assets and really gauge your returns on a go-forward basis, you need to have that full look. So, that's why we did that. And Troy will talk a little bit later about what we have going forward and how it relates to that 20-year plan?

So, let's move on to what's left to do? We currently have 20 hotels left to sell. We have sold 19 in the second phase. And we have 11 currently on the market. Now, I want to give you kind of some steps, so that you can see the progress here. When we had our call on early May, we had one hotel under contract and we had four other under some form of negotiation. We learnt quite the contract yet some had just started.

Today, a month and a half later, we have five hotels under contract, one is hard one will go hard today. So, there will be two hard. And we have two others under negotiation we are close to contract on. So, that gets you to seven. We have few more calls for offers next week which continued to nine or yeah nine and we have the other two that are in the process right now. They are under discussion with various parties, but we are not close to contract them.

So, we have made tremendous progress just in the last month and a half and we are certainly feeling good about that process about the price -- from the pricing and our timing standpoint. From the remaining JV hotels there is nine hotels and they are basically in two different JVs. One with a separate partner that we have two hotels, we have already agreed with them that those will go on the market the first of '14. The second is with Hilton, which is a little more complicated, but we have seven hotels. We actually have 10 hotels in 50-50 JVs with Hilton seven of which are assets that are non-core for us.



We are in the process of working through a swap with Hilton that would split the 10, 5 and 5 and allow us control to do what we want and take those assets to market that would be sold. So, we expect that to be done in the fall and we expect to pretty much immediately get them on the market once the swap is done. So, from a standpoint of where we stay on the asset sales we are in great shape on the 11. We are moving on the nine and we expect midyear for all intents and purposes '14 to be complete we might have a couple of stragglers that move out to the end of '14. But we feel very good about the process there.

From a standpoint of what we are selling you can see selling about 70% of suburban hotels, 15% of airport hotels, you can see the markets there secondary markets San Antonio, Toronto etcetera as we go down markets with lesser barriers-to-entry than the core assets that we are retaining. Let's give you an indication of -- and I need you to keep something in mind here.

These numbers were 2012 actual numbers, so it doesn't account for the further ramp up of this hotel of the Marriot in San Francisco, the Knick coming online etcetera, but you can see the difference in ADR, RevPAR, EBITDA per key, RevPAR growth and EBITDA growth in 2012 on the hotels that we are retaining versus those that we are selling.

This is a pretty compelling picture of where we've come from to where we've gone to. As you can see this is when I took over this is actually 2005 information RevPAR for the company was \$74. Our forecast for '15 based on the numbers that are in the presentation we are going to see today and we will talk about all those assumptions is \$145 or effectively double what the RevPAR was for the company when we took over, EBITDA per key even greater up 2.5 times from \$8,000 to \$20,000 per key.

When we are finished with the asset sales we have about 71% of our hotels and resorts in urban markets, that's before Next steps which I will get to at the end of the presentation and we have about 29% remaining in airport and suburban but they are the better airports in suburban markets. In other words say Orlando no barriers to entry and keep San Francisco pretty high barriers to entry etcetera.

And you can see on the right side what the core revenue market composition looks like New York, San Francisco, Boston, LA, Miami, Philadelphia, being our largest markets. This is the list of the 46 hotels that we will have at the end of the day. This is a portfolio that we feel very strongly about from a number of different perspectives. And some of which we'll talk about now and some of which I will talk about little later.

But these 46 hotels you can see broken down by urban, what airports are remaining the resorts and the suburban hotels. And the reason we feel really strongly about this portfolio is in the reason that I would stack up this portfolio with any of our REIT peers, and I truly mean that if you look at there is two or three of our peers that have more glitz, no question about it.

But from a standpoint of looking at this from a submarket perspective within the markets and a barrier to entry within those submarkets and where the dimension or where they sit within those submarkets I like our portfolio as well as anyone.

And on top of that we have better diversification than anyone else have and what I mean by that is we still have a number of Embassies. Number one, they during the downturn gain market share without exception. Number two and probably most importantly the Wyndham deal which I will talk about in detail later. The Wyndham deal one thing that it does for us is it completely protects 20% of our stabilized EBITDA, the guarantee which Wyndham steps up in '14 -- 20%, '15 -- 20% and then it steps up every year after that with a 3% kicker.

So, when we do into the next downturn while everyone is dipping, 20% of our EBITDA will continue to grow at that level. So, from a diversification and a submarket look analysis, so therefore from an overall quality standpoint, I will stack up our portfolio with anyone to that point.

Getting back to operations just for a second a quick comment on that, since we don't get a lot of credit from an operational standpoint right now, because everyone is so focused on the balance sheet, but one thing that I think is very good to point out and Troy won't blow his own horn, so I will pat him on the back.

We do a very good job. We really approach asset management vastly differently than anyone else that we know. We work much more like regional ops than we do typical asset managers. Typical asset managers finance guys they manage the cost side. The way they typically look at the revenue side is PKF says the market is going to grow this much and we put X amount of capital into it, so I need Y% of RevPAR from you.

We don't do that, we build it from the ground up based on those demand generators, based on how we stack-up from a quality and location standpoint with regard to those demand generators so that we can build the mix that we want to and manage the revenue that way. When you don't do that you might have a good performing hotel which you have no idea how much money you are leaving on the table.

So, the way we approach it has led and the changes we have made from that standpoint as well as the capital that we have put into the hotels to get them where they needed to be had put us into a very good position to operate very effectively. We are since as you can see from the screen from 2008 through 2012 versus our peers



listed on the bottom we are the only one positive rolled up to the upper - upscale segment and we have outperformed all or our peers from RevPAR standpoint since that time.

And further in 2008 and 2009 from a RevPAR and from a flow through standpoint and as far as we can tell from a market share standpoint not everyone reports on market share. But from those perspectives in '08 and '09, we were not only the best REIT, we were the best public hotel company, best performing public hotel company from those perspectives in the United States. Like I said we don't get a lot of credit for the operational process at this point because people are still focused on the balance sheet and us completing the story which is getting the rest of the assets sold and getting the balance sheet right size.

Couple of slides on that deal with quality a little more as you can see this is based on PKF none of our largest 12 markets are expected to grow better than the US average over the course of the next few years. And this is also we took a look at basically what PKF had listed as on every market they look at looking at the markets that are expected to outperform in the US versus markets that are expected to under perform in the US.

And you see column A and column B, 74% of our portfolio more than any of the guys below us there are listed along with us there are expected to outperform and 26% or less than any of the guys below us are expected to under perform. The net perhaps is a little higher than a few, a lot higher than some.

And this gets back to what I was talking about with regard to the strength of the portfolio from a submarket standpoint and from a diversification standpoint on top of that. Before we get into looking at the recently acquired and redeveloped hotels because it's a big part of the story, before we get into that one thing that I will add and Mike will talk pretty extensively about the balance sheet book, but what is compelling from my perspective about what we are able to do, and it's not because we are better than everybody else, it's because of where we are coming from and what the opportunity is for us to create from the value standpoint.

But we are going to have from the peak to 2015 we are going to have \$70 million less interest expense. We are going to have in excess of \$90 million to \$100 million of additional fab that opens up a lot of operational income from balance sheet standpoint, our maturity profile will be stellar, our cost of funds will be an all-time low, and so we will be doubling coverage etcetera, etcetera.

In other words we have a great deal of opportunity to move the needle relative to our peers. One of the things that help with that in addition to what we were doing from the asset sales and the cleanup of the balance sheet is the growth of the recently acquired and redeveloped hotels. After we talk about each of these assets individually we are going to show you a rollout that shows where we get to and has an analysis from a peak-to-peak perspective that shows you the growth availability for the company, which is pretty compelling.

Starting with the Marriott, this is we basically took this hotel back to the studs. It's total redevelopment in San Francisco Union Square, a great location, and this hotel during the last peak as the Crowne Plaza that was in pretty bad shape, did \$1.5 million of EBITDA.

Now, when I show you the page of the roll-off later, it's going to show peak-to-peak increase of 650%, which looks pretty daunting, but we are already almost there. We have already gone from \$1.5 million to \$8.5 million this year. Basically, all that's left to do and from a standpoint of understanding our assumptions on getting the stabilization here, all that's left to do with this hotel is we had two final pieces of contract business roll-off in '13. And between now and in '14, we are remixing those two pieces of business.

The largest of those contract pieces of business was an airline crew about 30 rooms a night, over \$100 off the ADR. So, the remixing helps dramatically. So, the only assumptions in here is that we remix those two pieces of business and we get the growth that PKF says this market will have between now and then. One other thing on this hotel on a apples-to-apples basis from a penetration standpoint, this hotel as the Crowne Plaza was 79, it's now about 115.

So, tremendous improvement, it's a fantastic team that is running this. We have a great relationship with Marriott. Well, this hotel was actually named Hotel of the Americas for the Marriott system last year and finished I think second to Abu Dhabi worldwide. So, fantastic job this team is doing.

The hotel we are in, that the Fairmont, this was a great opportunity for us for a couple of reasons. First, we were able to buy at a really compelling price per key about 50% of replacement cost if you look at the last actual new supply that come into the back base demand when it took them about 10 years to do it, and it cost about 700 a key. We bought this for 257 a key, or \$98 million.

Also keep in mind that two years before, we bought it at \$98 million. They had an offer for \$160 million that they didn't take. We put a great deal of money into it and the reason we did that and the opportunity that we saw, and one of our core competencies is really to be able with the strength that we have from a development standpoint from a D&C standpoint internally is to take something and really see the opportunity to improve it to take it to where it needs to be.

This hotel, as you can see, did \$11 million back in '07, but the problem was the hotel was extraordinarily tired. The rooms were old and tired. The connectivity in the rooms from an electrical standpoint was really horrible. The HVAC was bad. There was no HVAC in the corridors. The fitness was basically one bay with three ready



pieces of equipment in it, which was one of the worst I have ever seen in a luxury hotel. And the F&B if you can find it was pretty old and tired. And when I say if you could find it, because it wasn't open from the lobby, it was very -- it was actually difficult to find. So, what we did was we understood that when we went into the downturn they had lost all their corporate customer and they weren't coming back, because everything that the corporate customer wants this hotel didn't have.

So, we put the money into this hotel to redo everything back at the house from an HVAC and electrical standpoint and to dramatically improve the rooms not only from an esthetic standpoint, but from a connectivity standpoint and just the comfort standpoint in the rooms and the bathrooms, we did condition the corridors, the fitness facility I'll see today if you haven't seen it already upstairs 3,000 square feet, floor to window ceilings, little deck outside overlooking the back base, state-of-the-art equipment, it's fantastic fitness facility, one of the best I've been around in a hotel. And we blew out the lobby, created some lobby seating on both sides of Peacock Alley.

And on the left side opened it up into the F&B and the new OAK Long Bar and Kitchen is phenomenal, one of the hottest spots in Boston and lot of nights the issue is that people have a hard time getting to the bar to get a drink because of the crowd that are in there. So, the hotel is improving dramatically.

As you can see, we are going from \$4.3 million to \$9.2 million in EBITDA this year, and we haven't finished remixing the business. What's left to do here to get to these numbers? Very simple, finish the remix and that will be done in '14 and the market growth will happen in this market. That's simple.

This gives you an idea on the segmentation of Fairmont where it went from into. When the corporate customer left, you can see they went from 22% discount business to 43% discount business, which was huge and that drove your overall breakdown pretty significantly. And we have already made tremendous strides we have gotten the discount back down to 30% on its way back to 22%.

I actually would like to see it a tick or two lower than that as we because of what we have done and what we have created here from a quality standpoint. So, there is tremendous room left to go and that shows that illustrates that.

Next one, Morgans and Royalton, this is our opportunity I'll call it. I am going to talk about the Morgans and Royalton in two different ways. First of all, value, because value is a no-brainer here. And secondly, the cash-on-cash return and where we are and where we are getting to. From a valuation standpoint like I said this is a no-brainer.

I think the thing to remember about New York real estate is there is really only two ways to screw up my New York real state one is you do a really stupid deal. If we had paid a million a key versus 495,000 a key for these hotels that would qualified and 495 a key it does not. And the other way that you are getting trouble in New York is if you are kind of a smaller company and you do something that is so late with that, that you can't withstand the downturn.

Neither of those are applicable here. Long-term value wise in New York let me give you an illustration, and I'll give you an illustration using FelCor and a deal that they did not do. Back in 2002, FelCor had the opportunity to buy the [med], the Doubletree licensing of 52nd for \$110 million.

Now, at the time, the board consisted of I mean the philosophy of the board was really all about price per key in first year accretion. They did the Bristol deal back in '98 which devastated the company because it was really strong price per key in first year accretion, but because of all the strategic factors that I listed earlier that ended up harming the company.

But they didn't like doing high entry, high kind of price of entry deal. So, for \$110 million, \$160 million, \$165 million a key, they could have gotten into New York and they could have done the Doubletree they passed on it. So, Mike DeNicola who was busy working some deals today in that with us puts the deal upstairs. Gave it to Mahmood, Mahmood sold it two years later for \$340 million, not two years later, two years ago for \$340 million to RLJ. So and that is an illustration of what happens over time with regard to New York real estate if you are not behind the eight-ball and can't ride out the downturn.

On top of which we have 23,000 square feet of FAR was the part of the original underwriting and we have a potential chance to pickup 20,000 additional square feet from adjacent site. So, from a value standpoint, there is absolutely no concern at all with Morgans and Royalton and get that squared way.

From an operational standpoint, this has been a real challenge. It has taken us way longer than it needed to, to get things turned here. We are very hands-on. We work very closely with the management teams. Troy will talk about this a little bit. And it took us a long time to get them moving in the right direction. It took us a long time to get them to understand what needed to be done. They were making \$10 million in '07 and '08. What happened here was Lehman was a huge account for these two hotels, particularly at Royalton.

When Lehman died, they panicked. They started giving away all of their inventory, I mean you can see I am going to flip one page, you can see what happened from a standpoint of consolidators, other, and leisure increased pretty dramatically on a combined basis from a segmentation standpoint. They started giving way a lot of their inventory and not only that, but the price because of the rate they were getting from Lehman and the remix combination drove price down considerably.



When I showed you the Fairmont, we still have plenty of room on the remixing side, but the rates already back. We have a long way to go from a rate standpoint here. In '07, the rate was \$362 or \$323 a day. We are making tremendous improvement, but we still have a long way to go both on the mix and on the absolute rate side.

So, where we are with this is all of the personnel at Morgans and Royalton related to revenue management and sales have pretty much changed. Not only at our hotels, but also from a corporate standpoint, and it took those changes, and then finally coming on from Marriott who is really good is with us. We are on the same page. We finally have a plan that will work that will allow us to get to where we need to.

And so the combination of that plan being where it needs to be and finishing up the redevelopment, which I will speak to in just a second, we are finally in position to get to where we need to be from a cash-on-cash standpoint as far as returns. This one has been a challenge. We feel good about where it is now and where it's headed.

Just briefly on the redevelopment, we are reconcepting the F&B space formerly into the Cuba, which didn't really make any money, had a great volume, just the cost associated with that type of restaurant, the union market really drove profitability through the floor and beyond. And so we're reconcepting that to make it much more bar-centric similar to the Royalton, and we are also utilizing the space that they were using for certain things to create three new rooms, improve the fitness facilities on the fourth floor, so three rooms is not like a lot, but on a base of the 114 rooms, it's pretty significant.

The new F&B space will also be very flexible space, whether we use it for breakfast in the mornings, it will be kind of a library, it will be used for meeting space during the day, and it will be kind of a bar-centric space at night, like I said much like the Royalton. So, we feel very good about where we're heading here, although none of us were very happy about the time that it's taken to get this thing on the right track.

We've already talked about that, Wyndham. The Wyndham deal is a massive homerun for us. It is something that took a great deal of time to put together. And I worked very closely with Erik dancing around this deal. And what this deal does for us is a number of things. First of all, it takes -- from overall quality portfolio keep in mind that's one of the kind of lingering subject matters that we've dealt with, it takes eight hotels from mid-scale with food and beverage to upper upscale, almost overnight.

I mean, we have some work to do. We are putting a little additional capital to get there, but we always renovated these, much higher level than a typical Holiday Inn is in any event. So, the quality was there, but the brand and the perception of the hotel wasn't. So, from a quality standpoint, it allows us to do that.

Also we have an absolute guarantee on the sales, which is just phenomenal for us, because it does the number of things for us. First of all, I mean, the parameters of the guarantee \$100 million over the life, 21.5 million in any given year. We stress tested the guarantee given a pretty dire downturn. We got to \$65 million over the life and we got to \$18 million in any given year. So, we feel pretty good from a standpoint of the guarantee and the ability of the guarantee to cover any downfall.

So, what this does? You see in at the peak what these hotels did and to get the highest peak we used different hotels with different years during the last upturn '06 to '08. And you can see that the best these hotels ever did \$43.5 million. The guarantee level rises 20% in '14, 20% in '15, and then stabilizes and starts with a 3% CAGR starting in '16.

In 2015, you see \$55.3 million there. The grey bar represents the guarantee, which is about \$52 million. So, we are about 25% higher on an absolute guaranteed level than these hotels have ever done that creates tremendous value for us.

The other thing that the guarantee does, as I mentioned earlier, is during the next downturn, when everybody is dipping we will be stepping up with 20% of our stabilized EBITDA. So, that's a huge advantage for us from a volatility standpoint or lack thereof during the downturn.

The Knickerbocker, lots of questions on this. We brought Erik today to talk in more detail about the Knick. I'll give you bit of an overview and then he will talk about it for quite a bit later. So, as a REIT, not typically a huge fan of development for obvious reasons, but this is a special circumstance both from a standpoint of the opportunity location wise and the opportunity price wise.

From a location standpoint, I truly believe if you ever come to me five years ago before I even knew this was existed and said I'll give you a hotel anywhere in the world you want, this will be the corner, honestly. The corporate towers that have gone up right around that, the redevelopment of the area and back all the way through to Bryant Park makes this particularly with this quality level a huge opportunity from a corporate standpoint as good as I've seen. And you can be in Times Square without being in the massive Time Square. And from our rooftop bar, you basically can throw a rock and hit the ball as it drops under your seat.

So, from a location standpoint, it is a phenomenal opportunity. Also, and Erik will talk about this a little more later too, but from a valuation standpoint, we got this at an incredible price, given the value of the land, the value of the history, tax, credits, we basically got the [shale] at a huge discount.



And just to illustrate value for you, I had dinner with Mahmood who runs Highgate who is our partner in this a couple of weeks ago and he told me that someone had offered to take us out at \$50 million above what we've got in there today and I said, no, thanks, that would be leaving a lot of money on the table.

So, we got it at a great price. All-in, we're going to be at 700 a key, which when you compare it to other new builds -- and by the way, the other new builds being of lesser quality, then this is going to be, from an overall standpoint, we are significantly south of that, so, great pricing, great location. And from a number standpoint, the thing you need to know about the assumptions on the numbers is this, we built a comp set that includes seven hotels, The Muse, W Times Square, Hilton Times Square, Renaissance Times Square, The Sofitel, the Algonquin, and Royalton, our hotel.

In order to achieve the numbers in the underwriting, we need to be at a 104 RevPAR penetration against that fit. We have a better location than any of them. We have a newer product than any of them. We have bigger rooms than any of them. We have a better management team than any of them. And if we run at 104, it's going to be failure to me. So, I feel very strongly about the assumptions that we have from an underwriting perspective.

And so we can't wait for this to open. It's set to open. We are still on budget. We still have money in the contingency and we are set to open next April. It is New York development, but we are expecting to -- we are still on course to open next April.

This is the roll-off I was referring to earlier and the reason I wanted -- before I get to this, the reason that I wanted to talk about each of the individual acquisitions, redevelopment, opportunities, before I got to this is because you can see the numbers on the right hand side, this is the peak-to-peak analysis. And you see the San Francisco Marriott, 650% and it sounds kind of ridiculous, but you can see we're already most of the way there. And you know the assumptions on getting the rest of the way there from the 8.5 to 11, very immaterial from a standpoint of the remaining movement we've got to make.

And the Wyndham portfolio we've talked about, 90% plus of this money is guaranteed, so very little lift from that standpoint. We've talked about the Fairmont. You understand the assumptions remaining to give the rest of the ramp up there. And we've also talked about Royalton and Morgans. The only we didn't touch base on individually is the Renaissance portfolio, the Vinoy and Esmeralda, which really there's very little left to do there. These hotels are magnificent hotels. They're in great shape. The Vinoy is doing fine. It's right on track with everything that we have thought.

The Esmeralda, what needs to happen to get back to stabilization with these hotels and you can see it's not much about peak-to-peak increase, it's just 7%. But what all that needs to happen is the group rooms just need to stabilize? Group has come back as everybody is aware. Group has come back a little slower, which has created a more moderate longer cycle.

And the reason for that is -- I mean there has been kind of less non-essential spending which accounts for the -- it's from an S&P 500 balance sheet perspective accounts for why all of the buildup of cash is there, less non-essential spending because of any lingering fear from an additional liquidity event like happened with the credit crisis in '08.

So, I think that, that is why we are seeing much more moderate growth and less compression created by virtue of the group rooms coming back.

So, when the group rooms do get to stabilization, we will be in a great position on the Esmeralda, and that is also going to provide an additional opportunity outside of the confines of what we're talking here with this piece of the strategic plan. It will provide a great opportunity for us in the next downturn and I'll talk about their a little later.

The Knickerbocker we've already spoke about, you can see there. And on the legacy core, we're assuming 4% peak-to-peak growth which is pretty moderate from any peak-to-peak analysis you would look out and also as it relates to the markets represented by these 31 hotels, it corresponds with what PKF expects in those markets between now and '15.

That should give you pretty good handle on the assumptions behind getting to where we need to both from a legacy growth standpoint, from a growth on the redeveloped and acquired standpoint and from an asset sales standpoint so that you can judge the execution risk for yourself. And please keep in mind what I've said at the beginning from an overall plan standpoint, 90% of this is done. The remaining 10% is what is left. We feel very good from an execution standpoint.

And to finish up before I turn it over to Michael, this sheet illustrates some of the numbers and some of the -- I talked about our ability to move the needle, a great deal more than any of our peers because they're stabilized, we're not and this is a pretty good illustration of this. If we took this all the way back to 2010, it would even be vastly more dramatic.

But you can see the adjusted EBITDA, we've talked about that which corresponds with FFO. FFO per share from '12 to '15 goes from \$0.23 to \$1.06. FAD goes from negative \$2 million to \$90 million, coverage doubles from 1.6 to 3.2, net debt to EBITDA goes from 8.4 to 4.7.





So, there really is a tremendous opportunity for us to move the needle getting to stabilization, getting this company where it needs to be, transform into what it needs to be on a stabilized basis going forward. And then on top of that, after everyone else speaks, I'll talk a little bit about what we're looking at for next steps and there are some additional opportunity for us there.

With that I'll turn it over to Michael.

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**Michael Hughes - FelCor Lodging Trust Incorporated - CFO**

Thank you, Rick. It's Michael, good morning. The balance sheet has been something that I've been focused on since I've started at the company in 2006. And we've been very, very busy. 2009, 2010 were a bit challenging, but we made it through and given the progress we've made on the balance sheet so far, we feel very optimistic going forward.

Now, there are many considerations that we think about when we look at the balance sheet. But there are really three main areas of focus and that's the leverage, coverage and maturity profile. And I'll talk more about this in a minute. But first, I want to walk you through what we've accomplished so far and really what's left to do.

In 2012, we completed the capital markets portions of our balance sheet restructuring. So, using a combination of assets or proceeds, CMBS and senior notes, we are able to repay or refinance the majority of our near term debt maturities and we're able to repay the bulk of the debt that we took out in 2009 and 2010 which had a blended weighted average cost of about 10.4%.

We put the Knickerbocker loan in place and we amended our line of credit to extend that maturity and reduced the coupon. So, what's really left to do? Well, basically, when we did the notes offering in 2012, we sized that deal such that the debt that would be remaining to pay down would be match funded by assets or proceeds.

So, we simply need to sell the 20 assets and repay the debt. That will reduce our weighted average cost of borrowing another 80 bps. We've already reduced some 100 bps last year. That will also improve our maturity profile, allowing us to continue to stagger and extend our maturities with a weighted average maturity of 2021 making our nearest debt maturity in 2017.

And then we have to capture the EBITDA growth on our core portfolio as Rick outlined in the previous slide that he walked you through. So, walking forward from 2012 to a pro forma balance sheet -- I can hit this with the laser pointer, we want to where asset or proceeds to repay the 2014 maturities, so most of that consists of the 10% notes. And then we have five single property CMBS mortgages that we want pay down our line of credit balance and we're going to repay about \$17 million of joint venture debt which put this at about \$422 million of total debt repayment.

So, at the end of day, we're left with five loans, line of credit that is your balance, the Knickerbocker loan, the CMBS that we put in place last year and two tranches of notes. So, probably it's the first time in FelCor's history it's the simple clean balance sheet with cost of debt below 6%.

Now, one of the main areas of focus I mentioned is leverage, our target leverage range is 4.5 to five times. We expect to be at 4.7 times in 2015. Now the asset sales and debt pay downs get us about a turn of the way there.

And the remaining leverage reduction comes pretty equally weighted between the EBITDA growth on our legacy core portfolio and the EBITDA growth on our newly acquired and redevelop hotels, which include the Knickerbocker coming online in 2014. It also includes the Wyndham Properties, which has Rick showed you on the Wyndham side, the majority of the EBITDA growth is guaranteed.

Now, given our coverage and our maturity profile, we feel that 4.5 to five times is really the right place for us to be on a stabilized basis because it provides the right mix of balance sheet security and return on equity. Now our leverage will fluctuate through our different points of the cycle and we actually expect to be below 4.5 times before the end of this cycle but I'll let Rick to give you little more color on that when he talks about next steps.

Coverage, we've had transformative improvement in our cost of debt. Our cost of debt, our interest expense has gone down \$45 million since 2010 and by the time we stabilized in 2015, we'll reduce total interest expense by \$70 million and that's pretty huge. When you look at Rick's last slide that he presented and the 100% increase in coverage to 3.2 times and give us 300% increase in FAD and FFO this is obviously a large part of that.

Now I want to direct your attention to 2015 the \$80 million. Once we sold the assets and repay the debt, that is our run rate interest expense going forward effectively locked in through 2019. And over half of that is locked in through 2022, 2023 and that's pretty important because it provides us with the runway for our free cash flow, make strategic investments that will grow shareholder value to further enhance the balance sheet and to pay a stable common dividend.



Lastly, our focus is our maturity profile. Pro forma for asset sales, we will have one of the best maturity profiles than our peer group. Our weighted average maturity will be 2021. Our nearest maturity will be 2017, which is the Knickerbocker loan, so let me talk about that loan for a second.

We were extremely conservative when we leveraged that loan it's just over 50% loan to call. Given that location of 42 Broadway and the value creation that we anticipate, we expect that loan to be deleverage to be much lower than 50% as we near maturity. And that loan is fully pre-payable at anytime without penalty. The next maturity of the 2019 notes, those notes are callable starting in 2015.

So, when you think about next steps with our maturity profile if capital markets were all stable, we'll look to refinance the 2019 notes as early as 2015, 2016 and further push out our maturity profile. When we look at the Knickerbocker, given the EBITDA growth we're anticipating there we've been looking to refinance that loan and push up that maturity in early 2016 as well. So, the maturity profile is something we'll continue to think about and continue to focus on. But we've been very successful in repositioning our balance sheet.

We still have some work left to do, but as we see the pathway is very clear. And given our maturity profile and our historically low cost of debt going forward, we think that FelCor is well positioned for growth, we think the balance sheet risk is very low and we think that we are in a great position to navigate the industry cycles going forward. Thanks you.

## QUESTION AND ANSWER

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**Steve Schafer - FelCor Lodging Trust Incorporated - VP - Strategic Planning**

All right, thank you, Michael. So, we're going take a few minutes and have a question and answer if you have any questions related to either what Rick spoke about or what Michael spoke about.

Good morning. We do have a microphone because we are Webcasting today, so I just want to make sure that folks on the Webcast can hear the question as well.

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**Unidentified Audience Member**

Great. Question for you, Michael. You talked a lot about your balance sheet, I guess going forward, what is your appetite for unsecured debt versus secured debt. And can you talk about what the differential right now in terms of pricing is between those two?

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**Michael Hughes - FelCor Lodging Trust Incorporated - CFO**

Yes, long-term, we would like to migrate back to more of a traditional unsecured model. At this point, yes, we're going to be secured for quite some time primarily. I mean, when we get through the asset sale process and the debt pay downs, we'll have about 15 plus properties unsecured and over 30% of our -- I'm sorry, unencumbered, and over 30% of our EBITDA unencumbered. So, we will definitely be moving in the right direction there and I think we will have some options kind of in the next bond maturities move around.

Pricing right now is about 120 bps wide on the unsecured versus secured. And that was pretty consistent with where it was when we did the deal on December. And given that the long-term cost of debt is, we think is critical for us, to have the coverage and have the capacity to do some good investment.

We felt to gain the cash flow in going ahead and locking the lower rate made sense this time. But definitely as we go forward, there will be inflection point when we can start looking at the unsecured market again and make it make sense, probably a few upgrades later as well.

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**Unidentified Audience Member**

Hi, good morning. I have two questions. With the new Wyndham Hotels, certainly we know when the new management team comes in, there's often quite a volatility in reservation volumes. Would you expect that the guarantee might kick in during this quarter, and if so, have you factored that into your guidance?



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

Thank you. We have basically guidance at the level of the guarantee. And as far as there's accounting in and out, but it's kind of a contra expense kind of way of recognition until the end of the year, but for the full year, which we don't give quarterly guidance anyway, our full year guidance is based on those eight hotels performing at the guarantee level. So, there is no downside there.

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**Unidentified Audience Member**

Okay, thank you. Then in light of Ashford's announcement of a spin out, it also seems that your company has some very, I would say, ultra high-end assets that are different from sort of the core portfolio. Would you ever consider spinning out your high end names like the Copley Fairmont -- sorry, Copley, Royalton or Knick into a separate REIT to potentially unlock additional value?

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

I mean, we always look at everything at every opportunity we think is available to us. And we've talked about various things along those lines over the course of the years. We feel like tending to our netting and getting the company stabilized as a whole company versus moving in a direction to try to set something apart which would increase value for that part, would likely decrease value on the remaining parts.

And so we feel like the best plan, the best execution and solution for us is to do what we are doing which is the lower non-core assets being sold, getting them off the balance sheet completely giving this to a portfolio that is very strong and stabilized is a better way to go for us.

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**Michael Hughes - FelCor Lodging Trust Incorporated - CFO**

Yes. Plus what we have built from a portfolio management standpoint is the right mix of growth and stability. So, that maturity is going to generate superior risk-adjusted return because you have that nice mix. Without that, then you're creating the more volatile portfolio and portfolio that doesn't have the risk adjusted growth.

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

No question.

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**Unidentified Audience Member**

And just one final question, have you set a specific opening date for the Knick yet that you're taking reservation for?

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

Not a specific date at this point. And Troy will talk about the Knick and what's going on there, the team in place and they're working kind of from an education front right now and finishing the plan and we expect to be writing contracts this fall during our peak season and things of that nature, but we have not taken any reservations. I don't think Troy, as of today, but we haven't announced a specific date, but we are targeting April.

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**Unidentified Audience Member**

Great, thanks. That's all.

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

Thanks.



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**Unidentified Audience Member**

Thank you. Just wanted to ask you questions about supply growth in your respective markets, also in New York with the Knick coming out of renovation and things like that, I mean how do you see new supply growth in New York impacting Knick going forward?

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

I'm going to talk about that a little bit --

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**Unidentified Audience Member**

Okay.

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

But Steve is actually on the industry and economic overview. He's got some slides related to that, particularly related to New York, but most of our markets haven't seen any supply growth, a few of our markets have.

As it relates to New York, we feel very good about it because of where we are located within the submarkets. There has been some decent amount of supply, '09, '10, '11 stepped down in '12 and '13, but there's been a lot of supply. But the predominant part of that has been Southern Manhattan or the outer boroughs, and so a great deal over there.

When you're in, what I like to call like the golden rectangle, I can go in rectangle, like eight [the length] and [42 to 59] which outside of a block or two on the Morgans is where we are. Then, that's where the compression is. And so when there is compression, it's good. When there's not compression, that is still good.

And it is the lower Manhattan, Chelsea, et cetera and further south, the Battery Park in the outer boroughs that feel that more often. And also, with the residential values being where they are, I mean, there's even talk of some contraction in the market. So, we feel very strongly about the submarket that we're in, in New York. And as I said, Steve will illustrate that a little later.

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**Unidentified Audience Member**

Thank you.

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

Go ahead.

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**Unidentified Audience Member**

Could you just talk about the sales process in terms of who are the buyer profile, any surprises on pricing, what direction it's trending relative to expectations?

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

Okay, yeah, both of those. From a standpoint of who's buying, about 90% of what we're seeing is private equity money teamed with management teams and it's almost all of it. There's a hotel or two where you have a local owner operator very interested in bidding on assets.

From a pricing standpoint, we haven't seen any real surprises yet. We have a couple that were priced a little above what we thought just because of the heat in that market. We have a couple of stragglers that the pricing has been a little lower. Overall, we feel pretty good about where pricing is. And we haven't seen any trending



based on anything that's going on in the market from a rate standpoint, interest wise or anything of that nature that is changing that at this point. So, we still feel good about the progress we're making and the trends that we've seen in the market.

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**Michael Hughes - FelCor Lodging Trust Incorporated - CFO**

Yes, if anything on the financing front, (inaudible) paper is really coming back and it's pretty robust and that's private equity type buyers that many times they're preferred choice of financing, a good five-year type maturity, pre-payable. And I think we'll see that continue given at least the recent bump in rates on the fixed rate side.

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

Any other questions? Does everyone really want that break? Okay, thanks.

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**Steve Schafer - FelCor Lodging Trust Incorporated - VP - Strategic Planning**

Okay. Take 15 minutes, be back here at 10.20.

(BREAK)

## PRESENTATION

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**Steve Schafer - FelCor Lodging Trust Incorporated - VP - Strategic Planning**

Let's get started. Alright, let's get started. So, how is it going so far, everybody having a good time? Alright, I'd like to share some insight on some economic factors that we focus on and how they impact lodging demand? First, GDP, GDP is a common tool in determining demand growth broadly because it has a good correlation over the long-term. It's about 50%.

The relationship, however, breaks down in short-term time horizons, especially during unstable economic conditions. The last three years is a good example, about 15% correlation. GDP growth in 2011 and 2012 would have indicated much lower demand growth than the industry actually experienced. The two generally move in the same direction but the rate of change often varies and very significantly sometimes as you can see by the graph.

The good news is that the direction of GDP is projected to improve from today. 1.7% growth in the second quarter, quarter-over-quarter growth is expected. And that is projected to improve sequentially every single quarter into 2015.

So, the overall direction of GDP growth is positive for demand. But let's look at what is impacting that rate of change for demand? So, corporate profits, corporate travel is the biggest demand for our hotels. And companies continue to send their sales force out to generate revenue. Corporate profits are at an all-time highs today and continuing to improve about \$27 per share for the S&P 500 versus a low of about \$6 per share at the depth of the recession in 2009.

Employment, employment rate is slowly but steadily improving. But demand growth has improved much faster. Unemployment and hiring for college educated workforce has improved faster the overall workforce and that's a segment of the economy that travels to our hotels. We look at unemployment claims as a leading indicator of hotel demand.

Hotel demand moves in tandem with economic changes. It doesn't lag it. Travel is one of the first line items to be cut in a corporate budget in slowing times. New claims continue to fall about 350,000 over the last few weeks. We hit a new post-recession low of 327,000 in late April. And that's versus the peak of about 670,000 during the peak of the or the trough of the recession.

So, this is good news because it shows changes in spending patterns. So, this is something we watch very closely.



Now, capacity utilization and housing starts, those taken together with GDP gives us close to a 90% correlation to long-term hotel demand. Capacity utilization currently about 78% and climbing nearing its prior peak of 80% and housing starts rapidly accelerating. New numbers came out from May today, close to 1 million homes last May.

So, all these factors are positive and leading to sustained and strong demand growth for the transient segment. But let's look at a couple other segments. First of all, government, government is a main component of GDP. Sequestration and spending cuts didn't impact us that much in the first quarter. The cuts in spending including travel started well before sequestration and we already started remixing out of that segment for the past 18 months.

Today, overall demand for government room nights is only about 7% for our hotels. So, it's not material. On the group side, it's been slow to recover. Rick talked about that briefly. And one reason is CEO confidence. Confidence levels remain range bound and well below prior peak. There has been a general reluctance to non-essential spending. CEOs are generally concerned about another liquidity event and unwilling to commit beyond short-term levels.

So, that's why S&P 500 companies are stockpiling record levels of cash about 1.2 trillion. And this is impacting things like full force hiring as I touched on earlier but also corporate group demand which should continue to steadily recover outside another liquidity year demand shock.

So, let's look at supply growth now. Supply growth is the single most important factor in long-term RevPAR growth, much more than demand growth. Rooms under construction today near 70% below the prior peak. The growth in this cycle has been slower to recover because of more restricting lending standards and lack of lenders. Who lend the bulk of the construction loans in the 10 years? The same banks that experienced the worst losses and have lagged the general recovery at regional banks. Supply growth will come back. It's just a matter of time. But with the modest supply growth, that should provide an elongated cycle.

So where is new supply going? To answer Nikil's question, well, it's now in our markets. Fourteen of our top 20 markets had no new supply growth in the last 12 months and that situation is similar if you go back two years, three years, four years.

Our core portfolio is well-positioned because of the barriers to entry protection. Our portfolio is well-diversified across major markets but also within sub-markets within those markets. And we're not overly concentrated in any one market. New York, our largest market by revenue once the Knick is opened will be 15%. And that's the market you want to be number one in assuming you are well-located of course, because historically New York has the highest RevPAR growth of any market. So, let's talk about New York.

Supply growth has been above the US average, well advertised, but demand growth has been much higher offsetting that supply growth. As you can see in this year so far, you've got 9.4% demand growth off at about 2.5% supply growth.

So, supply growth in New York in 2009, 2010, 2011 averaged about 5%. As you can see in 2012 and year-to-date 2013 it's moderated to about half that. Even better news for us is that the supply growth within New York has been outside of the tracks where we have hotels.

As you can see the lower Manhattan 5% supply growth in 2012 and so far in 2013. The outer borough is 8% growth so far this year 4% last year. And Rockland, Westchester which is our peer has also had above average growth. But the markets that we're in, Time Square and Uptown, Midtown East has had much lower supply growth.

In fact, you see Uptown, Midtown you see a negative 2% there in 2012. I believe that's the Helmsley that went out of service and for redevelopment. But if you look at so far this year 0% supply growth in that submarket.

The good news as Rick talked about as well is we're seeing residential prices skyrocket there and we're already starting to hear about some conversions from hotel to residential especially in the Uptown, Midtown East area.

So, in conclusion the industry is healthy. PKF is projecting demand growth to outpace supply growth for the next few years. Supply growth is projected to be below the long-term average through at least 2015. Demand growth is expected to moderate this year. It started accelerating in late 2013 and then in '14 and '15.

The industry doesn't need that much demand growth to maintain occupancies because of the continued low supply growth environment. And with the industry occupancies nearing prior peaks, it's awful, we're about 150 basis points below our prior peak. The stage is set for continued pricing power.

So, as you can see on the graph below the ADR growth, it continues to accelerate, 6.1% in 2013 is what they are projecting and 5% in ADR growth higher than 2012 and 6.2% in '14 which is higher than '13. And so, with the good demand growth, continued low supply growth and continued pricing power PKF is forecasting close to 8.5% RevPAR growth in 2014.



And with that I'll turn it over to Troy.

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**Troy Pentecost - FelCor Lodging Trust - EVP, COO**

Thanks Steve. I wanted to talk to you today a little about assessment management and our structure and our approach. I think it's important to know a little bit about how we do design and construction, and how we go about our capital spend. I also want to talk a little bit about our newly acquired assets.

So, as Rick had mentioned I joined FelCor in 2006. And shortly after that we put together a real quick plan on how to operationally change the company and the structure. We also put together a program on how to improve the quality of our capital. The issue again as Rick had mentioned wasn't really the people because they have got 30 plus years of operational experience on my staff, it was really about the systems.

So, we immediately made the changes obviously for the better creating what we believe to be the industry's best asset management group. Most importantly though, I want to point out that really what the big driver and what we needed to do was change the way we're looking at revenue management and how we drove revenue as we went forward.

First change we made was to hire additional asset managers. We aligned them by region versus brand which was very important. We dropped their property coverage from 40 hotels to 10 to 15 hotels, so they have more time to spend on their assets and in their markets. We got them out of the office and on the road traveling 80% of the time.

This effectively allowed them to gain more knowledge of their assets, their personnel and obviously more of the market. This gave them the opportunity then from a competitive set standpoint to understand the competitive quality and location of the properties in their sets and the key feeder cities and market demand generators.

As Rick mentioned driving top line revenue is everything in this business. And we find the right mix at the right time is everything. Let me give you a couple of examples. When we own the Crowne Plaza Union Square in San Francisco, it did \$1.5 million in EBITDA. We had great success of repositioning and renovating this hotel, not only the physical asset improved but by completely redoing the customer mix.

This during the downturn or the recession and we're able to achieve another \$8.5 million in EBITDA and it's growing to \$11 million or \$11 million at stabilization. We've obviously had greater success here at the Fairmont Boston Copley, immediately moving the mix from discount transient business to higher rated corporate and group business. Even before completing the renovation which is really important we started the mix change we knew where we are going, we knew what we want to get accomplished even before the renovation. EBITDA increased in the first year 54% that was in 2011.

So, this culture of aggressively striving for the right mix has been implied currently at the Morgans and the Royalton hotel. And obviously will be the backbone for the Knick. In addition my group is always looking for incremental revenue and cost opportunities.

Since 2007 we have taken back nine F&B operations and last year we improved revenue in those operations \$21 million with \$4 million in profit. Value creation is what we do really well. Here's a great example. If we look at the Embassy Suites Myrtle Beach Resort we did it all. We improved revenues and reduced cost. We took over the least F&B operation. We totally reconcepted this area and space into a lobby bar, a grab and go, a [three meal] restaurant, and added the additional retail space.

We did this by relocating the laundry facilities and creating a newly built central laundry facility. This now serves our entire Kingston complex. This created \$2.6 million in incremental profits and costs savings over a 30% cash-on-cash return. We feel really good about our approach both of Royalton and the Morgans and obviously the Knick on a go forward basis.

I want to touch quickly on design and construction and give you some insight on how we look at our approach to capital spend over time. Again, we operate a little differently than most REITs. We don't form out this discipline; we have the dedicated project managers and engineers assigned to each hotel. This allows them each one to have a more in-depth knowledge of the assets themselves. This has also allowed us to build a great 20-year plan and a long-term view on our assets.

So, the first order business for 2006 was the right size and to physically bring the assets to where they needed to be. In the past we spent about 8% on capital chasing really the QAs and some of the problems that we had at the hotels from a major capital aspect. Most of the hotels at that time were in the bottom portion of their ranking in their competitive sets.

Today, after spending 35, or after spending as Rick had mentioned, almost \$0.5 billion in renovations in 2006, '07, '08 most of them are number one or number two in their competitive set. Our assets are now in real good condition. They are in actually great condition.



This slide shows some of the recent renovations that we've done and if you look there is a ranking. So, it's the majority of our large assets that we've done over the last couple of years which on the previous slide you note in 2011 and '12 we spent 8% in capital. Obviously, our goal over time is to bring it down to the 6% and we feel really good about where we're going.

The brands have really brought into our renovation process. They are aligned with us on our 20-year plan. They understand where we are going, what we want to get accomplished. And because of our good working relationship with each of the brands, we obviously have the opportunity to be involved in the standards, what standards need to be changed and how much money we spend in that direction. So, each of the brands have actually over time applauded us for our 20-year plan and our long-term view.

Now, let's turn to our recently acquired New York hotels, Morgans, Royalton and of course that [Gem] on 42nd Street in Broadway, the Knickerbocker. First, the Morgans and Royalton hotels, we purchased these assets in 2011, in May of 2011 to take advantage of several opportunities. First, the remaining upside on the capital that was spent by Morgans in 2007 and 2008 at \$100 to \$1,000 a key.

The second was the fact that they were underperforming, and I think that's important to point out that at the time they were performing at 75% below prior EBITDA. And third, the ability to instill our aggressive approach to revenue mix and sales and marketing. We feel we can create significant long-term value in these assets.

Although, as Rick has mentioned, and I hear a lot, it's taken a long time for this to ramp up. But we've been very diligent in always challenging the properties and changing the culture to increase that sense of urgency in the sales and revenue management of these hotels. The result so far are actually highly motivating, accountable revenue producers now focused on changing the mix of business for those hotels. That is a high rated RAC in corporate business with less OTA and discount business.

Now, the Royalton is way on its way, well on its way to stabilization at this point having improved RevPAR for the last 13 months with a 15% RevPAR increase in the first quarter. By the end of this month, we will obviously have completed the construction on the three additional rooms for the Morgans, we've added a new fitness facility will reconcept the old Asia de Cuba space which has really turned out to be a fantastic space where we can host receptions and really be a bar centric mixed-use facility.

They are currently ahead of budget with a 9% RevPAR increase in quarter one. And I can tell you, I feel really good about where those two hotels are going in the direction we are heading. And as Rick had mentioned, Dan Flannery taking over Morgans as the Chief Operating Officer has really done a good job of putting systems, organization and a sales centric process in place.

I want to finish by letting you know how excited the team and I to work with Highgate and their new Lifestyle Group on the Knickerbocker Hotel. It's going to be a fantastic asset. I can tell you in my 32 years in the industry, I've not seen a better team put together.

We've got Jeff David, our new General Manager, his background is Viceroy, Four Seasons and he has got luxury hotel openings experience. We've got Gemma Keating, who recently was at the Chatwal at 44th Street, New York, five-star luxury hotel that's by the way in our submarket, in our comp set not in our immediate comp set, in our aspirational comp set. So she has experience in the market, experience in New York and was previously with the Waldorf Astoria.

So two dynamic people obviously joining the team, General Manager, Director Sales and Marketing, we've hired a IBT salesperson already. We've hired Bennett Mercado who is an outside group, third party consultant that will be working with us on our business and leisure travel immediately.

So, currently as somebody had asked the question, are we taking reservations yet? No, but we are actively soliciting business and lining up for that business. No doubt, we will have business on the books for the fall.

I feel really good about the property, I feel really good about the people, the team, the staff we put together. We've had some great consultants working with us, Robin Brown, who was most recently with the Mandarin and with the Four Seasons. Has a huge background in Boston and New York.

We're also striving obviously to ensure that we have a great opening for this hotel. It's very important. We stack the deck not only with Highgate who obviously is the best of the best in New York City hotel management, but some of the best consultants. Again, in Robin, Bennett Mercado and the group.

We're also working closely with a very famous restaurateur in New York to run our food and beverage operations in our rooftop bar and restaurant. This really outstanding operational team is working everyday really closely with FelCor and with the rest of our group to make sure that our underwriting is a slam-dunk. And I can tell you, we will create more value for our shareholders.

In closing, when finished we will have the best team, the best asset and the best location of any of our seven competitive set hotels. Thank you. And I'll now turn it over to Erik.





**Erik Nylen - FelCor Lodging Trust - SVP - Development**

Good morning. Welcome. I think it's fun job talking about the Knickerbocker and copy place for a great place to talk about the Knickerbocker. It opened six years after the Knickerbocker originally did in 1906.

So today, I'm going to give you a brief overview of the Knickerbocker Hotel development in New York City, specifically I am going to talk about its history, give you a little insight into how we viewed the transaction. And then I am going to cover and go over quickly the project itself, budget and schedule. Then and now, left hand side, image of the hotel after it opened in 1906, right hand side image on the exterior, rendering the exterior next year when it's done.

Knickerbocker, great piece of real estate, it's in a great location. But it also has a great history, history that really adds value in terms of authenticity, guest connection and more immediate market presence. In fact as we've been going through the branding process, we and our consultants have been really pleasantly surprised by the equity in the brand and how strong the brand really is even it hasn't been a hotel since 1921, but it really has lot of brand strength.

Hotel was built in 1906 by John Jacob Astor. He built the St. Regis, the Astor hotel. He was also the richest man to die in the Titanic. The Knickerbocker was really monument of Edwardian's excesses and it was the real social hub in the sort of new Times Square area. Sorry, I meant at the pointer. Max Parrish, she is mural of Old King Cole which now sits in the St. Regis hang above the bar of the Flemish Oak bar at the Knickerbocker.

It was the permanent home of, New York home of Enrico Caruso who was the famous opera star. And last but not least it's also the, legend has it, it's where the martini was invented.

1921, advent of Prohibition, the hotel was closed, converted to offices. A lot of old New Yorkers who remembered as New Week's corporate headquarter. You can see the New Week plate sign there and more recently the hotel is ground floor is -- I mean the building has been retail and the upper floors were Garment District warehouse offices.

So what exactly do we buy here? The building is really comprised of three units, two of them retail about 46,000 square feet and the hotel unit which is comprised about 240,000 square feet. If you look at the image on the right, I will take you through it but basically the hotel is comprised of floors three through 15, somebody is going to note that it says 16 floors, that's because we don't number the 13th floor like most hotels.

So, while you have guest rooms third floor, you have public space fourth floor, these are guest rooms, then we have the rooftop which is indoor, outdoor space and then as you move down, we have portions of the ground floor and then the cellar and the sub cellar. How did we approach the deal? With caution, when you are converting a 100-year-old building, we are really looking to mitigate our development risk here.

How did we accomplish that? First, by making sure that the deal was contingent on permit approval, especially Landmark's Preservation Commission and zoning. Secondly, we required that the interiors of building be fully demolished and abated. Thirdly, we had to get comfortable and want to ensure that the complex facades that we are located on 42nd and Broadway were fully restored.

And lastly and not or probably most importantly is that we really had an experienced team going into this Highgate. Our partner is experienced New York developer. Their skills add and complement our own development expertise. We put together a really good design consulting professional teams. We have worked on projects like this in buildings. And lastly, we selected a contractor just come up in NoMad Hotel, very similar project in the building of the same age and same type of construction. So, they had sort of learned a lot of lessons in that process.

So low inside, how we looked at the deal? The important part in our analysis was the land value. We felt and it was later confirmed by a third-party appraisal firm that upwards the 75% of the \$150 million acquisition price was attributable to the land, when you take that land away, the \$85 million and then also the \$20 million in tax credits. In essence, we bought the shale for \$10 million, like over \$100 million savings.

When you compare that to other recently completed comparable hotels in New York, that savings which will enable us to have an all-in capitalized cost of 700,000 a key is a significant discount of these other hotels. Hotels who don't have the same location in real estate is the Knickerbocker.

So, when it opens, what will the Knickerbocker be? It will be a 330-room, 4.5-star independent lifestyle hotel in a seven-day demand market. We will have large rooms. They average 420 square feet. That's really big for New York. Of the 330 rooms, it will be comprised of 219 kings, 85 double queens, and 26 suites.



Ground floor will have two entrances, one on main entrance on 42nd Street. We also have a Broadway entrance, main functions down here, reception, check-in and concierge. We also have a café/coffee bar. Fourth floor is really our main public area of the hotel, have a lounge, restaurant, 2,000 square foot meeting space, and also a fitness center.

And then the real gem and showcase, the rooftop sky bar, certainly be one of the best indoor/outdoor venues in New York looking almost right up at the New Year's Eve Ball Drop, certainly be a poster child for the hotel, it's about 84,000 square feet indoor/outdoor space. In addition to being in outlet in the afternoon and the evening, there will be those functions based on the day.

Talk a little bit about budget, the budget was formulated in a multi-step process starting with pre-acquisition due diligence through closing. We had input from independent consultants, our project management team, and also contractors. Total budget is \$230 million or about \$700,000 a key. Of that, the hard and soft construction costs are \$115 million or 350,000 a key.

Where we are today is on the construction side we fought out more than 80% of the job. The last remaining piece, the public areas is it represents about \$11 million is currently been bought out -- should be bought out within the next 30 days.

We still have about \$6.5 million worth of contingency left which is about 10% of hard construction cost. I'd like to point out that given where we are in the project that were more than 80% thought out in either lump-sum or G&P contracts, 10% contingency is the healthy amount, probably above industry norms, but we think it's important certainly to maintain budget expectations and also deliver the quality we are looking for.

Schedule, schedules opened in April of next year. From a scope of work and a contract basis, we have broken apart into three packages. We have a core and shell package. We have a guest room fit-out package and a public space fit-out package. The core and shell, you probably can't really see in the schedules, but more than 60% complete and will be done in November. Guest rooms are moving quickly. Framing is done on all the three floors.

And as I mentioned, the public space is the last piece to be released within the next couple of weeks. And guest rooms and public space will be complete at the end of February next year. So, that's my presentation in the Knick today. I will have to say it's a really exciting project. It's a terrific hotel. I have had an opportunity to work on a lot of great hotels. I have to put this at the top of the list. It's got a lot of great stuff going for it. It's got location. It's got history. It's got architecture. It's got great facility. It's really going to be a fantastic hotel. Rick?

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

Thanks, Erik. Just to finish up here before we open it up for additional Q&A either to Troy or Erik or to just those in general, I just want to talk a little bit about next steps. We have talked a lot about how we have the opportunity to move the needle more than any of our peers, and I think that's pretty obvious as long as we execute.

But there is going to be additional opportunity beyond that, and there will be a handful of additional asset sales probably six, that are currently slated, that's going to create quite a bit of capacity for us going forward into the next downturn or before the next downturn.

And that capacity is going to be used -- I mean in addition to the additional asset sales continuing to strengthen the overall quality of the portfolio and provide more capacity, which strengthens the balance sheet, it's going to be give us an opportunity to be opportunistic. We have been since we took over we have been in kind of defensive transforming cleanup mode. And it's been -- we are able to create a lot of value by doing that, but it will be nice to have a lot of capacity that we can do any number of things with depending and only depending on what is going to drive shareholder value the most.

And the opportunities are there will be a number of opportunities. We have some redevelopment opportunities in our remaining in our portfolio. There is another six and we are really good at that. What we have done here. What we have done in San Francisco is that coming out of the ground as we haven't creating \$50 million of value in Myrtle Beach from development standpoint. Redevelopment is something that is a true core competency and we have some real opportunity. We have opportunities in San Diego, Santa Monica, Mandalay, Napa, Vinoy, Myrtle Beach.

And let me give you one example of that, something you might have actually read about a little bit lately, but it's been in the press quite a about, the Santa Monica redevelopment. In Santa Monica, we have a little license to print money, the little 132-room former Holiday Inn that is now Wyndham with the big block wall facing the ocean. And we get about 250 a night there. It's because of the location completely. But the city would like us to redevelop that hotel part of the city. There are other factions in the city that don't want it. So, there is a lot of discussion going on right now.



But what they want to do is waive the high restrictions, allow us to make that a 250-room hotel with 20 residences overlooking the ocean that would basically subsidize the development or a big portion of the development. Now, three -- there is three options for us here. We can keep it as if it has it's a tremendous value, the hotel is a tremendous value to us, it's already paid for itself from an acquisition and capital standpoint pricing wise.

So, it's a great little hotel. We could keep it exactly like it is. We could do the redevelopment, if on a risk adjusted basis and we can mitigate with the pre-sales of the residential units if we can mitigate and up for the risk where we feel like it makes sense and it underwrites, then we could redevelop. That would create a ton of value within the company.

The third option is if we get it entitled and even if we feel like it's not prudent to embark on that redevelopment, the real estate itself, the value of the real estate itself will double with the entitlements. So, we have a huge opportunity there. There are great opportunities at the other assets as well. In addition to being able to utilize that capacity for redevelopment there is always acquisitions.

Now, frankly I am not sure individual acquisitions, after we have solidified the portfolio is going to be the best way to move the needle, but there could be circumstances and opportunities that do. I also would like to see the share count go down if that opportunity presents itself. So, some capacity could be used to go after the share count and take that down.

We do have preferred stock outstanding. It is not currently the highest cost piece of paper in our cap structure, but outside of common, it will be at that point. And so cleaning up the fees that we could go after versus the aides given the current share price, we could look at cleaning -- further cleaning up the balance sheet by going after the fees. And M&A is a possibility as well as we go down the road. And once we are at stabilization and we have a currency that is fully valued.

So, we have some good opportunities post getting the part of the plan that we're working on now done and moving that needle we have some tremendous additional opportunities to further move the needle as we go forward and we will create that capacity through some additional asset. So, one of the asset sales and I promise I would come back to this earlier is the -- will be the -- will be a hotel that was, it has dropped off significantly from a performance standpoint because of the group rooms.

Once those get stabilized, we will be able to monetize that, remove that volatility from a future perspective as far as that market is concerned and we were able to during the downturn there was some panic on the part of the lenders we were able to buy the debt back on that at about \$50 million discount.

So, it gives us a huge opportunity to go out and create a lot of value by virtue of moving that, so that it will be one of those assets that we'll be talking about there. So, with that, just wanted to give you a sense of some additional opportunity above and beyond the execution of what we're doing now and with that we will open it up for everyone for additional questions. Casey, do you have the microphone.

## QUESTION AND ANSWER

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**Unidentified Audience Member**

You mentioned Chicago, D.C., and L.A. as target markets, why? And what are the plan for those cities. Do you see a strategic hole in your portfolio in those cities?

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

No.

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**Unidentified Audience Member**

What you think about that?

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



We don't really see it as a strategic hole. We see it as major urban areas that we are not represented in or not strongly represented in. We do have Lombard outside of Chicago, where as outside of Downtown and when we were -- when we were looking early, when we were setting the plant Chicago and D.C. were two markets along with New York and Boston and I guess getting the presence in San Francisco where it needed to be were major components of that because what we wanted to do, we wanted to have a good diversified portfolio and we wanted to have an overall quality of portfolio that made sense relative to our peers from an investor's perspective and so those were the markets that we started out doing, started out looking at, when we were looking at opportunities.

We had a ton of opportunities in D.C. but none of them underwrote. We could make any of those deals make sense. What we did find that made sense was Boston and was in New York in the redevelopment of San Francisco. We are no in hurry. We are certainly not doing any more acquisitions during this cycle. We need to tend to our knitting. We need to get the asset sold, we need to get the debt, the sub debt paid down, we need to get the Knick open, we need to get the ramp up done on the recently acquired redevelop.

Once we do that we've created the capacity with next steps of what I have just talked about with potential opportunities in Downtown Chicago, North of the river or in D.C. in a good sub market of D.C. would there be opportunities that we would look at? Yes we would.

But we are not going to be kind of hell-bent on getting in there, it's when we look at that versus we look at our redevelopment opportunities, and we look at going out to the preferred, we look at taking down the share count, we look at all the opportunities that we have available to us. What is going to drive the needle most for shareholders at that kind? We may or may not go into Chicago and D.C. in the near future post stabilization.

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**Unidentified Audience Member**

I have two questions, one going back to the Knickerbocker Hotel, I guess the price per key is \$700,000. Can you go over comps in the market just to give us a little bit of clarity, how you got comfortable with that number? And the second question was with regards to potentially putting in a dividend later in the year. Can you talk about what you need to achieve before putting something like that in?

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

Let me talk about the dividend piece and then we will let Erik answer the -- question on the Knick and the comp. From a dividend standpoint, we will be, the philosophy is any dividend has to be paid by operational cash flow. There is no leveraging up to reestablish a dividend or anything of that nature. We are going to be in position by the end of this year, where operational cash flow will support the common dividend, we will likely reinstate a nominal common dividend by the end of this year.

And that will pretty much today at a pretty low level as far as percentage of fab and things of that nature, because I think we need to always preserve the option similar to the capacity that we're going to generate in next step that I talked about earlier same thing with operational cash flow as we go forward. There is going to be opportunities that we have to utilize that operational cash flow and while we will have a nominal dividend one that we can maintain during a downturn etcetera. We will look at what our opportunities are for the -- the excess operational cash flow sitting on the balance sheet at the end of each year and look at what is the best use of that.

It's the best use of that is a further dividend then we would look at doing a special dividend from a fourth quarter perspective to do that. If we feel like the best way to increase shareholder value is to use that excess operational cash to do something else, then we would keep the dividend at that nominal level. And that's kind of philosophically how I look at dividend, how we look at dividend. And Erik, you want to talk about comps a little bit on the Knick.

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**Erik Nysten - FelCor Lodging Trust - SVP - Development**

Yes, certainly. In terms of new constructions as the chart indicates you have the InterCon which is completed, it was in '08 I think going into the downturn at \$825,000 a key you had Mondrian SoHo which is \$860,000 a key. Hyatt Lexington at \$875,000 the Hyatt Square at over \$900,000 a key. Those who want will be now confirmed. I've heard rumors of the Park Hyatt been over \$1 million a key. Certainly, there is other hotels that have been in excess of \$1 million a key from what we've heard. Those are all new construction comparables.

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



And to add a couple of things to that, I mean, and Erik mentioned this during this presentation but I think it's important to note, I mean from a, what we feel in addition to being significantly soft of that from a pricing standpoint. We have a better location than any of those hotels in our view and we certainly have a higher quality asset. I mean when you walk into the assets from a public space standpoint like the InterCon for example.

It's beautiful, public space, they did a great job on the hotel, it's very well done. There's a lot of quality upstairs. Our rooms are 420 square feet, it from a quality standpoint we are significantly better and so given the fact that we're priced below them and we have a better quality asset we feel pretty good about.

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**Erik Nylen - FelCor Lodging Trust - SVP - Development**

And --

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

How we stack up on the comps?

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**Erik Nylen - FelCor Lodging Trust - SVP - Development**

And another thing to note in the comps is none of these hotels have a façade like the Knickerbocker. That façade is not key to replicate none of these cost sort of reflect and that's a big billboard and poster for us, I mean it's what that hotel looks like and not only word say but what it looks like. So there's a lot of value even in that that's not necessarily reflected in the comps.

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**Unidentified Audience Member**

On the Knick, two questions; one, can you talk about any signage income opportunities from the roof etcetera? And then secondly update on the EB5 visa program?

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

Erik in mic?

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**Erik Nylen - FelCor Lodging Trust - SVP - Development**

Unfortunately, none, it's a Landmark filling. We can't basically they don't allow you to do anything, so unfortunately, no.

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

There will be some marketing opportunities though.

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**Erik Nylen - FelCor Lodging Trust - SVP - Development**

Yes.

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

Obviously with the bar right there and getting people on top, hosting parties. We're talking currently with NFL and some teams about next year even pre-opening trying to do some events and things up there.

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**Erik Nylen - FelCor Lodging Trust - SVP - Development**



EB5 is going well at a steady process. Our deal is priced very regressively in the market and pretty low so it's taken us a little longer to raise the funds that were about \$35 million of the way they are on the 45 million. We expect to be able to release those funds out there sometime early third quarter. You have to get the visas approved and the first visa on the very first investor we would submit in November six to eight month process.

Then once we get the first 10 or first nine people 10% approved we will release funds and you will see that hit our balance sheet but we're in the final stages and once that first visa is approved you get a flood of investors coming in. The biggest thing we're seeing in the EB5 landscape is investors are really there is a flight to quality.

There has been some deals that have gone over sour. There is a big high profile EB5 deal in Chicago where -- that she had to step in and frees \$140 million and people are looking at that and saying, I'm okay with the 3.5% coupon that I am really not getting a lot out. As long as I can protect my principal I will get my leases. So, we've seen really an acceleration in the funding being raised and we're in the final stages.

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**Unidentified Audience Member**

Rick, you mentioned six more hotels that you might sell sometime in the mid-cycle, any indications like what that may fetch integral value?

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

Well, I can tell you given our leverage parameters we expect that to create about \$400 million of capacity. And we will utilize that capacity much like I talked about on the next steps. And then even beyond that I mean we will always be looking to continue to improve the portfolio looking at the bottom 10%, looking at we run wholesale on every single asset in our portfolio, we're kind of emotional about the assets we run where the object is looking wholesale twice a year on every single assets depending on circumstances of time.

And we will continue to improve the overall quality in portfolio as we move forward and that could be a combination of sales and acquisitions. A couple of examples of that is if you had an opportunity let's take in a market Miami Beach. If you had a chance to get into Miami, once you would do, it would probably wouldn't be a straight acquisition deal, it would probably a trade deal. When you get trading up from a quality standpoint assuming the numbers bear out from what best for shareholder return, if you can get something on South Beach or and a really good location, but maybe sell Miami Embassy, Ft Lauderdale Embassy combination there or something of that nature that would be a play. But the continual movement forward from an increasingly improving quality of portfolio is something that we will always be looking at.

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**Unidentified Audience Member**

And then 2015 how much would New York represents as a percentage of total EBITDA as you mean stabilization of Knick is something around that timeframe?

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

15%.

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**Unidentified Audience Member**

15%. Final question I think this one is for Troy the labor at the Knick is that going to be union?

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**Troy Pentecost - FelCor Lodging Trust - EVP, COO**

Actually we're working on right now for trying to separate some of the food and beverage to be non-union. We'll see how that works out. Obviously, we're under negotiations right now, but now the rest of the hotel would be union.

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**Unidentified Audience Member**



Thank you.

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

Any other question? Again I want to thank you all for joining us here and for those of you who had joined us last night, I appreciate that. And we are going to be -- we're a little early, but we're going to set up a tour for anyone who wants to take a tour and basically we'll show you for those of you aren't staying here room, the corridors, the fitness then the obviously what we did in the OAK Long Bar and Kitchen.

And for those of you who have any additional one-on-one question half of us will remain down here and to answer those questions. And Steve what am I forgetting?

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**Steve Schafer - FelCor Lodging Trust Incorporated - VP - Strategic Planning**

So, Rick there actually for those that want to go on a tour, if you want to meet at 11.30 in the middle lobby around the round table that's where they are going to gather and then we'll take you on a quick tour of the hotel, guest room, upstairs, fitness center, and the OAK Long Bar and Kitchen.

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

Okay. So, all those on the tour at 11.30, those of you who have any additional questions that you would like some one-on-one time with just stick around here, and we will talk to you then. Thank you again.

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