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

Form 10-Q

(Mark One)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-14236

FelCor Lodging Trust Incorporated

(Exact name of registrant as specified in its charter)

Maryland	**75-2541756**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
545 E. John Carpenter Freeway, Suite 1300, Irving, Texas	**75062**
(Address of principal executive offices)	(Zip Code)

(972) 444-4900
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

The number of shares of Common Stock, par value $0.01 per share, of FelCor Lodging Trust Incorporated outstanding on November 1, 2007, was 62,439,873.

FELCOR LODGING TRUST INCORPORATED

INDEX

PART I. -- FINANCIAL INFORMATION

Item 1. Financial Statements

FELCOR LODGING TRUST INCORPORATED

CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	September 30, 2007	December 31, 2006
ASSETS		
Investment in hotels, net of accumulated depreciation of $671,671 at September 30, 2007 and $612,286 at December 31, 2006	$ 2,163,812	$ 2,044,285
Investment in unconsolidated entities	123,924	111,716
Hotels held for sale	-	133,801
Cash and cash equivalents	155,583	124,179
Restricted cash	13,736	22,753
Accounts receivable, net of allowance for doubtful accounts of $862 at September 30, 2007 and $962 at December 31, 2006	46,953	33,395
Deferred expenses, net of accumulated amortization of $10,208 at September 30, 2007 and $8,841 at December 31, 2006	8,689	9,480
Condominium development project	2,245	70,661
Other assets	31,207	32,979
Total assets	$ 2,546,149	$ 2,583,249
LIABILITIES AND STOCKHOLDERS' EQUITY		
Debt, net of discount of $900 at September 30, 2007 and $1,089 at December 31, 2006	$ 1,294,550	$ 1,369,153
Distributions payable	27,277	24,078
Accrued expenses and other liabilities	146,186	139,277
Total liabilities	1,468,013	1,532,508
Commitments and contingencies		
Minority interest in FelCor LP, 1,354 and 1,355 units issued and outstanding at September 30, 2007 and December 31, 2006, respectively	12,182	11,638
Minority interest in other partnerships	25,124	28,172
Stockholders' equity:		
Preferred stock, $.01 par value, 20,000 shares authorized:		
Series A Cumulative Convertible Preferred Stock, 12,880 shares, liquidation value of $322,011, issued and outstanding at September 30, 2007 and December 31, 2006	309,362	309,362
Series C Cumulative Redeemable Preferred Stock, 68 shares, liquidation value of $169,950, issued and outstanding at September 30, 2007 and December 31, 2006	169,412	169,412
Common stock, $.01 par value, 200,000 shares authorized and 69,413 and 69,438 shares issued, including shares in treasury, at September 30, 2007 and December 31, 2006, respectively	694	694
Additional paid-in capital	2,066,585	2,066,694
Accumulated other comprehensive income	27,897	15,839
Accumulated deficit	(1,399,490)	(1,409,790)
Less: Common stock in treasury, at cost, of 6,973 and 7,386 shares at September 30, 2007 and December 31, 2006, respectively	(133,630)	(141,280)
Total stockholders' equity	1,040,830	1,010,931
Total liabilities and stockholders' equity	$ 2,546,149	$ 2,583,249

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

FELCOR LODGING TRUST INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2007 and 2006
(unaudited, in thousands, except for per share data)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenues:				
Hotel operating revenue	$ 256,696	$ 247,451	$ 770,766	$ 758,068
Other revenue	468	13	921	68
Total revenues	257,164	247,464	771,687	758,136
Expenses:				
Hotel departmental expenses	82,321	79,059	246,134	241,190
Other property related costs	70,119	68,431	207,260	204,135
Management and franchise fees	13,652	12,026	40,718	39,463
Taxes, insurance and lease expense	31,736	28,726	92,387	84,126
Abandoned projects	-	-	22	-
Corporate expenses	3,690	7,164	15,732	18,530
Depreciation	28,523	23,917	80,729	70,096
Total operating expenses	230,041	219,323	682,982	657,540
Operating income	27,123	28,141	88,705	100,596
Interest expense, net	(22,655)	(28,030)	(68,734)	(86,845)
Charge-off of deferred financing costs	-	-	-	(962)
Early extinguishment of debt	-	-	-	(438)
Income before equity in income from unconsolidated entities, minority interests and sale of assets	4,468	111	19,971	12,351
Equity in income from unconsolidated entities	3,030	3,948	19,511	9,708
Minority interests	347	305	463	1,590
Loss on sale of other assets	-	(92)	-	(92)
Gain on sale of condominiums	354	-	18,493	-
Income from continuing operations	8,199	4,272	58,438	23,557
Discontinued operations, net of minority interests	(206)	15,790	33,893	16,502
Net income	7,993	20,062	92,331	40,059
Preferred dividends	(9,678)	(9,665)	(29,034)	(29,022)
Net income (loss) applicable to common stockholders	$ (1,685)	$ 10,397	$ 63,297	$ 11,037
Basic per common share data:				
Income (loss) from continuing operations	$ (0.02)	$ (0.09)	$ 0.48	$ (0.09)
Net income (loss)	$ (0.03)	$ 0.17	$ 1.03	$ 0.18
Basic weighted average common shares outstanding	61,652	61,148	61,582	60,441
Diluted per common share data:				
Income (loss) from continuing operations	$ (0.02)	$ (0.09)	$ 0.47	$ (0.09)
Net income (loss)	$ (0.03)	$ 0.17	$ 1.02	$ 0.18
Diluted weighted average common shares outstanding	61,652	61,148	61,908	60,441
Cash dividends declared on common stock	$ 0.30	$ 0.20	$ 0.85	$ 0.55

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

FELCOR LODGING TRUST INCORPORATED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Months Ended September 30, 2007 and 2006
(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income	$ 7,993	$ 20,062	$ 92,331	$ 40,059
Unrealized holding loss from interest rate swaps	-	(812)	-	(377)
Foreign currency translation adjustment	4,879	16	12,058	1,449
Comprehensive income	$ 12,872	$ 19,266	$ 104,389	$ 41,131

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

FELCOR LODGING TRUST INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2007 and 2006
(unaudited, in thousands)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities:		
Net income	$ 92,331	$ 40,059
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	80,743	83,198
Gain on sale of assets	(46,981)	(16,963)
Amortization of deferred financing fees	1,786	2,479
Accretion of debt discount	188	887
Amortization of unearned compensation	3,129	4,339
Equity in income from unconsolidated entities	(19,511)	(9,708)
Distributions of income from unconsolidated entities	947	2,996
Impairment loss	-	15,142
Charge-off of deferred financing costs	119	1,044
Loss on early extinguishment of debt	782	596
Minority interests	1,368	(799)
Changes in assets and liabilities:		
Accounts receivable	(8,816)	2,147
Restricted cash – operating	868	(4,230)
Other assets	(2,008)	1,127
Accrued expenses and other liabilities	7,484	18,296
Net cash flow provided by operating activities	112,429	140,610
Cash flows from investing activities:		
Improvements and additions to hotels	(187,794)	(108,623)
Additions to condominium project	(8,381)	(43,060)
Proceeds from sale of hotels	165,107	177,105
Proceeds from sale of condominiums	20,202	-
Proceeds received from property damage insurance	1,853	7,351
Decrease in restricted cash – investing	7,656	462
Distributions of capital from unconsolidated entities	8,812	4,793
Capital contributions to unconsolidated entities	(2,150)	(250)
Net cash flow provided by investing activities	5,305	37,778
Cash flows from financing activities:		
Proceeds from borrowings	7,142	124,897
Repayment of borrowings	(16,978)	(205,593)
Payment of deferred financing fees	(1,115)	(1,201)
Decrease in restricted cash – financing	-	2,825
Exercise of stock options	5,960	1,407
Contributions from minority interest holders	1,989	1,948
Distributions paid to other partnerships' minority interests	(5,030)	(13,167)
Distributions paid to preferred stockholders	(29,034)	(29,035)
Distributions paid to FelCor LP limited partners	(1,078)	(615)
Distributions paid to common stockholders	(49,866)	(21,558)
Net cash flow used in financing activities	(88,010)	(140,092)
Effect of exchange rate changes on cash	1,680	194
Net change in cash and cash equivalents	31,404	38,490
Cash and cash equivalents at beginning of periods	124,179	94,564
Cash and cash equivalents at end of periods	$ 155,583	$ 133,054
Supplemental cash flow information —		
Interest paid	$ 66,889	$ 77,259

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

FELCOR LODGING TRUST INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

FelCor Lodging Trust Incorporated, or FelCor, is a real estate investment trust, or REIT. At September 30, 2007, we held ownership interests in 87 hotels and were the owner of the largest number of Embassy Suites Hotels® and Doubletree Guest Suites® hotels in North America. FelCor is the sole general partner of, and the owner of approximately a 98% limited partnership interest in, FelCor Lodging Limited Partnership, or FelCor LP. All of our operations are conducted solely through FelCor LP or its subsidiaries.

At September 30, 2007, we held 100% ownership interests (whether by fee, leasehold or otherwise) in 64 hotels, a 90% or greater interest in entities owning four hotels, a 75% interest in an entity owning one hotel, a 60% interest in an entity owning one hotel and 50% interests in unconsolidated entities that owned 17 hotels. We held majority ownership interests in the operating lessees of 83 of these hotels; consequently, we include their operating revenues and expenses in our consolidated statements of operations. The operating revenues and expenses of the remaining four hotels are unconsolidated.

At September 30, 2007, we had an aggregate of 62,439,873 shares of FelCor common stock and 1,353,771 units of FelCor LP limited partnership interests outstanding.

The following table reflects the distribution, by brand, of our 83 consolidated hotels included in continuing operations at September 30, 2007:

Brand	Hotels	Rooms
Embassy Suites Hotels	47	12,127
Holiday Inn®	17	6,305
Sheraton®	8	2,681
Doubletree®	7	1,471
Hilton®	2	559
Westin®	1	536
Other	1	403
Total hotels	83	

The hotels shown in the above table are located in the United States (81 hotels in 23 states) and Canada (two hotels in Ontario), with concentrations in California (14 hotels), Florida (13 hotels) and Texas (11 hotels). Approximately 49% of our hotel room revenues in continuing operations were generated from hotels in these states during the nine months ended September 30, 2007.

At September 30, 2007, of our 83 consolidated hotels included in continuing operations, (i) subsidiaries of Hilton Hotels Corporation, or Hilton, managed 54, (ii) subsidiaries of InterContinental Hotels Group, or IHG, managed 18, (iii) subsidiaries of Starwood Hotels & Resorts Worldwide, Inc., or Starwood, managed nine, and (iv) independent management companies managed two.

FELCOR LODGING TRUST INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization – (continued)

The information in our consolidated financial statements for the three and nine months ended September 30, 2007 and 2006 is unaudited. Preparing financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements for the three and nine months ended September 30, 2007 and 2006, include adjustments based on management's estimates (consisting of normal and recurring accruals), which we consider necessary for a fair presentation of the results for the periods. The financial information should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006, included in our Annual Report on Form 10-K. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of actual operating results for the entire year.

2. Investment in Unconsolidated Entities

We owned 50% interests in joint venture entities that owned 17 hotels and leased three of these hotels at September 30, 2007, and owned 19 hotels and leased four hotels at December 31, 2006. We also owned a 50% interest in joint venture entities that own real estate in Myrtle Beach, South Carolina and provide condominium management services. We account for our investments in these unconsolidated entities under the equity method. We do not have any majority-owned subsidiaries that are not consolidated in our financial statements. We make adjustments to our equity in income from unconsolidated entities related to the depreciation of our excess basis in investment in unconsolidated entities when compared to the historical basis of the assets recorded by the joint ventures.

Summarized combined financial information for 100% of these unconsolidated entities is as follows (in thousands):

	September 30, 2007	December 31, 2006
Balance sheet information:		
Investment in hotels, net of accumulated depreciation	$ 277,577	$ 260,628
Total assets	$ 317,576	$ 297,712
Debt	$ 190,401	$ 197,462
Total liabilities	$ 201,729	$ 203,659
Equity	$ 115,847	$ 94,053

Debt of our unconsolidated entities at September 30, 2007 and December 31, 2006, consisted entirely of non-recourse mortgage debt.

2. Investment in Unconsolidated Entities – (continued)

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Total revenues	$ 21,690	$ 23,062	$ 62,538	$ 64,572
Net income	$ 7,606	$ 8,734	$ 35,712 [a]	$ 21,928
Net income attributable to FelCor	$ 3,803	$ 4,367	$ 17,856	$ 10,964
Additional gain on sale related to basis difference	-	-	3,336 [a]	-
Tax related to sale of asset by venture[b]	(306)	-	(306)	-
Depreciation of cost in excess of book value	(467)	(419)	(1,375)	(1,256)
Equity in income from unconsolidated entities	$ 3,030	$ 3,948	$ 19,511	$ 9,708

(a) In the first quarter of 2007, a 50% owned joint venture entity sold its Embassy Suites Hotel in Covina, California. The sale of this hotel resulted in a gain of $15.6 million for this venture. Our basis in this unconsolidated hotel was lower than the venture's basis, resulting in an additional gain on sale.

(b) In the third quarter of 2007, a 50% owned joint venture entity sold its Hampton Inn® in Hays, Kansas for an insignificant book gain. This sale triggered a $0.3 million tax obligation for FelCor.

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

	September 30, 2007	December 31, 2006
Hotel investments	$ 50,116	$ 39,975
Cost in excess of book value of hotel investments	63,213	61,253
Other investments	12,631	12,179
Hotel lessee investments	(2,036)	(1,691)
	$ 123,924	$ 111,716

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Hotel investments	$ 2,510	$ 3,398	$ 19,344	$ 9,480
Other investments	667	719	548	666
Hotel lessee investments	(147)	(169)	(381)	(438)
	$ 3,030	$ 3,948	$ 19,511	$ 9,708

3. Debt

Debt at September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

	Encumbered Hotels	Interest Rate at September 30, 2007	Maturity Date	Balance Outstanding, Net of Discount: September 30, 2007	Balance Outstanding, Net of Discount: December 31, 2006
Line of credit[a]	none	L + 0.80	August 2011	$ -	$ -
Senior term notes	none	8.50	June 2011	299,100	298,911
Senior term notes	none	L + 1.875	December 2011	215,000	215,000
Total line of credit and senior debt[b]		7.98		514,100	513,911
Mortgage debt[c]	12 hotels	L + 0.93	November 2008	250,000	250,000
Mortgage debt	7 hotels	6.57	June 2009-2014	89,560	97,553
Mortgage debt	7 hotels	7.32	March 2009	121,710	124,263
Mortgage debt	8 hotels	8.70	May 2010	166,884	169,438
Mortgage debt	6 hotels	8.73	May 2010	120,345	122,578
Mortgage debt	1 hotel	L + 2.85	August 2008	15,500	15,500
Mortgage debt	1 hotel	5.81	July 2016	12,600	12,861
Other	1 hotel	9.17	August 2011	3,851	4,452
Construction loan[d]	-	-	-	-	58,597
Total mortgage debt[b]	43 hotels	7.54		780,450	855,242
Total		7.72%		$ 1,294,550	$ 1,369,153

(a) We have a borrowing capacity of $250 million on our line of credit. The interest on this line can range from L + 80 to L + 150 basis points, based on our leverage ratio as defined in our line of credit agreement. We can exercise a one-year extension option if we meet certain requirements under the agreement.
(b) Interest rates are calculated based on the weighted average debt outstanding at September 30, 2007.
(c) This debt has three one-year extension options.
(d) In the second quarter of 2007, we repaid in full a recourse construction loan facility for the development of a 184-unit condominium project in Myrtle Beach, South Carolina.

We reported interest expense of $22.7 million and $28.0 million for the three months ended September 30, 2007 and 2006, respectively, which is net of: (i) interest income of $2.2 million and $0.9 million, respectively, and (ii) capitalized interest of $1.1 million and $0.9 million, respectively. We reported interest expense of $68.7 million and $86.8 million for the nine months ended September 30, 2007 and 2006, respectively, which is net of: (i) interest income of $4.9 million and $2.5 million, respectively, and (ii) capitalized interest of $3.9 million and $2.1 million, respectively.

In August 2007, we amended our line of credit agreement to increase the amount available under the line from $125 million to $250 million, provide the ability to further increase the facility up to $500 million under certain conditions, reduce certain fees and costs including the interest rates applicable to borrowings, improve certain financial covenants and extend the initial maturity from January 2009 to August 2011 with the right to extend for an additional one-year period under certain conditions. At September 30, 2007, we had no borrowings outstanding under our line of credit.

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

The following table summarizes the components of hotel operating revenue from continuing operations (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Room revenue	$ 212,347	$ 205,009	$ 633,483	$ 623,974
Food and beverage revenue	32,161	29,170	99,146	94,273
Other operating departments	12,188	13,272	38,137	39,821
Total hotel operating revenue	$ 256,696	$ 247,451	$ 770,766	$ 758,068

For the first nine months of both 2007 and 2006, more than 99% of our revenue was comprised of hotel operating revenue, which included room revenue, food and beverage revenue, and revenue from other hotel operating departments (such as telephone, parking and business centers). These revenues are recorded net of any sales or occupancy taxes collected from our guests. All rebates or discounts are recorded, when allowed, as a reduction in revenue, and there are no material contingent obligations with respect to rebates or discounts offered by us. All revenues are recorded on an accrual basis, as earned. Appropriate allowances are made for doubtful accounts, which are recorded as a bad debt expense.

The following table summarizes the components of hotel departmental expenses from continuing operations (in thousands):

	Three Months Ended September 30,			
	2007		2006	
	Dollars in Thousands	% of Total Hotel Operating Revenue	Dollars in Thousands	% of Total Hotel Operating Revenue
Room	$ 52,553	20.5 %	$ 50,617	20.4 %
Food and beverage	25,023	9.8	22,563	9.1
Other operating departments	4,745	1.8	5,879	2.4
Total hotel departmental expenses	$ 82,321	32.1 %	$ 79,059	31.9 %

	Nine Months Ended September 30,			
	2007		2006	
	Dollars in Thousands	% of Total Hotel Operating Revenue	Dollars in Thousands	% of Total Hotel Operating Revenue
Room	$ 154,394	20.0 %	$ 151,593	20.0 %
Food and beverage	76,213	9.9	71,764	9.5
Other operating departments	15,527	2.0	17,833	2.3
Total hotel departmental expenses	$ 246,134	31.9 %	$ 241,190	31.8 %

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

The following table summarizes the components of other property related costs from continuing operations (in thousands):

	Three Months Ended September 30,			
	2007		2006	
	Dollars in Thousands	% of Total Hotel Operating Revenue	Dollars in Thousands	% of Total Hotel Operating Revenue
Hotel general and administrative expense	$ 21,694	8.5 %	$ 22,020	9.0 %
Marketing	21,085	8.2	20,025	8.1
Repair and maintenance	13,886	5.4	12,971	5.2
Energy	13,454	5.2	13,415	5.4
Total other property related costs	$ 70,119	27.3 %	$ 68,431	27.7 %

	Nine Months Ended September 30,			
	2007		2006	
	Dollars in Thousands	% of Total Hotel Operating Revenue	Dollars in Thousands	% of Total Hotel Operating Revenue
Hotel general and administrative expense	$ 65,585	8.5 %	$ 65,711	8.7 %
Marketing	63,281	8.2	61,518	8.1
Repair and maintenance	41,347	5.4	39,411	5.2
Energy	37,047	4.8	37,495	4.9
Total other property related costs	$ 207,260	26.9 %	$ 204,135	26.9 %

Hotel employee compensation and benefit expenses of $72.7 million and $68.4 million for the three months ended September 30, 2007 and 2006, respectively, and $218.1 million and $212.0 million for the nine months ended September 30, 2007 and 2006, respectively, are included in hotel departmental expenses and other property related costs.

5. Taxes, Insurance and Lease Expense

The following table summarizes the components of taxes, insurance and lease expense from continuing operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Operating lease expense[a]	$ 18,783	$ 18,193	$ 54,471	$ 52,126
Real estate and other taxes	8,707	8,014	25,926	25,390
Property insurance, general liability insurance and other	4,246	2,519	11,990	6,610
Total taxes, insurance and lease expense	$ 31,736	$ 28,726	$ 92,387	$ 84,126

(a) Operating lease expense includes hotel lease expense of $16.2 million and $15.9 million associated with 13 hotels leased by us from unconsolidated subsidiaries and $2.6 million and $2.3 million of ground lease expense for the three months ended September 30, 2007 and 2006, respectively, and hotel lease expense of $47.7 million and $45.9 million and $6.7 million and $6.2 million of ground lease expense for the nine months ended September 30, 2007 and 2006, respectively. Included in operating lease expense is percentage rent based on operating results of $10.4 million and $9.9 million, respectively, for the three months ended September 30, 2007 and 2006, and $29.4 million and $27.3 million, respectively, for the nine months ended September 30, 2007 and 2006.

6. Condominium Project

Development of our 184-unit Royale Palms condominium project in Myrtle Beach, South Carolina was substantially completed in the first quarter of 2007. During the three months ended September 30, 2007, we recognized gains, net of tax, under the completed contract method of $0.4 million from the sale of one unit, and for the nine months of $18.5 million from the sale of 178 units. We expect that the remaining six condominium units will be sold on a selective basis to maximize the selling price. The sale of the 178 units resulted in net proceeds of $87.2 million, of which $67.0 million was paid directly to the construction lender as payment in full of the outstanding balance of our construction loan.

FELCOR LODGING TRUST INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Discontinued Operations

The results of operations of 11 hotels sold in 2007 and 31 hotels sold in 2006 are included in discontinued operations. The following table summarizes the condensed financial information for the hotels included in discontinued operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007[(a)]	2006	2007	2006
Operating revenue	$ 74	$ 50,136	$ 26,522	$ 172,226
Operating expenses[(b)]	(276)	(50,789)	(18,371)	(169,068)
Operating income	(202)	(653)	8,151	3,158
Direct interest costs, net	4	(303)	(15)	(946)
Gain (loss) on sale of hotels	-	18,182	28,488	15,320
Charge-off of deferred debt costs	-	(82)	(119)	(82)
Loss on early extinguishment of debt	-	(158)	(782)	(158)
Minority interests	(8)	(1,196)	(1,830)	(790)
Income (loss) from discontinued operations	$ (206)	$ 15,790	$ 33,893	$ 16,502

(a) The activity during the three months ended September 30, 2007, related to changes in accrual estimates on hotels sold in prior periods.
(b) Includes $5.9 million and $15.1 million of impairment losses for the three and nine months ended September 30, 2006, respectively.

During the nine months ended September 30, 2007, we sold ten consolidated hotels for aggregate gross proceeds of $169.0 million and one unconsolidated hotel for gross proceeds of $22.0 million for which the operations were consolidated because of our majority ownership of the lessee.

Our hotels are comprised of operations and cash flows that can clearly be distinguished, operationally and for financial reporting purposes, from the remainder of our operations. Accordingly, we consider our hotels to be components as defined by SFAS 144 for purposes of determining impairment charges and reporting discontinued operations.

In the second quarter of 2006, we designated seven hotels as non-strategic and tested these hotels under the provisions of SFAS 144. Of the hotels tested, one such hotel failed the test under SFAS No. 144, which resulted in an impairment charge of $9.2 million to write down the hotel asset to our then-current estimate of its fair market value. In addition, in the third quarter of 2006, we recorded an impairment charge of $5.9 million on two hotels that had previously been identified as non-strategic due to decreases in estimated fair values.

The hotels were tested for impairment as required by SFAS 144 using the undiscounted cash flows for the shorter of the estimated remaining holding periods or the useful life of the hotels. Those hotels that failed the impairment test described in SFAS 144 were written down to their then current estimated fair value, before any selling expenses.

8. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator:				
Income from continuing operations	$ 8,199	$ 4,272	$ 58,438	$ 23,557
Less: Preferred dividends	(9,678)	(9,665)	(29,034)	(29,022)
Income (loss) from continuing operations applicable to common stockholders	(1,479)	(5,393)	29,404	(5,465)
Discontinued operations	(206)	15,790	33,893	16,502
Net income (loss) applicable to common stockholders	$ (1,685)	$ 10,397	$ 63,297	11,037
Denominator:				
Denominator for basic earnings per share	61,652	61,148	61,582	60,441
Denominator for diluted earnings per share	61,652	61,148	61,908	60,441
Earnings (loss) per share data:				
Basic:				
Income (loss) from continuing operations	$ (0.02)	$ (0.09)	$ 0.48	$ (0.09)
Discontinued operations	$ (0.01)	$ 0.26	$ 0.55	$ 0.27
Net income (loss)	$ (0.03)	$ 0.17	$ 1.03	$ 0.18
Diluted:				
Income (loss) from continuing operations	$ (0.02)	$ (0.09)	$ 0.47	$ (0.09)
Discontinued operations	$ (0.01)	$ 0.26	$ 0.55	$ 0.27
Net income (loss)	$ (0.03)	$ 0.17	$ 1.02	$ 0.18

The following securities, which could potentially dilute basic earnings per share in the future, were not included in the computation of diluted earnings per share, because they would have been antidilutive for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Options and unvested restricted stock	346	414	-	356
Series A convertible preferred shares	9,985	9,985	9,985	9,985

Series A preferred dividends that would be excluded from net income applicable to common stockholders, if these Series A preferred shares were dilutive, were $6.3 million for both the three months ended September 30, 2007 and 2006, and $18.8 million for the nine months ended September 30, 2007 and 2006.

9. Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is “more-likely-than-not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement 109, *Accounting for Income Taxes*. We recorded no cumulative effect as a result of our adoption of FIN 48 on January 1, 2007.

10. Application of New Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standards Number 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. We believe that the adoption of this standard on January 1, 2008 will not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards Number 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each reporting date. SFAS 159 is effective on January 1, 2008, and if adopted the provisions of this statement are required to be applied prospectively. We are currently assessing the impact of SFAS 159 on our consolidated financial statements.

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

General

In late 2006, we started on a three year, $440 million renovation program on our 83 hotels, to improve the quality, returns on investment and competitive position of our hotel portfolio. Through September 30, 2007, we completed renovations at 49 of these hotels and expect to complete renovations at 64 hotels by the end of 2007.

During the third quarter of 2007, 32 of our hotels were undergoing some form of renovation, and we had more room-nights out of service for renovation than any other quarter this year. We completed major renovations at 12 hotels during the third quarter, and an additional two hotels in October. Since we started our renovation program last year, we have completed renovations at 51 hotels, representing almost two thirds of our portfolio. We expect to complete renovations at an additional 13 hotels during the fourth quarter of 2007, for a total of 64 renovated hotels by the end of 2007. We originally expected to complete renovations at 70 hotels by the end of 2007. However, renovation delays have shifted the completion date at six hotels to the first quarter of 2008. The delays at these hotels are related primarily to increases in scope for major mechanical items and/or permitting and inspection issues in the public areas.

Our hotels with completed renovations, in aggregate, are exceeding our expected return of 12% on the guest impact portion of the total capital expenditures. During the third quarter, RevPAR, Hotel EBITDA and Hotel EBITDA margin exceeded budget for these hotels in aggregate. For our 37 hotels where renovations were completed by June 30, 2007, RevPAR growth was 12.5 percent during the third quarter, compared to the same period in the prior year. Those hotels also improved their market share index in both occupancy and ADR, compared to their competitive sets. For those hotels, Hotel EBITDA was $1.1 million higher than budget and Hotel EBTIDA margin was 85 basis points greater than budget.

We spent $204.0 million on renovations and redevelopment projects at our hotels through the nine months ended September 30, 2007, including our pro rata share of joint venture expenditures.

During the third quarter of 2007, our RevPAR increased 3.7% for our consolidated hotels largely from a 6.2% increase in ADR. Our occupancy decreased in the same period by 2.4%, compared to the same period last year. For the nine months ended September 30, 2007, our consolidated RevPAR from continuing operations increased by 2.5%, driven by a 6.6% increase in ADR and offset by a 3.9% decrease in occupancy. The increase in ADR and decrease in occupancy reflected in the quarter and nine month numbers result primarily from a combination of our renovation program and customer mix strategy.

Through the end of the third quarter, we recognized a gain of $18.5 million from the sale of 178 condominium units at our 184-unit Royale Palms condominium project in Myrtle Beach, South Carolina. We expect that the remaining six units will be sold on a selective basis to maximize their selling price.

During the nine months ended September 30, 2007, we sold 11 hotels for gross proceeds of $191 million. These were the remaining hotels to be sold pursuant to our disposition program announced in early 2006. During the course of that disposition program, we sold 45 hotels for aggregate gross proceeds of $720 million. We continue to review and evaluate our hotel portfolio and may identify additional hotels to sell based upon various factors.

Financial Comparison (in thousands of dollars, except RevPAR and Hotel EBITDA margin)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	% Change 2007-2006	2007	2006	% Change 2007-2006
RevPAR	$ 95.84	$ 92.43	3.7 %	$ 96.36	$ 94.05	2.5 %
Hotel EBITDA[1]	$ 73,082	$ 73,323	(0.3)%	$226,408	$230,122	(1.6)%
Hotel EBITDA margin[1]	28.5%	29.6%	(3.7)%	29.4%	30.4%	(3.3)%
Income from continuing operations	$ 8,199	$ 4,272	91.9 %	$ 58,438	$ 23,557	148.1 %
Funds From Operations (“FFO”)[1] [2]	$ 29,886	$ 23,707	26.1 %	$115,184	$ 88,014	30.9 %
Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”)[1][3]	$ 66,264	$ 84,039	(21.2)%	$264,352	$231,047	14.4 %

(1) A discussion of the use, limitations and importance of these non-GAAP financial measures and detailed reconciliations to the most comparable GAAP measure are found elsewhere in this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

(2) In accordance with the guidance provided by the United States Securities and Exchange Commission, or SEC, with respect to non-GAAP financial measures, FFO has not been adjusted for the following items included in net income applicable to common stockholders (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Impairment loss, net of minority interests	$ -	$ (5,874)	$ -	$ (14,215)
Charges related to debt extinguishment, net of minority interests	-	(216)	(811)	(1,686)
Abandoned projects	-	-	(22)	-

(3) Consistent with SEC guidance on non-GAAP financial measures, EBITDA has not been adjusted for the following amounts included in net income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Gain on sale of hotels, net of income tax and minority interests	$ -	$ 17,610	$ 27,830	$ 14,748
Gain (loss) on sale of hotels in unconsolidated entities	(189)	-	10,993	-
Impairment loss, net of minority interests	-	(5,874)	-	(14,215)
Charges related to debt extinguishment, net of minority interests	-	(216)	(811)	(1,686)
Abandoned projects	-	-	(22)	-

Results of Operations

Comparison of the Three Months Ended September 30, 2007 and 2006

For the three months ended September 30, 2007, we recorded a net loss applicable to common stockholders of $1.7 million, or $0.03 per share, compared to $10.4 million of net income applicable to common stockholders, or $0.17 per share, for the same period in 2006. We recorded income from continuing operations of $8.2 million in the quarter, compared to $4.3 million for the same period in 2006.

In the third quarter of 2007, total revenue from continuing operations increased $9.7 million, or 3.9%, compared to the same period in 2006. The increase in revenue is principally attributed to a 3.7% increase in RevPAR compared to 2006. The increase in RevPAR reflects a 6.2% increase in ADR, net of a 2.4% decrease in occupancy. We continue to experience strong RevPAR growth in aggregate at our 37 hotels where we have completed the renovations for at least a full quarter. For those 37 renovated hotels RevPAR increased 12.5% compared to prior year. These hotels experienced greater increases in ADR (6.7%) than occupancy (5.4%) principally from the change in our customer mix toward higher ADR business following our renovation upgrades. The remaining 46 hotels had a 3.3% drop in RevPAR for the quarter, compared to the same quarter last year. The change in RevPAR reflects a 5.9% increase in ADR and an 8.7% drop in occupancy, due largely to renovation displacement at these hotels. The improvement in ADR at these hotels principally comes from the intentional displacement of lower-ADR business during the renovation rather than the more profitable higher-ADR business. We continue to experience weakness in the Louisiana market because the convention business has not returned following Hurricane Katrina in 2005 and the Atlanta market because of weak group demand.

Our third quarter 2007 total operating expenses increased by $10.7 million and increased as a percentage of total revenues from 88.6% to 89.5%, compared to the same period in 2006. Most of the increase as a percentage of total revenues is attributed to increased depreciation expense and taxes, insurance and lease expense, offset by a slight decrease in corporate expenses.

In the third quarter of 2007, hotel departmental expenses (which consist of rooms expense, food and beverage expense, and other operating departments) increased $3.3 million, other property related costs (which consist of general and administrative costs, marketing costs, repairs and maintenance, utilities expense, and other costs) increased $1.7 million, and management and franchise fees increased $1.6 million compared to the same period in 2006. However, these expenses remained substantially unchanged as a percentage of total revenues compared to the same period in 2006.

In the third quarter of 2007, taxes, insurance and lease expense increased $3.0 million compared to the same period in 2006 and increased as a percentage of total revenue from 11.6% to 12.3%. The increase as a percentage of total revenue related primarily to increases in the cost of insurance and reflects the nationwide trend of increases in rates for catastrophic coverage and adverse claims experience for general liability claims that we do not expect to be recurring.

In the third quarter of 2007, depreciation expense increased by $4.6 million compared to the same period in 2006, increasing as a percent of total revenues from 9.7% to 11.1%. The increase in depreciation expense reflects our substantial capital expenditures in 2006 and the first nine months of 2007.

In the third quarter of 2007, corporate expense decreased by $3.5 million compared to the same period in 2006, decreasing as a percent of total revenues from 2.9% to 1.4%. The decrease relates primarily to a third quarter 2007 reduction in estimated corporate bonuses and severance costs recorded in the third quarter of 2006.

In the third quarter of 2007, net interest expense included in continuing operations decreased $5.4 million, or 19.2%, compared to the same period in 2006. This decrease is primarily attributable to a $163 million reduction in our average outstanding debt and a reduction in our average interest rate of approximately 16 basis points.

Discontinued operations includes the operating income, direct interest costs, and net gains on disposition related to 11 hotels sold in 2007 and 31 hotels sold in 2006. In the third quarter of 2007, our loss from discontinued operations was $0.2 million, compared to our third quarter 2006 income from discontinued operations of $15.8 million. The third quarter 2007 loss related to changes in accrual estimates for hotels sold in prior periods. The third quarter 2006 income related primarily to an $18.2 million gain on the sale related to eight hotels. The third quarter 2006 operating loss from the discontinued hotels was $0.7 million and included an impairment charge for two hotels of $5.9 million partially offset by $5.2 million of income from hotel operations, exclusive of the impairment charge.

Comparison of the Nine Months Ended September 30, 2007 and 2006

For the nine months ended September 30, 2007, we recorded net income applicable to common stockholders of $63.3 million, or $1.02 per share, compared to $11.0 million, or $0.18 per share for the same period in 2006. We had income from continuing operations of $58.4 million for the nine months ended September 30, 2007, compared to $23.6 million for the same period in 2006. During the nine months ended September 30, 2007, we recorded an $11.0 million gain in equity in income from unconsolidated entities, related to the sale of hotels by our unconsolidated entities, and an $18.5 million gain from the sale of 178 condominium units in Myrtle Beach, South Carolina. We also had income from discontinued operations of $33.9 million, of which $28.5 million related to net gains on the sale of 11 hotels and the remainder is attributed to hotel operations prior to sale.

For the nine months ended September 30, 2007, total revenues from continuing operations increased $13.6 million, or 1.8%, compared to the same period in 2006. The increase in revenue is principally attributed to a 2.5% increase in RevPAR in the current year, partially offset by $6.2 million of revenue recorded in 2006 related to business interruption proceeds from hurricane losses. The current year increase in RevPAR resulted from a 6.6% increase in ADR, net of a 3.9% decrease in occupancy. We continue to see strong RevPAR growth in the aggregate for those hotels that renovations have been completed for a full quarter, compared to the same period in 2006. However, renovation displacement has a significant impact on the occupancy of those hotels under renovation. The improvement in ADR at these hotels principally comes from the intentional displacement of lower ADR business during the renovation rather than the more profitable higher ADR business. We also continue to experience weakness in the Louisiana market because the convention business has not returned following Hurricane Katrina in 2005 and in the Atlanta market because of weak group demand.

For the nine months ended September 30, 2007, our total operating expenses increased by $25.4 million and increased as a percentage of total revenues from 86.7% to 88.5%, compared to the same period in 2006. Most of the increase as a percentage of total revenues can be attributed to depreciation expense and taxes, insurance, and lease expense.

For the nine months ended September 30, 2007, hotel departmental expenses (which consist of rooms expense, food and beverage expense, and other operating departments) increased $4.9 million, other property related costs (which consist of general and administrative costs, marketing costs, repairs and maintenance, utilities expense, and other costs) increased $3.1 million, and management and franchise fees increased $1.3 compared to the same period in 2006. However, these expenses remained substantially unchanged as a percentage of total revenues compared to the same period in 2006.

For the nine months ended September 30, 2007, taxes, insurance and lease expense increased $8.3 million compared to the same period in 2006 and increased as a percentage of total revenues from 11.1% to 12.0%. The increase as a percentage of total revenue related primarily to percentage lease expense and insurance. Percentage lease expense is computed as a percentage of hotel revenues in excess of a base rent. Therefore, as revenues increase, percentage rent expense increases at a faster rate. Our property insurance increase reflects the nationwide trend of increases in rates for catastrophic coverage, and our increases in general liability insurance costs reflect some adverse claims experience that we do not expect to be recurring.

For the nine months ended September 30, 2007, depreciation expense increased by $10.6 million compared to the same period in 2006, increasing as a percent of total revenues from 9.2% to 10.5%. The increase in depreciation expense reflects our substantial capital expenditures in 2006 and the first nine months of 2007.

For the nine months ended September 30, 2007, net interest expense included in continuing operations for the third quarter decreased $18.1 million, or 20.9%, compared to the same period in 2006. This decrease is primarily attributable to the $167 million reduction in our average outstanding debt and a reduction in our average interest rate of approximately 37 basis points.

Discontinued operations includes the operating income, direct interest costs, and net gains on disposition related to 11 hotels sold in 2007 and 31 hotels sold in 2006. In the nine months ended September 30, 2007, our income from discontinued operations increased $17.4 million, compared to the same period in 2006. This change is principally attributed to: (i) $28.5 million in net gains from hotel dispositions in the nine months ended September 30, 2007 compared to $15.3 million in net gains from hotel dispositions in the same period of 2006; (ii) a $15.1 million impairment loss in the nine months ended September 30, 2006; and (iii) a decrease in operating income, before impairment losses, from sold hotels of $10.1 million.

Non-GAAP Financial Measures

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

The following tables detail our computation of FFO and EBITDA (in thousands):

Reconciliation of Net Income to FFO
(in thousands, except per share data)

	Three Months Ended September 30,					
	2007			2006		
	Dollars	Shares	Per Share Amount	Dollars	Shares	Per Share Amount
Net income	$ 7,993			$ 20,062		
Preferred dividends	(9,678)			(9,665)		
Net income (loss) applicable to common stockholders	(1,685)	61,652	$ (0.03)	10,397	61,148	$ 0.17
Depreciation, continuing operations	28,523	-	0.46	23,917	-	0.39
Depreciation, unconsolidated entities and discontinued operations	2,895	-	0.05	6,776	-	0.11
Gain on sale of hotels, net of income tax and minority interests	-	-	-	(17,610)	-	(0.29)
Loss on sale of hotels in unconsolidated entities	189	-	-	-	-	-
Minority interest in FelCor LP	(36)	1,354	(0.01)	227	1,355	-
Conversion of options and unvested restricted stock	-	346	-	-	414	-
FFO	$ 29,886	63,352	$ 0.47	$ 23,707	62,917	$ 0.38

Reconciliation of Net Income to FFO
(in thousands, except per share data)

	Nine Months Ended September 30,					
	2007			2006		
	Dollars	Shares	Per Share Amount	Dollars	Shares	Per Share Amount
Net income	$ 92,331			$ 40,059		
Preferred dividends	(29,034)			(29,022)		
Net income applicable to common stockholders	63,297	61,908	$ 1.02	11,037	60,441	$ 0.18
Depreciation, continuing operations	80,729	-	1.30	70,096	-	1.16
Depreciation, unconsolidated entities and discontinued operations	8,606	-	0.14	21,378	-	0.35
Gain on sale of hotels, net of income tax and minority interests	(27,830)	-	(0.45)	(14,748)	-	(0.24)
Gain on sale of hotels in unconsolidated entities	(10,993)	-	(0.18)	-	-	
Minority interest in FelCor LP	1,375	1,354	(0.01)	251	2,035	(0.05)
Conversion of options and unvested restricted stock	-	-	-	-	356	-
FFO	$ 115,184	63,262	$ 1.82	$ 88,014	62,832	$ 1.40

Consistent with SEC guidance on non-GAAP financial measures, FFO has not been adjusted for the following amounts included in net income applicable to common stockholders (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Impairment loss, net of minority interests	$ -	$ (5,874)	$ -	$ (14,215)
Charges related to debt extinguishment, net of minority interest	-	(216)	(811)	(1,686)
Abandoned projects	-	-	(22)	-

Reconciliation of Net Income to EBITDA
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 7,993	$ 20,062	$ 92,331	$ 40,059
Depreciation, continuing operations	28,523	23,917	80,729	70,096
Depreciation, unconsolidated entities and discontinued operations	2,895	6,776	8,606	21,378
Minority interest in FelCor Lodging LP	(36)	227	1,375	251
Interest expense	24,865	28,919	73,611	89,371
Interest expense, unconsolidated entities and discontinued operations	1,508	1,696	4,570	5,553
Amortization expense	516	2,442	3,130	4,339
EBITDA	$ 66,264	$ 84,039	$ 264,352	$ 231,047

Consistent with SEC guidance on non-GAAP financial measures, EBITDA has not been adjusted for the following amounts included in net income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Gain on sale of hotels, net of income tax and minority interests	$ -	$ 17,610	$ 27,830	$ 14,748
Gain (loss) on sale of hotels in unconsolidated entities	(189)	-	10,993	-
Impairment loss, net of minority interests	-	(5,874)	-	(14,215)
Charges related to early extinguishment of debt, net of minority interests	-	(216)	(811)	(1,686)
Abandoned projects	-	-	(22)	-

The following tables detail our computation of Hotel EBITDA, Hotel EBITDA margin, hotel operating expenses and the reconciliation of hotel operating expenses to total operating expenses with respect to our hotels included in continuing operations at September 30, 2007.

Hotel EBITDA and Hotel EBITDA Margin
(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Total revenues	$ 257,164	$ 247,464	$ 771,687	$ 758,136
Other revenue	(468)	(13)	(921)	(68)
Hotel operating revenue	256,696	247,451	770,766	758,068
Hotel operating expenses	(183,614)	(174,128)	(544,358)	(527,946)
Hotel EBITDA	$ 73,082	$ 73,323	$ 226,408	$ 230,122
Hotel EBITDA margin[1]	28.5%	29.6%	29.4%	30.4%

[1] Hotel EBITDA as a percentage of hotel operating revenue.

Reconciliation of Total Operating Expense to Hotel Operating Expense
(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Total operating expenses	$ 230,041	$ 219,323	$ 682,982	$ 657,540
Unconsolidated taxes, insurance and lease expense	1,990	1,747	5,588	4,896
Consolidated hotel lease expense	(16,204)	(15,861)	(47,729)	(45,864)
Corporate expenses	(3,690)	(7,164)	(15,732)	(18,530)
Abandoned projects	-	-	(22)	-
Depreciation	(28,523)	(23,917)	(80,729)	(70,096)
Hotel operating expenses	$ 183,614	$ 174,128	$ 544,358	$ 527,946

The following tables reconcile net income to Hotel EBITDA and the ratio of operating income to total revenues to Hotel EBITDA margin.

Reconciliation of Net Income to Hotel EBITDA
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income	$ 7,993	$ 20,062	$ 92,331	$ 40,059
Discontinued operations	206	(15,790)	(33,893)	(16,502)
Equity in income from unconsolidated entities	(3,030)	(3,948)	(19,511)	(9,708)
Minority interests	(347)	(305)	(463)	(1,590)
Consolidated hotel lease expense	16,204	15,861	47,729	45,864
Unconsolidated taxes, insurance and lease expense	(1,990)	(1,747)	(5,588)	(4,896)
Interest expense, net	22,655	28,030	68,734	86,845
Charge-off of deferred financing costs	-	-	-	962
Early extinguishment of debt	-	-	-	438
Corporate expenses	3,690	7,164	15,732	18,530
Depreciation	28,523	23,917	80,729	70,096
Abandoned projects	-	-	22	-
Loss on sale of other assets	-	92	-	92
Gain on sale of condominiums	(354)	-	(18,493)	-
Other revenue	(468)	(13)	(921)	(68)
Hotel EBITDA	$ 73,082	$ 73,323	$ 226,408	$ 230,122

Reconciliation of Ratio of Operating Income to Total Revenues to Hotel EBITDA Margin

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Ratio of operating income to total revenues	10.5%	11.4%	11.5%	13.3%
Other revenues	(0.2)	-	(0.1)	-
Unconsolidated taxes, insurance and lease expense	(0.6)	(0.8)	(0.7)	(0.6)
Consolidated hotel lease expense	6.3	6.4	6.2	6.1
Corporate expenses	1.4	2.9	2.0	2.4
Depreciation	11.1	9.7	10.5	9.2
Hotel EBITDA margin	28.5%	29.6%	29.4%	30.4%

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

FFO and EBITDA

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

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

Hotel EBITDA and Hotel EBITDA Margin

Hotel EBITDA and Hotel EBITDA margin are commonly used measures of performance in the hotel industry and give investors a more complete understanding of the operating results over which our individual hotels and operating managers have direct control. We believe that Hotel EBITDA and Hotel EBITDA margin are useful to investors by providing greater transparency with respect to two significant measures used by us in our financial and operational decision-making. Additionally, using these measures facilitates comparisons with other hotel REITs and hotel owners. We present Hotel EBITDA and Hotel EBITDA margin by eliminating corporate-level expenses, depreciation and expenses related to our capital structure. We eliminate corporate-level costs and expenses because we believe property-level results provide investors with supplemental information into the ongoing operational performance of our hotels and the effectiveness of management on a property-level basis. We eliminate depreciation and amortization because, even though depreciation and amortization are property-level expenses, we do not believe that these non-cash expenses, which are based on historical cost accounting for real estate assets and implicitly assume that the value of real estate assets diminishes predictably over time, accurately reflect an adjustment in the value of our assets. We also eliminate consolidated percentage rent paid to unconsolidated entities, which is effectively eliminated by minority interest expense and equity in income from unconsolidated subsidiaries, and include the cost of unconsolidated taxes, insurance and lease expense, to reflect the entire operating costs applicable to our hotels.

Limitations of Non-GAAP Measures

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

These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. They should not be considered as alternatives to operating profit, cash flow from operations, or any other operating performance measure prescribed by GAAP. Neither should FFO, FFO per share or EBITDA be considered as measures of our liquidity or indicative of funds available for our cash needs, including our ability to make cash distributions or service our debt. FFO per share does not measure, and should not be used as a measure of, amounts that accrue directly to the benefit of stockholders. FFO, EBITDA, Hotel EBITDA and Hotel EBITDA margin reflect additional ways of viewing our operations that we believe, when viewed with our GAAP results and the reconciliations to the corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. Management strongly encourages investors to review our financial information in its entirety and not to rely on a single financial measure.

Hotel Portfolio Composition

The following tables set forth, for 83 hotels included in our consolidated portfolio of continuing operations as of September 30, 2007, distribution by brand, by our top metropolitan markets, by selected states, by type of location, and by market segment.

Brand	Hotels	Rooms	% of Total Rooms	% of 2006 Hotel EBITDA
Embassy Suites	47	12,127	51	57
Holiday Inn	17	6,305	26	18
Sheraton and Westin	9	3,217	13	15
Doubletree	7	1,471	6	7
Other	3	962	4	3
Top Markets				
South Florida area	5	1,434	6	7
Atlanta	5	1,462	6	7
San Francisco Bay area	6	2,141	9	6
Los Angeles area	4	898	4	5
Orlando	5	1,690	7	5
Dallas	4	1,333	6	5
Phoenix	3	798	3	4
San Diego	1	600	2	4
Minneapolis	3	736	3	4
Northern New Jersey	3	756	3	3
Washington, D.C.	1	443	2	3
Philadelphia	2	729	3	3
Chicago	3	795	3	3
San Antonio	3	874	4	3
Boston	2	532	2	3
Location				
Suburban	33	8,360	35	38
Urban	20	6,362	26	25
Airport	20	6,203	26	24
Resort	10	3,157	13	13
Segment				
Upper-upscale	65	17,374	72	81
Full service	17	6,305	26	18
Upscale	1	403	2	1

Hotel Operating Statistics

The following tables set forth historical occupancy, ADR and RevPAR at September 30, 2007 and 2006, and the percentage changes therein between the periods presented, for our hotels included in our consolidated portfolio of continuing operations.

Operating Statistics by Brand

	Occupancy (%)					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	%Variance	2007	2006	%Variance
Embassy Suites	70.9	75.0	(5.5)	72.9	76.3	(4.5)
Holiday Inn	73.9	71.1	4.0	70.3	72.6	(3.2)
Sheraton and Westin[(a)]	68.9	73.0	(5.6)	69.8	72.2	(3.4)
Doubletree	75.5	76.3	(1.1)	72.8	76.5	(4.8)
Other[(b)]	82.2	77.9	5.5	71.3	71.1	0.3
Total	72.1	73.9	(2.4)	71.7	74.6	(3.9)

	ADR ($)					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	%Variance	2007	2006	%Variance
Embassy Suites	141.35	132.27	6.9	143.55	134.45	6.8
Holiday Inn	120.11	112.46	6.8	116.87	109.53	6.7
Sheraton and Westin[(a)]	120.30	115.38	4.3	126.51	120.91	4.6
Doubletree	137.62	126.73	8.6	144.29	130.38	10.7
Other[(b)]	144.53	140.70	2.7	138.82	133.39	4.1
Total	132.87	125.06	6.2	134.35	126.06	6.6

	RevPAR ($)					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	%Variance	2007	2006	%Variance
Embassy Suites	100.17	99.23	0.9	104.61	102.63	1.9
Holiday Inn	88.75	79.91	11.1	82.20	79.56	3.3
Sheraton and Westin[(a)]	82.89	84.23	(1.6)	88.25	87.28	1.1
Doubletree	103.90	96.74	7.4	105.06	99.72	5.4
Other[(b)]	118.86	109.64	8.4	98.93	94.78	4.4
Total	95.84	92.43	3.7	96.36	94.05	2.5

(a) Includes eight Sheraton hotels and one Westin hotel.
(b) Other hotels include two Hilton hotels and one Crowne Plaza® hotel.

Operating Statistics for Our Top Markets

	Occupancy (%)					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	%Variance	2007	2006	%Variance
South Florida area	61.5	72.6	(15.3)	73.5	79.8	(8.0)
Atlanta	74.3	75.0	(0.9)	75.6	77.4	(2.3)
San Francisco Bay area	85.6	84.0	2.0	77.2	77.9	(1.0)
Los Angeles area	79.7	78.6	1.4	78.8	77.0	2.3
Orlando	73.2	72.6	0.8	77.6	78.9	(1.6)
Dallas	59.0	69.0	(14.5)	65.1	71.8	(9.4)
Phoenix	56.1	64.5	(13.0)	68.6	73.9	(7.2)
San Diego	76.3	88.4	(13.7)	76.2	83.7	(8.9)
Minneapolis	84.0	77.9	7.8	77.3	71.5	8.1
Northern New Jersey	77.8	70.7	10.0	71.5	70.4	1.6
Washington, D.C.	66.6	69.6	(4.2)	67.7	67.5	0.3
Philadelphia	77.6	82.1	(5.5)	68.7	74.9	(8.2)
Chicago	82.1	80.2	2.3	72.0	76.3	(5.7)
San Antonio	78.7	77.0	2.2	78.0	79.3	(1.6)
Boston	79.6	82.3	(3.2)	67.3	76.4	(11.9)

	ADR ($)					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	%Variance	2007	2006	%Variance
South Florida area	111.43	105.94	5.2	153.29	141.89	8.0
Atlanta	119.91	114.86	4.4	122.05	118.78	2.7
San Francisco Bay area	149.81	137.42	9.0	140.64	130.40	7.8
Los Angeles area	170.50	154.15	10.6	159.98	143.86	11.2
Orlando	90.58	89.52	1.2	105.83	100.38	5.4
Dallas	119.49	108.51	10.1	124.41	112.61	10.5
Phoenix	109.45	104.57	4.7	146.23	131.46	11.2
San Diego	157.76	144.02	9.5	155.45	139.69	11.3
Minneapolis	147.92	142.85	3.5	143.61	137.73	4.3
Northern New Jersey	157.09	146.47	7.2	155.90	147.14	6.0
Washington, D.C.	156.22	152.17	2.7	166.00	161.03	3.1
Philadelphia	137.41	128.58	6.9	136.45	127.48	7.0
Chicago	133.57	128.36	4.1	131.51	122.57	7.3
San Antonio	110.80	107.27	3.3	110.49	104.40	5.8
Boston	164.62	159.21	3.4	156.12	151.17	3.3

	RevPAR ($)					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	%Variance	2007	2006	%Variance
South Florida area	68.52	76.88	(10.9)	112.61	113.27	(0.6)
Atlanta	89.14	86.15	3.5	92.31	91.95	0.4
San Francisco Bay area	128.30	115.42	11.2	108.53	101.61	6.8
Los Angeles area	135.86	121.19	12.1	126.03	110.75	13.8
Orlando	66.29	65.01	2.0	82.15	79.19	3.7
Dallas	70.55	74.89	(5.8)	80.95	80.91	0.1
Phoenix	61.45	67.48	(8.9)	100.30	97.13	3.3
San Diego	120.38	127.32	(5.5)	118.50	116.87	1.4
Minneapolis	124.22	111.25	11.7	110.95	98.46	12.7
Northern New Jersey	122.14	103.55	18.0	111.43	103.53	7.6
Washington, D.C.	104.12	105.91	(1.7)	112.39	108.65	3.4
Philadelphia	106.62	105.55	1.0	93.74	95.44	(1.8)
Chicago	109.60	102.93	6.5	94.69	93.54	1.2
San Antonio	87.16	82.57	5.6	86.16	82.76	4.1
Boston	131.01	130.96	0.0	105.10	115.49	(9.0)

Liquidity and Capital Resources

Our principal source of cash to meet our cash requirements, including distributions to stockholders and repayments of indebtedness, is from hotel operations. For the nine months ended September 30, 2007, net cash flow provided by operating activities, consisting primarily of hotel operations, was $112.4 million. At September 30, 2007, we had cash and cash equivalents of $155.6 million, including approximately $44.1 million held under management agreements to meet minimum working capital requirements.

We have committed to spend approximately $440 million over a three-year period, commencing in late 2006, to renovate our core hotels. We have also committed to spend approximately $60 million for four previously announced redevelopment projects. At September 30, 2007, we had approximately $150 million remaining to spend on the renovation projects and approximately $47 million for redevelopment projects, which will be funded from cash on hand. In the second quarter of 2007, we completed the sale of our non-strategic hotels. From December 2005 through June 30, 2007, we sold 45 non-strategic hotels, generating aggregate gross proceeds of approximately $720 million. In 2006, we used a portion of these proceeds to repay approximately $400 million of debt, and we are using the remaining proceeds to fund our hotel renovations and redevelopment projects.

In 2007, we paid common dividends of $0.25 per share for both the fourth quarter 2006 and first quarter 2007, and $0.30 per share for both second and third quarter 2007. Our board of directors will determine the amounts of future common and preferred dividends for each quarter, by taking into consideration the actual operating results for that quarter, general economic conditions, other operating trends, our financial condition, capital requirements, and the minimum REIT distribution requirements.

Development of our 184-unit Royale Palms condominium project in Myrtle Beach, South Carolina, was substantially completed in the first quarter of 2007. Through September 30, 2007, we closed on the sale of 178 units and received aggregate net proceeds, after repayment of the construction loan, of $20.2 million. We expect sales of the remaining six units to be sold on a selective basis to maximize the selling price.

We expect that our cash flow provided by operating activities for 2007 will be approximately $165 to $167 million. During the nine months ended September 30, 2007, we experienced significant displacement from hotel renovation that reduced revenues and Hotel EBITDA margins and we expect the effect of ongoing renovation displacement for the remainder of 2007 to be significant. Our cash flow forecast assumes RevPAR will increase by approximately 3% to 4%, and our Hotel EBITDA margin will decrease approximately 60 basis points. Our current operating plan for 2007 contemplates that we will make aggregate common dividend payments of $70 million, preferred dividend payments of $39 million and $13 million in normal recurring principal payments, leaving surplus cash flow (before capital expenditures, additional debt reduction or sale of hotels) of approximately $43 to $45 million. For the full year 2007, we plan to spend approximately $250 million for capital expenditures, which will be funded from hotel and condominium sale proceeds and cash.

We are subject to increases in hotel operating expenses, including wage and benefit costs, repair and maintenance expenses, utilities and insurance expenses, that can fluctuate disproportionately to revenues. Operating expenses are difficult to predict and control, which can produce volatility in our operating results. If our hotel RevPAR decreases and/or Hotel EBITDA margins shrink, our operations, earnings and/or cash flow could be adversely affected.

Debt

Line of Credit

In August 2007, we amended our line of credit agreement to increase the amount available under the line from $125 million to $250 million, provide the ability to further increase the facility up to $500 million under certain conditions, reduce certain fees and costs including the interest rates applicable to borrowings, improve certain financial covenants and extend the initial maturity from January 2009 to August 2011 with the right to extend for an additional one-year period under certain conditions. At September 30, 2007, we had no borrowings outstanding under our line of credit. The interest rate on our line of credit was LIBOR plus 0.80% at September 30, 2007.

Construction Loan

Development of our 184-unit Royale Palms condominium project in Myrtle Beach, South Carolina was substantially completed in the first quarter of 2007. Through September 30, 2007, we closed on the sale of 178 units, and a portion of the proceeds of those sales were used to repay the outstanding balance on our construction loan in May 2007.

Mortgage Debt

At September 30, 2007, we had aggregate mortgage indebtedness of approximately $780.5 million that was secured by 43 of our consolidated hotels with an aggregate book value of approximately $1.0 billion. Our hotel mortgage debt is recourse solely to the specific assets securing the debt, except in the case of fraud, misapplication of funds and other customary recourse carve-out provisions. Our mortgage debt generally contains provisions allowing for the substitution of collateral upon satisfaction of certain conditions. All of our mortgage debt is prepayable, subject to various prepayment, yield maintenance or defeasance obligations.

Senior Notes

We are subject to various financial covenants and debt incurrence tests with respect to our senior notes. If we were unable to continue to satisfy the incurrence test, we may be prohibited from, among other things, incurring any additional indebtedness, except under certain specific exceptions, or paying dividends on our preferred or common stock, except to the extent necessary to satisfy the REIT qualification requirement that we distribute at least 90% of our taxable income. We currently anticipate that we will meet our financial covenant and incurrence tests, based on current RevPAR expectations.

Inflation

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

Seasonality

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

Disclosure Regarding Forward-Looking Statements

This report and the documents incorporated by reference in this report include forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements can be identified by the use of forward-looking terminology, such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks”, or other variations of these terms (including their use in the negative), or by discussions of strategies, plans or intentions. A number of factors could cause actual results to differ materially from those anticipated by these forward-looking statements. Among these factors are:

- general economic and lodging industry conditions, including the anticipated continuation of economic growth, the realization of anticipated job growth, the impact of the United States’ military involvement in the Middle East and elsewhere, future acts of terrorism, the threat or outbreak of a pandemic disease affecting the travel industry, the impact on the travel industry of high fuel costs and increased security precautions, and the impact that the bankruptcy of additional major air carriers may have on our revenues and receivables;
- our overall debt levels and our ability to obtain new financing and service debt;
- our inability to retain earnings;
- our liquidity and capital expenditures;
- the impact of renovations on hotel operations;
- our growth strategy and acquisition activities; and
- competitive conditions in the lodging industry.

Certain of these risks and uncertainties are described in greater detail under “Risk Factors” in our Annual Report on Form 10-K or in our other filings with the Securities and Exchange Commission.

In addition, these forward-looking statements are necessarily dependent upon assumptions and estimates that may prove to be incorrect. Accordingly, while we believe that the plans, intentions and expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these plans, intentions or expectations will be achieved. The forward-looking statements included in this report, and all subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf, are expressly qualified in their entirety by the risk factors and cautionary statements discussed in our filings under the Securities Act of 1933 and the Securities Exchange Act of 1934. We undertake no obligation to update any forward-looking statements to reflect future events or circumstances.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative Disclosures About Market Risk

At September 30, 2007, approximately 62.9% of our consolidated debt had fixed interest rates. Currently, market interest rates are below the rates we are obligated to pay on our fixed-rate debt. The following table provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents scheduled maturities and weighted average interest rates, by maturity dates. The fair value of our fixed rate debt indicates the estimated principal amount of debt having the same debt service requirements that could have been borrowed at the date presented, at then current market interest rates.

Interest Rate Sensitivity
at September 30, 2007
(dollars in thousands)

	Expected Maturity Date							
	2007	**2008**	**2009**	**2010**	**2011**	**Thereafter**	**Total**	**Fair Value**
Liabilities								
Fixed rate:								
Debt	$ 3,295	$ 13,733	$ 142,240	$ 274,417	$ 303,030	$ 78,235	$ 814,950	$ 848,406
Average interest rate	7.98%	7.99%	7.27%	8.70%	8.49%	6.53%	8.15%	
Floating rate:								
Debt	-	265,500	-	-	215,000	-	480,500	480,500
Average interest rate	-	5.47%	-	-	7.00%	-	6.15%	
Total debt	$ 3,295	$ 279,233	$ 142,240	$ 274,417	$ 518,030	$ 78,235	$ 1,295,450	
Average interest rate	7.98%	5.59%	7.27%	8.70%	7.87%	6.53%	7.41%	
Net discount							(900)	
Total debt							$ 1,294,550	

Item 4. Controls and Procedures

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

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

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

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

PART II. -- OTHER INFORMATION

Item 5. Other Information

(a) Richard A. Smith Employment Agreement

On November 6, 2007, the Board of Directors of FelCor Lodging Trust Incorporated (the "Company") approved a new employment agreement with Richard A. Smith, the Company's President and Chief Executive Officer. The agreement, which was recommended by the Compensation Committee of the Board, was entered into as of October 19, 2007 to be effective as of October 1, 2007 (subject to Board approval) and expires on January 1, 2012, subject to automatic renewal periods of 12 months unless terminated upon prior notice of either party. Under the agreement, Mr. Smith will receive an annual base salary of no less than $600,000.00, subject to annual adjustment. He will also be eligible to receive a cash bonus based upon certain threshold levels of achievement ranging from 50% of base salary to 200% of base salary. In addition, Mr. Smith will be eligible to receive an annual grant of restricted stock worth no less than 200% of his then-current base salary. The restricted stock will vest on the fourth anniversary of the grant date, subject, in part, to certain vesting restrictions; a portion of Mr. Smith's restricted shares may vest in earlier annual increments, subject to attainment of certain threshold levels of achievement determined annually by the Compensation Committee. In addition, upon approval of the agreement by the Company's Board of Directors, the Company issued to Mr. Smith 250,000 shares of restricted stock of the Company, of which 125,000 shares will vest incrementally from 2009 through 2012 on January 1st of each year in the following increments: 10% in 2009, 15% in 2010, 25% in 2011 and 50% in 2012; and 125,000 shares will vest from 2009 through 2012 on January 1st of each year in increments ranging from 10,146 to 31,250 shares per year, subject to the attainment of certain threshold levels of achievement. Any of the latter 125,000 shares of restricted stock that initially fail to vest as the result of the failure to meet the performance criteria will not be immediately forfeited but will remain outstanding and may vest upon the fulfillment of additional conditions based upon the Company's performance or at the discretion of the Compensation Committee or the Board.

The agreement contains restrictive covenants protecting the confidential information of the Company, restricting the solicitation of employees, and imposing non-interference obligations during Mr. Smith's employment and for specified periods thereafter. The agreement incorporates the terms of the 2007 Change in Control and Severance Agreement previously entered into between the Company and Mr. Smith, the form of which was filed with the Securities and Exchange Commission on Form 8-K on October 26, 2007. The foregoing summary of the material terms of the agreement is qualified in its entirety by the text of the agreement, a copy of which is attached as Exhibit 10.1 hereto and incorporated by reference herein.

Item 6. Exhibits

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

Exhibit Number	Description of Exhibit
10.1	Executive Employment Agreement dated October 19, 2007, between the Company and Richard A. Smith.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

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

FELCOR LODGING TRUST INCORPORATED

Date: November 8, 2007

By: /s/ Lester C. Johnson

Name: Lester C. Johnson

Title: Senior Vice President, Chief Accounting Officer

Exhibit 10.1

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the **"Agreement"**) is entered into this 19th day of October, 2007 between Richard A. Smith ("**Executive**") and FelCor Lodging Trust Incorporated (the **"Company"**), collectively referred to as the **"Parties,"** with an **"Effective Date"** of October 1, 2007.

RECITALS:

A. Executive is currently employed by the Company as its President and Chief Executive Officer pursuant to that certain Executive Employment Agreement dated as of February 1, 2006, which has a term expiring February 1, 2008 (the "**Existing Agreement**").

B. The Company desires to retain Executive as its President and Chief Executive Officer for a longer term, and Executive desires to continue to serve in such capacity for a longer term, and in connection therewith, the parties desire to terminate and replace the Existing Agreement with this Agreement which sets forth the terms and provisions of such continued employment.

AGREEMENT:

1. **Executive's Position/Duties**. During the Term (as defined below) of this Agreement, Executive will be the employed as the President and Chief Executive Officer for the Company, and shall have all of the duties and responsibilities of that position as the Board of Directors of the Company shall from time to time prescribe. Executive's responsibilities shall be those customarily associated with a President and Chief Executive Officer. Executive shall be considered a key employee of the Company and shall be entitled to all the Company benefits afforded to key employees. Executive acknowledges he will be placed in a position of special trust with the Company, with access to highly sensitive and valuable trade secrets and other confidential information. Executive agrees to dedicate substantially all of his working time (during normal working hours other than during excused absences such as for illness or vacation), skill and attention to the business of the Company, agrees to remain loyal to the Company, and not to engage in any conduct that creates a conflict of interest to, or damages the reputation of, the Company. Notwithstanding the foregoing provisions of this Section 1, the Executive may (i) engage in charitable activities and community affairs, (ii) serve on the boards of a reasonable number of business entities, trade associations and charitable organizations, (iii) accept and fulfill a reasonable number of speaking engagements, and (iv) manage his personal investments and affairs; provided that such activities do not either individually or in the aggregate materially interfere with the performance of his duties hereunder.

2. **Term.** The initial term of this Agreement and of Executive's Employment shall be for a period commencing on the Effective Date and ending January 1, 2012 (the **"Term"**), and, upon expiration of the Term and each renewal period, shall automatically renew for periods

of twelve (12) months each, under the provisions contained herein, unless terminated or unless either party shall deliver notice of non-renewal to the other party not less than six (6) months prior to any termination hereunder. As used herein, the phrase "Term" shall mean the initial Term of employment as well as any renewal terms thereof.

3. **Compensation and Benefits.**

a. **Base Salary**. During the Term of this Agreement, the Company shall provide Executive with a base salary equal to no less than six hundred thousand dollars ($600,000.00) per year, paid in accordance with the Company's normal payroll policies ("**Base Salary**"). Beginning January 1, 2009, the Base Salary shall be subject to upward adjustment each year in an amount equal to no less than the average percentage adjustment provided to all other executive management personnel for such year.

b. **Annual Cash Bonuses**. For each year ending during the Term of this Agreement, the Company shall provide Executive with a bonus for the year based upon the performance criteria adopted for such year by the Compensation Committee of the Board of Directors. The performance criteria shall be established and the bonus shall be calculated and paid in a manner consistent with the Company's bonus program applicable to the Company's most senior executives, but on terms no less favorable to Executive than those provided in this Section 3(b). Such bonus shall include criteria designed to meet three thresholds: base, target and stretch. During the Term, the amount of bonus payable to Executive at each threshold shall be equal to no less than fifty percent (50%) of Base Salary at the base level; one hundred percent (100%) of Base Salary at the target level; and two hundred percent (200%) of Base Salary at the stretch level. In each case, Base Salary shall mean the Base Salary as in effect for the preceding calendar year. In addition, to the extent the Company's performance shall be at a level between the base and target levels, or between the target and stretch levels, the amount of the bonus payable to Executive shall be prorated to take into account such partial performance between such levels.

c. **Annual Equity Bonuses**. Additionally, as determined by the Compensation Committee, Executive shall be entitled to receive an additional bonus for the preceding calendar year in the form of an annual grant of restricted stock, calculated and paid in a manner consistent with the Company's restricted stock bonus program, but on terms no less favorable to Executive than those provided in this Section 3(c). For each year during the Term, the value of the restricted stock bonus payable to Executive shall be equal to no less than two hundred percent (200%) of Executive's Base Salary in effect for the preceding calendar year. The restricted stock shall be subject to vesting over a four-year period with vesting restrictions on the shares of restricted stock being determined annually by the Compensation Committee of the Board of Directors.

d. **Restricted Stock Grant**. In addition, upon effectiveness of this Agreement, the Company shall issue to Executive 250,000 shares of restricted common stock of the Company (the "**Restricted Stock**"). The Restricted Stock shall vest as follows:

(i) *Annual Time Based*. Fifty percent (50%) of the shares of Restricted Stock (125,000 shares) shall be subject to annual vesting on January 1 of each year commencing January 1, 2009 in the amounts as follows: 2009 – 10%; 2010 – 15%; 2011 – 25%; and 2012 – 50%, based on Executive remaining as an employee of the Company on each of such dates. For purposes of this Agreement, Executive shall be deemed to be an employee on a date if this Agreement is in effect on such date, notwithstanding any prior notice of non-renewal or termination, so long as Executive is not then in default of any of his obligations hereunder.

(ii) *Annual Performance Based*. Fifty percent (50%) of the shares of Restricted Stock (125,000 shares) shall be subject to annual vesting on January 1 of each year commencing January 1, 2009 (each, a "**Vesting Date**") in the amount of twenty five percent (25%) of such shares on each Vesting Date, based on Executive remaining as an employee of the Company on each of such dates, and further based on the satisfaction of annual performance criteria adopted for the preceding calendar year by the Compensation Committee of the Board of Directors. The annual performance criteria shall be the same as those adopted for the annual cash bonus program referred to in Section 3(b) and shall include criteria designed to meet three thresholds: base, target and stretch. On each Vesting Date, the total number of shares of Restricted Stock that may vest on such date shall be 31,250 shares, and such shares shall vest on that date based upon achievement at each performance threshold as follow: 10,416 shares at the base level; 20,833 shares at the target level; and 31,250 shares at the stretch level. In addition, to the extent the Company's performance shall be at a level between the base and target levels, or between the target and stretch levels, the number of shares to vest on such Vesting Date shall be prorated by linear interpolation to take into account such partial performance between such levels. The parties acknowledge that as of each Vesting Date, the measures for the Company's performance for the preceding calendar year may not be known to the Company or the Compensation Committee. Accordingly, the actual number of shares that shall be determined to have vested on each Vesting Date shall be determined by the Compensation Committee following the issuance of the Company's audited financial statements for the calendar year, but upon such determination, such shares shall be deemed to be vested as of the Vesting Date. The determination of the Compensation Committee as to the number of shares vested at each Vesting Date shall be conclusive upon all parties hereto.

(iii) *Deferred Performance Based*. Any shares of the Restricted Stock that would otherwise fail to vest on any Vesting Date due to the failure to achieve the performance criteria under subsection (ii) above (the "**Deferred Shares**") shall not be forfeited but shall remain outstanding and shall be eligible to vest on such Vesting Date or any subsequent Vesting Date upon any one of the following conditions:

(A) If the performance of the Company for any prior full calendar year or years during the Term exceeded the stretch criteria for such year, the aggregate amount by which the Company's actual performance exceeded stretch criteria for any one or more prior calendar years (the "**Excess Performance**") shall be available to be added to the Company's actual performance for the immediate calendar year for which the Deferred Shares otherwise failed to vest. If as a result of the addition of the Excess Performance, the Company's cumulative performance for the immediate calendar year meets or exceeds the established performance criteria for such year, some or all of the Deferred Shares shall vest as of the current Vesting Date at the level of the established performance criteria for such calendar year. To the extent utilized in this manner, any amount of Excess Performance so utilized shall no longer be available for use in any subsequent calendar year; or

(B) After the application of clause (A) above, to the extent Deferred Shares remain outstanding and unvested, if with respect to the Company's performance as of a subsequent Vesting Date, the performance of the Company for the immediate calendar year resulted in Excess Performance for the year, the amount of such Excess Performance shall be available to be added to the Company's actual performance for the preceding calendar year or years for which the Deferred Shares failed to vest. If as a result of the addition of the Excess Performance, the Company's cumulative performance for the preceding calendar year meets or exceeds the established performance criteria for such year or years, some or all of the Deferred Shares shall vest as of the current Vesting Date at the level of the established performance criteria for such calendar year or years. To the extent utilized in this manner, any amount of Excess Performance so utilized shall no longer be available for use in any subsequent calendar year; or

(C) If, notwithstanding the operating performance of the Company, the "Total Return to Shareholders" (as defined below) of the Company is at least equal to the average Total Return to Shareholders for all Peer Group Companies (as defined below), in that prior calendar year or years shall vest at the target levels for such year or years as of the most recent Vesting Date; and if the Total Return to Shareholders of the Company is at least equal to the 75th percentile of the Total Return to Shareholders for all companies in the Peer Group, then any Deferred Shares for any prior calendar years or years that failed to vest at the stretch level shall vest at the stretch levels for such years or years as of the most recent Vesting Date. For this purpose, "**Total Return to Shareholders**" shall mean a return over a measurement period beginning January 1, 2008 and ending on the last trading day of each year of the Term, and utilizing as the starting price, the volume weighted average trading price of the Company's and each Peer Group Company's common stock over the last ten (10) trading days of 2007, and utilizing as the ending price, the volume weighted average trading price of the Company's and each Peer Group Company's common stock over the last ten (10) trading days of such year, and adding thereto all dividends paid by the Company and each Peer Group Company during such measurement period; and "**Peer Group Companies**" shall mean Ashford Hospitality Trust, Inc., Diamond Rock Hospitality Company, Equity Inns, Inc., Hospitality Properties Trust, Host Hotels & Resorts, Inc., LaSalle Hotel Properties, Strategic Hotels & Resorts, Inc., and Sunstone Hotel Investors, Inc., so long as the common stock of such companies is regularly reported on a national securities exchange, and if such stock ceases to be so reported, any replacements or substitutions as shall be approved by Executive and the Compensation Committee; or

(D) If the Compensation Committee or the Board of Directors, in the exercise of their discretion, shall otherwise determine that the Deferred Shares shall vest.

Any Deferred Shares that remain unvested following the determination by the Compensation Committee of the performance measures for the last Vesting Date (January 1, 2012) shall be forfeited as of such last Vesting Date (January 1, 2012), and such shares shall be cancelled and shall cease to be outstanding as of that date.

e. **Benefits**. Executive shall be entitled to the following benefits:

(i) *Benefit Plans*. Executive shall be entitled to participate in all Company benefit plans, programs and arrangements, including, but not limited to, insurance programs, pension plans, vacation, and sick leave, as afforded other senior executive management personnel.

(ii) *Attorney's Fees*. Executive shall be entitled to reimbursement for reasonable attorney's fees incurred by Executive in the review and negotiation of this Agreement, upon submission of documentation evidencing such expenses.

f. **Expenses**. The Company shall reimburse Executive for reasonable expenses incurred in the performance of his duties and services hereunder and in furtherance of the business of the Company.

g. **<u>Administrative Assistant and Office Space</u>**. During the Term, the Company shall continue to provide Executive with his existing level of support staff and office space at the Company's corporate offices.

4. **<u>Termination of Employment</u>.** Executive's employment with the Company may be terminated as follows:

a. **<u>Death</u>.** In the event of Executive's death, Executive's employment will be terminated immediately.

b. **<u>Disability</u>.** In the event of Executive's disability, Executive's employment will be terminated immediately. For purposes of this Agreement, "disability**"** shall mean that Executive is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering Company employees.

c. **<u>Termination by the Company for Cause</u>**. The Company shall be entitled to terminate Executive's employment at any time if it has **"Cause,"** which shall mean: conviction of a felony or willful gross misconduct that results in a material and demonstrable damage to the business or reputation of the Company; willful refusal by Executive to perform his obligations under this Agreement that is not the result of Executive's death, disability, physical incapacity or Executive's termination of the Agreement, and that is not corrected within thirty (30) days following written notice thereof to Executive by the Company, such notice to state with specificity the nature of the willful refusal.

d. **<u>Without Cause</u>.** Executive may terminate Executive's employment at any time without cause upon written notice. At any time prior to six (6) months from the expiration of any term of this Agreement, the Company may terminate Executive's employment without cause upon written notice.

e. **<u>Termination by Executive upon Change in Control</u>.** Executive and the Company are parties to that certain Amended and Restated Change in Control and Severance Agreement dated as of October 23, 2007 (the **"Severance Agreement"**) which provides Executive with certain rights upon termination of his employment. The parties hereby acknowledge that the terms and provisions of the Severance Agreement continue in full force and effect and such provisions are hereby incorporated herein and made a part hereof for all purposes. To the extent that any transaction would result in Executive being entitled to exercise rights or receive benefits under either this Agreement or the Severance Agreement, Executive shall be entitled to receive the greater of such rights or benefits, but without duplication.

f. **<u>Termination by Executive for Good Reason</u>.** Executive may terminate

Executive's employment at any time upon written notice to the Company of any event constituting "Good Reason" as defined herein. For purposes of this Agreement, "**Good Reason**" shall mean (i) the assignment to Executive of any duties inconsistent with Executive's status as a senior executive officer of the Company or any substantial reduction in or restriction upon the nature, status or extent of Executive's responsibilities or authority; (ii) a reduction by the Company in Executive's annual base salary, as in effect immediately prior to such reduction, except for across-the-board salary reductions similarly affecting all executives of the Company; and (iii) any circumstance constituting "Good Reason" following a "Change in Control of the Company" as those terms are defined in the Severance Agreement; provided, however, that any such termination shall not be treated as termination for Good Reason unless the Executive shall have delivered a written notice to the Company within ninety (90) days of the initial existence of the factual basis for such termination stating his intention to terminate his employment for Good Reason, specifying the factual basis for such termination and affording the Company the opportunity for thirty (30) days thereafter to cure the underlying reason, if any, for such termination. Such termination must occur within a period of time that does not exceed two (2) years from the initial existence of any of the Good Reason conditions specified above.

g. **Termination of Executive's Authority.** Executive agrees and acknowledges that, unless otherwise agreed, as of the Effective Date of his termination hereunder, he will have no power to bind the Company, including, but not limited to, the authority to negotiate or enter into any contract or agreement, write any check, negotiate any instrument, or transfer any funds of or on behalf of the Company, and will have no authority to represent that he has the authority or power to bind the Company. Further, Executive also agrees and acknowledges that as of the effective date of his termination of employment hereunder, he will have no relationship with any parent, subsidiary or other affiliated or related entity of the Company.

5. **Compensation and Benefits Upon Termination**.

a. **Upon Death or Disability.** If Executive's employment is terminated by reason of death or disability:

(i) *Base Salary and Payment Schedule.* The Company shall pay Executive (or in the event of Executive's death, Executive's beneficiaries or legal representatives) an amount equal to Executive's Base Salary otherwise payable through the "Remaining Term of this Agreement" (as defined below) in accordance with the payroll policies of the Company. For all purposes of this Section 5, the "**Remaining Term of this Agreement**" shall mean the balance of the initial Term of this Agreement if the termination occurs during the initial Term, or through the end of any renewal period if the termination occurs after the initial Term, and in either case, if the termination shall occur within six (6) months from the expiration of the initial Term or any renewal term of this Agreement, and notice of non-renewal of the Agreement has not previously been delivered by the Company, the Remaining Term of the Agreement shall include the next following renewal term.

(ii) *Equity Vests.* In addition, all restrictions shall be removed from the restricted stock grant shares and the vesting and exercise of Executive's stock options shall be governed by the applicable stock option contract between Executive and the Company.

(iii) *Medical Benefits.* Executive (or Executive's covered dependents, as applicable) shall be eligible for the benefits described in Section 5(c)(iii) to the same extent as if the Company had terminated Executive's employment without Cause, or Executive had terminated his employment for Good Reason and lost coverage under the Medical Plans on the last day of the month following the date of his death or Disability.

b. **Termination by the Company for Cause**. Upon the termination of Executive's employment for Cause, the Company will pay to Executive all Base Salary, at the rate then in effect, through the date of Executive's termination of active employment. Executive shall be entitled only to the restricted stock grant shares that are free from restrictions as of the date of the termination. All stock options, to the extent not theretofore exercised, shall terminate in accordance with the terms of the applicable stock option contract between Executive and the Company, but in no event prior to the 90th day following Executive's termination of employment.

c. **Termination by the Company without Cause or by Executive for Good Reason.** If, during the Term of this Agreement, the Company terminates Executive's employment without Cause, or Executive terminates his employment for Good Reason, the Company will pay to Executive all compensation under this Agreement, at the rate then in effect, through the date of Executive's termination, and the following paragraphs (i) through (vii) shall apply:

(i) *Base Salary and Payment Schedule*. The Company shall pay Executive an amount equal to Executive's Base Salary otherwise payable through the Remaining Term of this Agreement. Such payment shall be made to Executive in a lump sum on a date not more than five days following the date of Executive's termination of employment; provided, however, that if Executive is a "specified employee" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), the payment date with respect to such payment shall be the date that is six months after Executive's termination of employment to the extent such delay is necessary to avoid tax penalties and interest under Section 409A.

(ii) *Equity Vests.* In addition, Executive shall be entitled to the acceleration and immediate release of all restrictions from any remaining shares of the restricted stock that are subject to restrictions as of the date of termination, and Executive shall be entitled to exercise the vested portion of Executive's stock options and the acceleration and immediate vesting of any other unvested stock options. Executive shall be entitled to exercise all unexercised stock options for a period equal to the lesser of (A) two (2) years from the date of such termination without Cause or for Good Reason, and (B) the remaining original terms of such stock option.

(iii) *Medical Benefits*. The Company shall continue to provide to Executive (and his dependents) medical and dental plan (collectively, "**Medical Plan**") benefits for the Remaining Term of this Agreement ("**Initial Period**"), and at the conclusion of such Initial Period, for the period during which he (or his spouse or dependents) would have had continuation coverage under Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), if Executive had terminated employment and lost coverage under the Medical Plan on the last day of the Initial Period, unless and until Executive is otherwise covered by another group health plan ("**Medical Coverage Period**").

Coverage will be provided at the applicable rate Executive would pay under the Company group health plan if he continued to be employed. Coverage will be provided under the terms of the Company sponsored Medical Plan for the maximum period for which coverage is available under the terms of such plan, at the same coverage for Executive and his family under the Company's group health plan as is provided by the coverage which exists immediately before the date of termination. During the Medical Coverage Period during which the Company remains obligated to provide coverage to Executive and his family, if such Medical Plan coverage is not available under the terms of the Company's group health plan, or if the Company's group health plan is self insured and the benefits thereunder would be discriminatory (resulting in taxation under Section 105(h) of the Code), in lieu of coverage under the Company's group health plan the Company will provide to Executive and will pay any additional cost of an individual insurance policy that provides benefits coverage that in the aggregate is substantially similar to the level of benefits provided under the Company's group health plan. Executive acknowledges and agrees that it may not be practicable to obtain an individual insurance policy that provides coverage that is identical to the level of benefits provided under the Company's group health plan and Executive and the Company agree to reasonably cooperate in good faith to determine the amount necessary to obtain and maintain any individual health insurance policy that may be required to provide substantially similar benefits coverage.

(iv) *Vacation*. Executive shall be entitled to a payment attributable to Base Salary for unused vacation accrued. Such payment shall be made to Executive in a lump sum within thirty (30) days following the date of Executive's termination of employment.

(v) *Obligations of Executive*. All obligations relating to agreements of the Executive not to compete with the Company, any affiliate of the Company or the business of the Company and obligations relating to agreements of Executive not to solicit customers of the Company or employees of the Company shall not be affected by Executive's termination, regardless of the reason.

d. **Expiration of Term.** Unless Executive's service is terminated prior to the end of the Term, upon expiration of the Term, Executive's stock options and restricted stock grant shares, including those granted pursuant to this Agreement, shall be treated as follows:

(i) If Executive continues to serve the Company in any capacity following the expiration of the Term, all unvested stock options shall continue to vest and the restrictions shall continue to be removed from the restricted stock grant shares as provided in this Agreement and as pursuant to the applicable restricted stock and stock option plan.

(ii) If Executive ceases to serve the Company in any capacity at any time following expiration of the Term, then, at the time Executive ceases to serve, all unvested stock options shall immediately vest and all restrictions shall be removed from the restricted stock grant shares. In such event, Executive shall be entitled to exercise the stock options at any time prior to the expiration date of the stock option term notwithstanding anything to the contrary in the applicable restricted stock and stock option plan or in this Agreement.

6. **Return of Company Property.** Executive acknowledges that all memoranda, notes, correspondence, databases, discs, records, reports, manuals, books, papers, letters, CD Roms, keys, passwords and access codes, client/customer/vendor/supplier profile data, contracts, orders, and lists, software programs, information and records, and other documentation (whether in draft or final form) relating to the Company's business, and any and all other documents containing Confidential Information furnished to Executive by any representative of the Company or otherwise acquired or developed by him in connection with his association with the Company (collectively, "**Recipient Materials**") shall at all times be the property of the Company. Within twenty-four (24) hours of the termination of his relationship with the Company, Executive promises to return to the Company any Recipient Materials that are in his possession, custody or control, regardless of whether such Materials are located in Executive's office, automobile, or home or on Executive's business or personal computers. Executive also shall authorize and permit the Company to inspect all computer drives used or maintained by Executive during his employment or consulting at the Company and, if necessary, to permit the Company to delete any Recipient Materials or Proprietary Information contained on such drives.

7. **Protective Covenants.** Executive agrees that the following covenants are reasonable and necessary agreement for the protection of the business interests covered in the fully enforceable, ancillary agreements set forth in this Agreement:

a. **Definitions.** The following capitalized terms used in this Section 7 shall have the meanings assigned to them below, which definitions shall apply to both the singular and the plural forms of such terms: "**Confidential Information**" means any confidential or proprietary information possessed by the Company without limitation, any confidential "know-how," customer lists, details of client and consultant contracts, current and anticipated customer requirements, pricing policies, price lists, market studies, business plans, operational methods, marketing plans or strategies, product development techniques or plans, computer software programs (including object code and source code), data and documentation, data base technologies, systems, structures and architectures, inventions and ideas, past, current and planned research and development, compilations, devices, methods, techniques, processes, financial information and data, business acquisition plans, new personnel acquisition plans and any other information that would constitute a trade secret under the common law or statutory law of the State of Texas.

"**Person**" means any individual or any corporation, partnership, joint venture, association or other entity or enterprise.

"**Protected Employees**" means employees of the Company or its affiliated companies who are employed by the Company or its affiliated companies at any time within six (6) months prior to the date of termination of Executive for any reason whatsoever or any earlier date (during the Restricted Period) of an alleged breach of the Restrictive Covenants by Executive.

"**Restricted Period**" means the period of Executive's employment by the Company plus a period extending two (2) years from the date of termination of employment; provided, however, the Restricted Period shall be extended for a period equal to the time during which Executive is in breach of his obligations to the Company under this Section 7.

"**Restrictive Covenants**" means the restrictive covenants contained in Section 7(b) hereof:

b. **Restrictive Covenants.**

(i) Restriction on Disclosure and Use of Confidential Information. Executive understands and agrees that the Confidential Information constitutes a valuable asset of the Company and its affiliated entities, and may not be converted to Executive's own use or converted by Executive for the use of any other Person. Accordingly, Executive hereby agrees that, except as may be required for the discharge his duties as an officer of the Company, Executive shall not, directly or indirectly, at any time during the Restricted Period or thereafter, reveal, divulge or disclose to any Person not expressly authorized by the Company any Confidential Information, and Executive shall not, at any time during the Restricted Period or thereafter, directly or indirectly, use or make use of any Confidential Information in connection with any business activity other than that of the Company. The parties acknowledge and agree that this Agreement is not intended to, and does not, alter either the Company's rights or Executive's obligations under any state or federal statutory or common law regarding trade secrets and unfair trade practices,

(ii) Non-solicitation of Protected Employees. Executive understands and agrees that the relationship between the Company and each of its Protected Employees constitutes a valuable asset of the Company and may not be converted to Executive's own use or converted by Executive for the use of any other Person. Accordingly, Executive hereby agrees that during the Restricted Period Executive shall not directly or indirectly on Executive's own behalf or on behalf of any Person solicit any Protected Employee to terminate his or her employment with the Company.

(iii) Non-interference with Company Opportunities. Executive understands and agrees that all business opportunities with which he is involved during his employment with the Company constitute valuable assets of the Company and its affiliated entities, and may not be converted to Executive's own use or converted by Executive for the use of any other Person. Accordingly, Executive hereby agrees that during the Restricted Period or thereafter, Executive shall not directly or indirectly on Executive's own behalf or on behalf of any Person, interfere with, solicit, pursue, or in any way make use of any such business opportunities.

c. **Exceptions from Disclosure Restrictions.** Anything herein to the contrary notwithstanding, Executive shall not be restricted from disclosing or using Confidential Information that: (i) is or becomes generally available to the public other than as a result of an unauthorized disclosure by Executive or his agent; (ii) becomes available to Executive in a manner that is not in contravention of applicable law from a source (other than the Company or its affiliated entities or one of its or their officers, employees, agents or representatives) that is not known by Executive, after reasonable investigation, to be bound by a confidential relationship with the Company or its affiliated entities or by a confidentiality or other similar agreement; or (iii) is required to be disclosed by law, court order or other legal or administrative process; provided, however, that in the event disclosure is required by law, court order or legal or administrative process, Executive shall, to the extent practicable under the circumstances, provide the Company with prompt notice of such requirement so that the Company may seek an appropriate protective order prior to any such required disclosure by Executive.

d. **Enforcement of the Restrictive Covenants.**

(i) Rights and Remedies upon Breach. In the event Executive breaches, or threatens to commit a breach of, any of the provisions of the Restrictive Covenants, the Company shall have the right and remedy to seek to enjoin, preliminarily and permanently, Executive from violating or threatening to violate the Restrictive Covenants and to have the Restrictive Covenants specifically enforced by any court of competent jurisdiction, it being agreed that any breach or threatened breach of the Restrictive Covenants would cause irreparable injury to the Company and that money damages would not provide an adequate remedy to the Company. The rights referred to herein shall be independent of any others and severally enforceable, and shall be in addition to, and not in lieu of, any other rights and remedies available to the Company at law or in equity.

(ii) Severability of Covenant. Executive acknowledges and agrees that the Restrictive Covenants are reasonable and valid in all respects. If any court determines that any Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect, without regard to the invalid portions.

e. **Early Resolution Conference**. This Agreement is understood to be clear and enforceable as written and is executed by both parties on that basis. However, should Executive later challenge any provision as unclear, unenforceable or inapplicable to any competitive activity that Executives intends to engage in, Executive will first notify Company in writing and meet with a Company representative and a neutral mediator (if Company elects to retain one at its expense) to discuss resolution of any disputes between the parties. Executive will provide this notification at least fourteen (14) days before Executive engages in any activity on behalf of a Competing Business or engages in other activity that could foreseeably fall within a questioned restriction. The failure to comply with this requirement shall waive Executive's right to challenge the reasonable scope, clarity, applicability, or enforceability of the Agreement and its restrictions at a later time. All rights of both parties will be preserved if the Early Resolution Conference requirement is complied with even if no agreement is reached in the conference.

8. **Indemnification**. The Company shall indemnify the Executive to the fullest extent provided under the Company's Certificate of Incorporation and By-Laws, on the same terms and conditions as such indemnification is generally provided to the members of the Board, in the event that he was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, by reason of the fact that the Executive is or was a director, officer, employee or agent of the Company or any of its affiliates. Expenses incurred by the Executive in defending any such claim, action, suit or proceeding shall accordingly be paid by the Company in advance of the final disposition of such claim, action, suit or proceeding upon receipt of an undertaking by or on behalf of the Executive to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company as authorized in this Section 8.

9. **Merger or Acquisition Disposition and Assignment.** In the event the Company should consolidate, or merge into another entity, or transfer all or substantially all of its assets or operations to another Person, or divide its assets or operations among a number of entities,

subject to the rights of Executive under the Severance Agreement, this Agreement shall continue in full force and effect with regard to the surviving entity and may be assigned by the Company if necessary to achieve this purpose. Executive's obligations under this Agreement are personal in nature and may not be assigned by Executive to another Person.

10. **Notices.** All notices, requests, consents, and other communications under this Agreement shall be in writing and shall be deemed to have been delivered on the date personally delivered or on the date deposited in a receptacle maintained by the United States Postal Service for such purpose, postage prepaid, by certified mail, return receipt requested, or by express mail addressed to the address indicated under the signature block for that party provided below. Either party may designate a different address by providing written notice of a new address to the other party.

11. **Severability.** If any provision contained in this Agreement is determined to be void, illegal or unenforceable, in whole or in part, then the other provisions contained herein shall remain in full force and effect as if the provision that was determined to be void, illegal, or unenforceable had not been contained herein.

12. **Waiver, Construction and Modification.** The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by any party. This Agreement may not be modified, altered or amended except by written agreement of all the parties hereto.

13. **Governing Law and Venue.** It is the intention of the parties that the laws of the State of Texas should govern the validity of this Agreement, the construction of its terms, and the interpretation of the rights and duties of the parties hereto without regard to any contrary conflicts of laws principles. It is stipulated that Texas has a compelling state interest in the subject matter of this Agreement, and that Executive has or will have regular contact with Texas in the performance of this Agreement. The agreed upon venue and personal jurisdiction for the parties on any claims or disputes under this Agreement is Dallas County, Texas.

14. **Representations of Executive.** Executive hereby represents and warrants to the Company that Executive has not previously assumed any obligations that would prevent him from accepting, retaining and/or engaging in full employment with the Company, or which Executive could violate in the ordinary course of his duties for the Company. Further, Executive hereby represents and warrants to the Company that Executive has not previously assumed any obligations that are inconsistent with those contained in this Agreement, and that he will not use, disclose, or otherwise rely upon any confidential information or trade secrets derived from any previous employment, if Executive has any, in the performance of his duties on behalf of the Company. Further, Executive acknowledges that he has read and is fully familiar with the terms of this Agreement, has had a reasonable opportunity to consider this Agreement and to seek legal counsel, and after such review, Executive stipulates that the promises made by him in this Agreement are not greater than necessary for the protection of the Company's good will and other legitimate business interests and do not create undue hardship for Executive or the public.

15. **Complete Agreement.** This Agreement and the Severance Agreement contain the complete agreement and understanding concerning the employment arrangement between the parties and will supersede all other agreements, understandings or commitments between the parties as to such subject matter, including the Existing Agreement. The parties agree that neither of them has made any representations concerning the subject matter of this Agreement except such representations as are specifically set forth herein. The parties agree that, except as specifically contemplated by this Agreement, and except for any outstanding restricted stock and stock option contracts between Executive and the Company, this Agreement and the Severance Agreement supersede any other agreement, plan or arrangement that may now exist that may otherwise apply to or include the Executive regarding employment, compensation, bonus, severance or retention benefits, including the Existing Agreement, that any such agreements, plans or arrangements, including the Existing Agreement, are hereby terminated with respect to Executive and that none of the Company nor any affiliate of the Company will have any liability or obligation to Executive, his heirs, successors or beneficiaries with respect to the existence or termination of any such agreements, plans or arrangements, notwithstanding the terms of any of them.

16. **Successors and Assigns**. This Agreement shall be binding upon and inure to the benefit of the Company, its successors, legal representatives and assigns, and upon Executive, his heirs, executors, administrators, representatives and assigns. It is specifically agreed that upon the occurrence of any of the events specified in Section 4(e), the provisions of this Agreement shall be binding upon and inure to the benefit of and be assumed by any surviving or resulting Person or any such Person to which such assets shall be transferred.

17. **Executive's Duty of Cooperation.** Executive agrees that both prior to and following the termination of his employment hereunder, he will provide all cooperation and/or assistance as is deemed necessary by the Company for any matters, proceedings or issues the Company may face, and will with and assist the Company and its employee in affecting an orderly transition of all functions, duties and responsibilities of Executive to one or more other employees of the Company, as the Company shall reasonably request.

18. **Effectiveness.** This Agreement shall become effective as of the Effective Date upon the later of (i) the execution hereof by all parties and (ii) the approval hereof by the Board of Directors of the Company.

IN WITNESS WHEREOF, the parties agree to each of the foregoing terms.

EXECUTIVE:

	s/Richard A. Smith
Name:	Richard A. Smith
Address:	c/o FelCor Lodging Trust Incorporated 545 East John Carpenter Freeway, Suite 1300 Irving, TX 75062

THE COMPANY:

FELCOR LODGING TRUST INCORPORATED

	s/Thomas J. Corcoran
Name:	Thomas J. Corcoran, Chairman of the Board
Address:	c/o FelCor Lodging Trust Incorporated 545 East John Carpenter Freeway, Suite 1300 Irving, TX 75062

Exhibit 31.1

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

I, Richard A. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FelCor Lodging Trust Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2007

/s/Richard A. Smith
Richard A. Smith
Chief Executive Officer

Exhibit 31.2

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

I, Andrew J Welch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FelCor Lodging Trust Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this quarterly report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2007

/s/Andrew J. Welch
Andrew J. Welch
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of FelCor Lodging Trust Incorporated (the “Registrant”) on Form 10-Q for the three and nine months ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report), the undersigned hereby certifies, in the capacity as indicated below and pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

November 8, 2007

/s/Richard A. Smith
Richard A. Smith
Chief Executive Officer

Exhibit 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of FelCor Lodging Trust Incorporated (the "Registrant") on Form 10-Q for the three and nine months ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report), the undersigned hereby certifies, in the capacity as indicated below and pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

November 8, 2007

/s/Andrew J. Welch

Andrew J. Welch
Chief Financial Officer